Effective decentralisation in the context of the European Semester and beyond
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Language review by Tim Wills

It does not represent the official views of the European Committee of the Regions.
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### ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full term</th>
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<tbody>
<tr>
<td>CoR</td>
<td>European Committee of the Regions</td>
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<td>CPER</td>
<td>State-region planning contracts</td>
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<td>CRTE</td>
<td>Recovery and ecological transition contracts</td>
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<td>CTE</td>
<td>Ecological transition contracts</td>
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<tr>
<td>CTID</td>
<td>Technical Committee for Decentralisation</td>
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<td>DESI</td>
<td>Digital Economy and Society Index</td>
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<td>DMTO</td>
<td>Tax on real estate transactions</td>
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<td>EC</td>
<td>European Commission</td>
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<td>EGTC</td>
<td>European Grouping of Territorial Cooperation</td>
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<td>EPCI</td>
<td>Public establishments levying taxes</td>
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<td>ESIF</td>
<td>European Structural and Investment Funds</td>
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<td>EU</td>
<td>European Union</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GRW</td>
<td>Improvement of the Regional Economic Structure</td>
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<tr>
<td>ILIA</td>
<td>Autonomous Local Real Estate Tax</td>
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<tr>
<td>IMU</td>
<td>Local real estate tax</td>
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<tr>
<td>ITI</td>
<td>Integrated Territorial Investment</td>
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<tr>
<td>LAI</td>
<td>Local Autonomy Index</td>
</tr>
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<td>LRAs</td>
<td>Local and regional authorities</td>
</tr>
<tr>
<td>NRP</td>
<td>National Reform Programme</td>
</tr>
<tr>
<td>NRRP</td>
<td>National Recovery and Resilience Plan</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
</tr>
<tr>
<td>OPR</td>
<td>Municipalities with extended powers</td>
</tr>
<tr>
<td>RDA</td>
<td>Regional Development Agency</td>
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<tr>
<td>ROP</td>
<td>Regional Operational Programme</td>
</tr>
<tr>
<td>RSA</td>
<td>Minimum income</td>
</tr>
<tr>
<td>SRADDET</td>
<td>Regional plans for planning, sustainable development and territorial equality</td>
</tr>
<tr>
<td>TIPP</td>
<td>Tax on fossil fuel</td>
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<tr>
<td>VAT</td>
<td>Value added tax</td>
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EXECUTIVE SUMMARY

This study investigates the state and processes of decentralisation in EU Member States to gain new insights into the functioning of decentralisation and processes supporting it. The study first builds on the European Committee of the Regions (CoR) Division of Powers portal, its decentralisation index and relation of this information to the ten OECD guidelines for effective decentralisation as well as qualitative complementary insights. Second, four case studies provide national and regional insights. Third, a desk analysis of selected documents of the European Semester assesses the potential of the European Semester to support governance and good policy implementation through decentralisation. This is followed by conclusions and recommendations.

The overview of decentralisation in Member States reveals a significant variation in the extent of decentralisation and across dimensions. Few countries have relatively homogeneously developed decentralisation across dimensions and two countries stand out as being particularly centralised. For most Member States the degree of decentralisation is more mixed.

The first OECD guideline concerns clarifying the division of responsibilities between levels of government. The analysis illustrates considerable variety ranging from codification in the constitution, to intergovernmental agreements, sector specific legislation or a combination of these, to assigning all responsibilities to a sub-national level except for those explicitly conferred to other levels.

Subnational public authorities require capacity to effectively and efficiently manage competences transferred to them. Capacity building is still needed for knowledge and skills, but also for additional people in subnational administrations. A comparison of local human resources with local competences indicates a positive correlation but the variation is high, which suggests considerable mismatches between responsibilities and capacities.

Developing adequate coordination mechanisms among levels of government is equally important. It is frequently found in federal and unitarian countries with significant decentralisation. The ability of lower levels of government to influence higher level legislation is often enhanced by official representation and well-defined consultation procedures. There can also be other channels as official representation is not a guarantee for great influence.

Support for cross-jurisdictional cooperation concerns better horizontal coordination with varying degree of formalisation. Examples in Member States include flexible coordination arrangements, joint administrations, joint authorities, partnerships, coordinated strategies and formal municipality mergers.

Effective decentralisation can also be achieved through strengthening innovative and experimental governance, as well as increased citizen engagement. Demand seems to be growing and has been addressed by some countries, though there are also reductions in citizen participation. The degree of citizen engagement differs widely, from
information on citizen perception and direct influence on policy decisions, to active involvement in policy delivery, including local service delivery. Some experiments could be replicated.

Decentralisation does not imply that all units of one administrative level have the same responsibilities and/or sources of revenue. Instead, effective policy implementation could involve asymmetric decentralisation, especially in federal countries where some asymmetry is usual. Different forms of regions or municipalities with different powers can be inherent in the constitutional division of responsibilities. There is also asymmetric decentralisation through bottom-up processes, when lower levels of government voluntarily introduce reforms or functional area partnerships are given additional responsibilities. Depending on the process, such arrangements may be temporary.

*Improving transparency, data collection and strengthen performance monitoring* is crucial for citizens to understand government activities. This is closely linked to capacity building of knowledge and digital skills, transparent policy making, target-oriented data collection and meaningful monitoring. These increase transparency and accountability to citizens. There are many examples for EU funding and programme implementation.

*Strengthening national regional development policies and equalisation systems* aims to reduce territorial disparities. Cohesion Policy is the EU’s overarching regional development policy to reduce economic, social and territorial disparities. Some Member States complement this with additional national regional development policies. Fiscal equalisation takes place both vertically (between the national and subnational levels) and horizontally (between subnational authorities).

The connection between decentralising responsibilities and corresponding financing deserves special attention. This refers to two other OECD guidelines, to ensure that all responsibilities are sufficiently funded and to strengthen subnational fiscal autonomy to enhance accountability. Joint consideration of these guidelines is crucial to detect ‘unfunded mandates’. Different indicators suggest most Member States risk excess responsibilities in relation to their revenues. Notwithstanding the indicator limitations, at least five Member States have a considerable risk of subnational ‘unfunded mandates’ at one or more levels or a dependence on national transfers.

The analyses illustrate, however, that unfunded mandates should not be assessed statically. They are dynamic and subject to other influences, such as other reforms, unexpected extensions to subnational administration tasks or structural changes affecting public finances.

Other risks may be identified for local and regional levels of government separately. Especially in Eastern Europe there are shrinking shares of local government expenditure. For the regional level, the analysis suggests unfunded mandates in centralised countries and, ceteris paribus, less developed regions.
The case studies on decentralisation in France and Romania have a primarily national focus. The studies for Sweden and Italy start from the regional perspective and the regions’ embeddedness in the national framework.

*France* has pursued decentralisation over the last 40 years despite major structural obstacles. In 1982 and 1986 the Deferre laws limited the role of state control over local authorities. About twenty years later further reforms created the legal basis for experimental approaches, including local direct democracy and decentralised competences. In 2022 further reforms strengthened the regulatory power of local and regional authorities, broadened the possibilities to transfer competences, clarified responsibilities and improved coordination. France has been a forerunner in formalising relations between levels of government through contracts. Despite provisions for financial autonomy, the share of fiscal income in local and regional authority revenue has fallen substantially since 2010 and the system blurs the division of financial responsibilities between government levels.

Decentralisation in *Romania* has evolved significantly since the principles of local autonomy and decentralised public services were first established in 1991. These were modestly changed with the constitutional revision in 2003. The principles of subsidiarity, responsibility, stability, predictability and equity were introduced in 2006 and additional attempts in 2013 further decentralised responsibilities from the central government in several fields. The 2017 General Strategy for Decentralisation action plan defines the next steps. For some sectors there are unfunded mandates leading to delayed funding and pressure on local authorities. At the same time, subnational authorities lack the power to initiate, adjust or eliminate taxes and fees, leading to a lack of financial autonomy.

The *Swedish county Västra Götaland* is one of the three largest Swedish counties. Decentralisation here is embedded in the national processes for the 20 years up to 2019, in which Västra Götaland was a forerunner. The current Västra Götaland county has resulted from a merger of most of four counties in 1998. Regions have three groups of responsibilities; compulsory, optional and shared between regions and municipalities. Bottom-up processes have led to four local federations that implement many activities. Subnational entities in Sweden, including Västra Götaland and municipalities in the region, have had a public finance surplus in recent years. This is expected to turn into deficits in the years to come. The principally high degree of local and regional authorities (LRAs) fiscal autonomy is limited by their share of targeted state funding, which decreased recently for municipalities and increased for regions.

*Friuli-Venezia Giulia Region* is one of five Italian autonomous regions. Their unique status, however, does not imply autonomy in specific policy domains. Each autonomous region has its own distinct statute with varying levels and capacity. Friuli-Venezia Giulia has many legislative prerogatives and can adapt some national laws. The region is fully funded to implement its responsibilities, however this is from the state rather than the region's own territorial resources.
The European Semester concerns close policy dialogue between EU institutions and Member States, including drafting, approving and adopting country reports, recommendations and National Reform Programmes (NRPs). Earlier studies illustrate the very limited extent for LRAs to advocate for decentralisation in Member State NRPs. However, the European Semester has exerted pressure for structural reforms for decentralisation if country specific recommendations addressed such issues.

The country specific recommendations for 2022 included few decentralisation aspects. Most references concerned decentralisation in the wider sense, including better horizontal or vertical coordination, with very few fiscal aspects of decentralisation. Decentralisation is much more evident in NRPs given a wider understanding. This holds for governance in terms of functions and competence as well as for fiscal aspects. Fiscal decentralisation and autonomy are, however, less frequently addressed than general decentralisation issues. The details vary greatly, mirroring the needs of Member States and their administrative structures. Frequently, these do not refer to country specific recommendations of the current or previous year, so it is often not possible to assess the influence of Council recommendations on decentralisation in NRPs.

Case study analysis of the European Semester provides insights into the evolution and interplay between country reports, country specific recommendations and NRPs. It also shows how LRAs can be affected by the European Semester even without explicit decentralisation suggestions or activities.

The study shows the varying potential of different decentralisation dimensions to support the effectiveness of decentralisation. There are good examples for effective decentralisation based on adequate own subnational financial resources. However, the terminology describing subnational financial autonomy is not always self-explanatory. In addition, territorial differences matter for financial autonomy and changes over time. This requires monitoring of progress, LRA involvement and territorial impact assessments.

Decentralisation and recentralisation trends are ambiguous. Due to the complexity effective decentralisation cannot easily be transferred. It is important to simultaneously consider a coherent functional and financial decentralisation, political accountability, and adequate coordination mechanisms. To reinforce monitoring the effectiveness of decentralisation, the Division of Powers portal should be regularly updated and further developed to become a tool for policy makers. This includes extending its functions. Decentralisation is considered in the European Semester, but this could be enhanced using it to monitor governance and embed it more strategically. Persisting limitations must be overcome to better involve LRAs. Beyond territorial monitoring, it is necessary to monitor regional finances to consider unfunded mandates. A biennial reporting dedicated to multi-level governance could be thought of.
INTRODUCTION

This study aims to investigate decentralisation in EU Member States to gain insights into the functioning of decentralisation and processes supporting it. Decentralisation should not be an end in itself but a means to respond to citizen needs. In the EU this is guided by the principles of subsidiarity and proportionality as detailed in Protocol No. 2 of the Treaty on the Functioning of the European Union. According to an OECD study, decentralisation can contribute considerably to GDP growth (Blöchliger & Ègert, 2013). This is despite the challenges which require regional and local authorities to be able to implement the decentralised policies and tasks. Building on existing work, this study adds new insights from different perspectives.

The first perspective builds on the Division of Powers portal and its decentralisation index, considering OECD guidelines for effective decentralisation. The analysis combines quantitative and qualitative insights to identify interesting developments. Particular attention is on the fiscal dimension of decentralisation, since this is crucial for such processes to function effectively. Decentralisation can lead to ‘unfunded mandates’, if subnational governments receive new mandates or responsibilities without the financial resources to fulfil them².

Four case studies illustrate decentralisation from the national and regional perspectives. They highlight challenges in the processes and show what was done to implement decentralisation. They also illustrate different administrative structures and traditions to provide insights for different frameworks in the EU. The study considers decentralisation in France and efforts to regionalise cohesion policy in Romania. At regional level the Swedish example from Gothenburg and the northern Italian autonomous region of Friuli-Venezia Giulia are discussed.

Decentralisation can be initiated through different institutions and processes. Beyond processes initiated within Member States, these can be suggested or requested by the European Commission. Under the European Semester, introduced in 2011, economic and social policies are coordinated between the EU and Member States, including fiscal policies and structural reforms promoting economic growth and employment. Thus, the European Semester could also promote decentralisation to enhance GDP growth as well as better governance responding to citizens’ needs. The study analyses how far the most recent European Semester recommendations and National Reform Programmes (NRPs)⁴ include information and examples on decentralisation.

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¹ https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AJO.C._2010.083.01.0001.01.ENG#d1e186-201-1
² For the definition of ‘unfunded mandates’ see e.g. Rodríguez-Pose & Vidal-Bover (2022, p. 4).
⁴ At the moment of the analysis the most recent NRPs and recommendations refer to 2022.
Recommendations to implement effective decentralisation in the EU conclude the study.
1 Overview of Decentralisation with regard to OECD Guidelines

The OECD guidelines for effective decentralisation describe how policy makers can address decentralisation but are not indicators to measure the state of decentralisation. In contrast, the Division of Powers portal of the European Committee of the Regions (CoR) describes the state of decentralisation in Member States based on qualitative descriptions translated into variables and quantitative indicators. For the analysis of decentralisation in Member States, these two approaches have been compared and proxies identified to indicate implementation of the OECD guidelines. In addition to quantitative indications on the degree of decentralisation across Member States this analysis draws on a literature review and case studies. The table below summarises links between the OECD guidelines and the Division of Powers portal.

Table 1: Division of Powers portal proxies in relation to OECD guidelines for effective decentralisation

<table>
<thead>
<tr>
<th>OECD guidelines</th>
<th>Division of Powers portal</th>
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<tbody>
<tr>
<td>Clarify the responsibilities assigned to different government levels</td>
<td>Degree of delegation of competences</td>
</tr>
<tr>
<td>Ensure that all responsibilities are sufficiently funded</td>
<td>Revenue ratio: share of overall subnational expenditure compared to total government expenditure</td>
</tr>
<tr>
<td>Strengthen subnational fiscal autonomy to enhance accountability</td>
<td>Revenue autonomy: share of subnational own revenues (excluding grants) compared to the total subnational revenues</td>
</tr>
<tr>
<td>Support subnational capacity building</td>
<td>Available human resources: share of subnational government employment out of total governmental employment (average of regional and local)</td>
</tr>
<tr>
<td>Build adequate coordination mechanisms among levels of government</td>
<td>Ability to influence policy making: means to influence legislation and policy decisions at higher levels of government; Representation at national level: means of subnational representation</td>
</tr>
<tr>
<td>Support cross-jurisdictional cooperation</td>
<td>No proxy variables or information available</td>
</tr>
<tr>
<td>Strengthen innovative and experimental governance, and promote citizen engagement</td>
<td>Subsidiarity: to what extent to which subnational dimensions are defined and systematically implemented</td>
</tr>
<tr>
<td>Allow for and make the most of asymmetric decentralisation arrangements</td>
<td></td>
</tr>
<tr>
<td>Consistently improve transparency, enhance data collection and strengthen performance monitoring</td>
<td>No proxy variables or information available</td>
</tr>
</tbody>
</table>
Strengthen national regional development policies and equalisation systems

Source: own elaboration based on OECD (2019b) and https://portal.cor.europa.eu/divisionpowers/Pages/Decentralization-Index.aspx

To compare indicators, percentage values were transformed into categories using distribution quartiles for the categorisation, which then compare decentralisation per Member State.

For additional insights on the risk of ‘unfunded mandates’ complementary findings and Local Autonomy Index (LAI) data was scrutinised, especially fiscal local self-rule indicators were compared to the overall LAI.

The following sections provide an overview of decentralisation findings (section 1.1) before addressing eight of the ten OECD guidelines individually (section 1.2). The second and third guidelines ‘Ensure that all responsibilities are sufficiently funded’ and ‘Strengthen subnational fiscal autonomy to enhance accountability’ are considered separately in section 1.3 to emphasise ‘unfunded mandates’.

1.1 Overview of decentralisation

Decentralisation in Member States varies significantly by degree and across dimensions. Just the seven dimensions of the Divisions of Powers portal related to OECD guidelines illustrate a wide variety. Few countries are decentralised across (nearly) all dimensions and are above the EU average (e.g. Spain in Figure 1). At the other end, only two countries (Ireland and Hungary) are less decentralised in these seven proxies than the EU average. In most countries, the pattern is very mixed across the dimensions. The bottom two spiderweb diagrams in Figure 1 illustrate this for Czechia and Slovakia. Both have well developed decentralisation dimensions, while others are much less developed. A comparison of three indicators illustrates this well: the two financial indicators (revenue ratio and revenue autonomy) and human resources in subnational governments are diametrically opposite in the two countries. Some countries have many competences and/or tasks compared to their own revenues (see next section on the risk of ‘unfunded mandates’). Some have human resources that could hinder effective decentralisation more than a lack of funding (e.g. Czechia and Croatia). Annex I depicts the combination of these variables for all Member States.
1.2 OECD guidelines

1.2.1 Clarify the responsibilities assigned to different government levels

Various sectors across Member States have been decentralised in recent decades. Frequent examples are employment, healthcare, social assistance, education and spatial planning. How these and other responsibilities are assigned to subnational levels differs by legal paths and means:

- codification of subnational government responsibilities in the constitution, as in Croatia (Valenza, Hickey, Zillmer, & Georis, 2020, p. 91);
- intergovernmental agreements define the division of responsibilities in Belgium (OECD, 2019b, p. 141);
- sector specific legislation as illustrated for the Dutch Regional Water Authorities (OECD, 2019b, p. 33);
Germany combines legislative and legal frameworks with intergovernmental agreements for clear divisions across government levels (OECD, 2019b, p. 141). The constitutional protection of local self-government is combined with politically and democratically legitimate power for a wide variety of subnational tasks according to subsidiarity (Kuhlmann, Dumas, & Heuberger, 2020, p. 14).

Rather than explicitly listing responsibilities at lower levels, clarity can also be achieved the other way around as in Italy: ‘The constitutional amendment of 2000 went as far as stipulating that the comuni have all-encompassing responsibility for the administrative functions, except when they are explicitly conferred to other levels of government’ (Kuhlmann et al., 2020, p. 43).

Decentralisation is typically implemented through reforms. Examples are enhanced regional autonomy reforms in Belgium, Italy and Spain (Sacchi, 2018, p. 249). In 2013, a Commission on Tasks and Deregulation was established in Austria to clarify different roles. This can initiate decentralisation. Examples for the simplification of the division of responsibilities exists in different Member States, such as the Netherlands, Denmark and Spain. In Denmark a comprehensive reform in 2007 reassigned responsibilities between government levels, reduced the number of counties and merged municipalities to reduce shared assignments and improve clarity regarding responsibility for costs. Reforms in Spain defined local core competences following the principle of ‘one administration, one competence’. (OECD, 2019b, pp. 141–142)

Nevertheless, successive reforms in France illustrate that the process to clarify and decentralise responsibilities may be long and can even be counterproductive. However, this example also includes an innovative approach with the ‘metropolitan model’, where metropolitan areas obtain ‘important responsibilities and functions from the remaining member municipalities and the respective départements and regions’ (Kuhlmann et al., 2020, p. 47).

Complementing the structured approaches are experiments of free communes in Denmark, Finland and Sweden as well as regionalisation pilots in Finland, France and Sweden. These ‘demonstrate the effectiveness of reforms and pave the way for further change on a larger scale’ (OECD, 2019b, p. 38). In the short-term they may however decrease clarity for responsibilities.

1.2.2 Support subnational capacity building

Subnational authorities require adequate capacity to effectively and efficiently exercise the competences transferred to them. This includes administrative, institutional, strategic and financial management capacity, with sufficient and qualified resources and skills. At EU level, capacity building is particularly well known for shared management programme implementation, such as through Cohesion Policy. For these programmes, Member States must ensure sustainable capacity to implement them and may use funds to reinforce administrative capacity at different levels, especially for subnational governments (OECD, 2019b, p. 153).
Capacity building is still needed at all levels of government though with different emphasis. For example in the Croatian National Recovery and Resilience Plan (NRRP), the need ‘to learn how to reduce overlapping between projects and identify the proper funds to be used’ (Valenza, Iacob, Amichetti, Celotti, Zillmer, & Kotrasinski, 2021, p. 28) was identified. The literature indicates that new needs also arise for managing digital and green transitions, especially better digital skills in public administration at all government levels. The Italian NRRP reforms aimed at ‘strengthening the National Administration Centre, to reorganise training and a new ‘Communities of Practice’ to share public administration best practices’ (Valenza et al., 2021, p. 29). Local and regional authorities (LRAs) should also be supported in their organisational processes, including strengthening digitalisation with new skills, through training or new staff.

In addition to knowledge and skills, subnational administrations need adequate human resources. These should reflect the division of competences, so more delegated competences mean more human resources at the corresponding subnational level. There is a corresponding correlation at the local level but the variation is high.5 Especially countries with a low share of local human resources risk a lack of capacity (orange bubble in Figure 2).

**Figure 2: Human resources and degree of delegation of competences at local level**

![Figure 2: Human resources and degree of delegation of competences at local level](https://portal.cor.europa.eu/divisionpowers/Pages/Decentralization-Index.aspx)

5 The focus on the local level allows to include nearly all Member States consistently in the analysis.
considering institutional differences, this indicates capacity limits in local government. An example of a high regional share is Germany. The federal states account for over 40% of public employment and the federal government for little more than 10%, which is in line with the functionally strong role of the states. Especially in Eastern Europe, local government functionality has been reduced in recent years. Poland is an exception with a slightly rising share of local government employment. (Kuhlmann et al., 2020, pp. 17-19)

1.2.3 Build adequate coordination mechanisms among levels of government

Two Division of Powers indicators allow insights into coordination mechanisms among and across levels of government; *representation of subnational levels at national level* and the *ability to influence higher levels of government policy making*. There is better representation in federal countries and unitarian countries with a high level of decentralisation. The influence on higher level government legislation is often enhanced since consultation procedures are well defined under such frameworks:

- In Austria, federal states are represented in the Austrian Federal Council (Bundesrat) while the Austrian Association of Cities and Towns (Städtebund) and the Austrian Association of Municipalities represent cities and municipalities. These are formal institutions for horizontal coordination, recognised by the Austrian Federal Constitution and they are informed about government proposals. Consultation and coordination mechanisms include periods to scrutinise draft legislation and negotiations can start bottom-up.

- Germany is similar, as federal states are represented in the Bundesrat. In addition, rural districts and municipalities are represented through the Rural District Association (Deutscher Landkreistag), the German Association of cities and municipalities (Deutscher Städte- und Gemeindebund) and the Association of German Cities (Deutscher Städtetag). These associations are consulted in legislative procedures if the local level is affected by draft legislation. Consultation within the federal states depends on their constitutional framework.

- In Spain there are several structures. The regional level is represented in the Senate as the chamber for territorial representation. Consultation takes place through sectoral conferences and working groups. Spanish provinces and municipalities are represented by the legally recognised Federation of Spanish Municipalities and Provinces (Federación Española de municipios y provincias). This is complemented by associations of municipalities in the same Autonomous Community. Coordination and consultation with the local level is formalised through the permanent National Commission of Local Administration (CNAL).

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6 [https://portal.cor.europa.eu/divisionpowers/Pages/default.aspx](https://portal.cor.europa.eu/divisionpowers/Pages/default.aspx)
Comparison of the two Division of Powers indicators, however, shows that influencing policy making may also be achieved through other channels, as official representation is not always sufficient (e.g. Spain in Figure 4).

Examples for other means of influence are the Netherlands and Estonia⁷:

- The Netherlands developed a Code on Inter-administrational Relations with a checklist for involving the two central subnational institutions, the Association of Netherlands Municipalities (Vereniging van Nederlandse Gemeenten) and the Interprovinciaal Overleg. In addition, they are represented in national working groups and meet the Prime Minister for alignment twice a year.

- Direct access of Estonian local government to the official electronic legislation drafting system through their associations is crucial for exchange and to obtain information. In addition, these associations have to approve any national legislation that concerns local government interests.

**Figure 3: Subnational representation at national level**

[Bar chart showing subnational representation at national level]

*Source: own elaboration based on [https://portal.cor.europa.eu/divisionpowers/Pages/Decentralization-Index.aspx](https://portal.cor.europa.eu/divisionpowers/Pages/Decentralization-Index.aspx)*

**Figure 4: Ability to influence higher levels of government policy making**

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⁷ [https://portal.cor.europa.eu/divisionpowers/Pages/default.aspx](https://portal.cor.europa.eu/divisionpowers/Pages/default.aspx)
Regions also contribute to legislation processes at European level at least indirectly. ‘Under Protocol No 2, when carrying out the subsidiarity check for draft EU legislative acts with a view to issuing reasoned opinions, it will be for each national Parliament to consult, where appropriate, regional Parliaments with legislative powers.’ (European Commission, 2022a, p. 24). There is further influence through regional parliament members in the CoR as well as several networks and mechanisms. In addition, the number of resolutions directly submitted by regional parliaments to the European Commission has increased. They can also participate in Commission public consultations and meet with members of the Commission. (European Commission, 2022a, p. 25)

1.2.4 Support cross-jurisdictional cooperation

Cross-jurisdictional cooperation is about horizontal coordination. This ranges from flexible coordination through joint authorities, partnerships and coordinated strategies to formal mergers of municipalities. There are many examples of how this is facilitated in Member States, including:

- There is a wide variety of rural-urban partnerships that are territories with joint responsibilities. These can be at different levels, with different approaches and funding, focusing on a variety of rural-urban links or selected functions only.8

- Poland has coordination strategies. These ‘territorial contracts’ were designed to improve coordination and partnership. First approaches to decentralisation go back to the 1990s. For the 2014-2020 programming period the previous contracts were further developed to enhance coherence between self-government projects and national development policies (Churski, 2018, pp. 75-78).

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8 For an overview of the variety see e.g. Artmann, Huttenloher, Kawka, & Scholze (2012)
• Another approach includes joint municipal administrations. In Slovenia this is voluntary and supported through financial incentives. Hungary has compulsory pooling of administrative tasks for municipalities with less than 2,000 inhabitants (OECD, 2019b, pp. 74-75). In Slovakia municipalities may cooperate voluntarily. They can create ‘joint municipal offices’ to manage tasks delegated from the national level such as joint building offices (building permissions, zoning plans, etc.) which improve the effectiveness and efficiency of public administration (Fandel, Marišová, Malatinec, & Lichnerová, 2019)

• Joint authorities can be inter-municipal bodies created by agreement or by law, both of which are possible in Austria. Here, a federal constitutional amendment in 2011 enhanced the possibility for inter-municipal associations. Similar examples are ‘supra-municipalities’ in the Flemish and Walloon Regions and five types of such authorities in Flanders in Belgium, as well as special purpose authorities to perform public services for several municipalities in Finland and Germany. In Spain similar joint service provision is supported through financial incentives. In most cases, this cooperation is voluntary. A compulsory example is Portugal, where inter-municipal communities were created by law in 2013 (OECD, 2019b, pp. 74-75). In France, an incentive for such cooperation is own-source taxation power for these inter-municipal bodies (OECD, 2019b, p. 164).

• Municipalities have merged in many countries, including under reforms in Denmark, Finland, Ireland, the Netherlands and Sweden (OECD, 2019b, p. 163). These do not necessarily lead to improvements in service provision and economic efficiency, depending on other conditions and reforms. The Danish reform of 2007, the 2009 reforms in Latvia and in the Austrian state of Styria in 2010-2014 are considered successful (Rakar, Tičar, & Klun, 2015, pp. 188-189).

• The French metropolitan governance model outlined in sub-section 1.2.6 is another example for territorially specific cooperation. Other metropolitan area cooperation increasingly takes into account functional area relations and addresses the mismatch between administrative borders and actual flows. One example are the eleven German metropolitan regions under the Initiative of European Metropolitan Regions in Germany (IKM). Their governance is individually defined and subject to administrative and territorial specificities. Examples range from partnership cooperation and agreements to state contracts.9

In addition to these domestically focused cooperation agreements there are cross-border arrangements in many Member States. These include joint strategy developments and other forms of coordination as well as specific forms of cooperation, such as the European Grouping of Territorial Cooperation (EGTC). These can

9 https://deutsche-metropolregionen.org/#ueber-ikm
represent municipalities across borders in a joint legal authority to coordinate activities and/or perform tasks jointly.\textsuperscript{10}

\subsection*{1.2.5 Strengthen innovative and experimental governance, and promote citizen engagement}

Citizen engagement can enhance policy making aligned to citizens. This is more important when citizens are more concerned about income and wealth distribution (Sacchi, 2018, p. 253). There has been an increasing ‘demand to strengthen political accountability and democratic control at the local level’ which some countries have addressed ‘by introducing direct democratic decision-making rights for citizens and strengthening local leadership on the part of the local executive’ (Kuhlmann et al., 2020, p. 30).

However, the degree of citizen engagements differs widely, from information on citizen perceptions via direct influence on policy decisions to active involvement in policy delivery:

- Finish municipalities collect information on citizen expectations, priorities and satisfaction, which aim to improve service delivery in line with their needs (OECD, 2019b, p. 169).

- ‘Sweden’s local government system is characterised by a representative democratic structure without legally binding direct democratic rights of participation, but with a pronounced user democracy and citizen participation.’ (Kuhlmann et al., 2020, p. 31)

- Reforms of the German local government system have strengthened citizen involvement through different forms of direct participation. Depending on the federal state, this encompasses direct elections for executives and/or binding local referendums (Kuhlmann et al., 2020, p. 14).

- Similarly, citizen involvement in local decision-making is multi-dimensional in Slovenia. This includes informal participation such as open days, online forums and proposals as well as formal participation in consultations, the possibility to propose referendums, participatory budgeting and consideration of policy proposals.\textsuperscript{11}

- Several Member States dispose of ‘direct democracy instruments such as citizens’ initiatives’ (Kuhlmann et al., 2020, p. 30). Beyond those mentioned above, other examples are Austria, Italy, Czechia and Poland.

\textsuperscript{10} For the EGTC instrument see Regulation (EU) No 1302/2013 (2013). For examples of cooperation, coordination and service provision see CoR EGTC publications such as Zillmer, Hans, Lüer, & Toptsidou (2020) or European Committee of the Regions (2018).

Citizen participation may go beyond such direct democracy and involve citizens in local service provision. Using European Structural and Investment Funds (ESIF) funding, Croatia involves local authorities with other local stakeholders to develop social service networks for disadvantaged people (Valenza et al., 2020, p. 50).

Despite these efforts to enhance citizen participation there are contrary developments in Hungary, where direct elections for mayors were abolished under the Local Government Act adopted under the Orbán government in 2011 and replaced by election through the local council (Kuhlmann et al., 2020, p. 31).

Some experiments for better citizen participation can be replicated (OECD, 2019b, p. 167). An example is the Danish time limited approach (2012-2015) of the ‘Free Municipality’ initiative. The Danish government granted nine municipalities exemptions from certain administrative rules and requirements to test simplified routines and innovative citizen-centred implementation of local tasks especially for employment. (OECD, 2019b, p. 174)

Finally, mechanisms to safeguard subsidiarity may inspire innovative governance approaches. Two Division of Powers examples12 illustrate this for subnational consultation concerning EU legislative acts:

- The Belgian Early Warning System (EWS) framework guarantees the total and systematic transmission of information from EU legislative proposals to the Senate, the Chamber of Representatives, and the Regional/Community Parliaments.

- The Netherlands have created a Subsidiarity Check Committee, which works with the Dutch House of Representatives and the Senate. Local associations are involved from the early stages of decision-making, and discussions include financial and administrative issues. They are direct members of European governmental discussion forums, including the CoR’s Subsidiarity Monitoring Network.

1.2.6 Allow for and make the most of asymmetric decentralisation arrangements

Asymmetric decentralisation implies that not all units of one administrative level have the same responsibilities and/or sources of revenue. This can benefit policy implementation at the most adequate level and support innovation in governance at regional, functional area (e.g. metropolitan), or local levels. Especially in federal countries, some asymmetry is usual. Depending on the division of powers this can be relatively strong (e.g. Spain) or less distinctive (e.g. Austria and Germany) (OECD, 2019b, pp. 170-172).

There are a few examples of asymmetries that benefit decentralised policy making outside the constitutional division of responsibilities, such as different forms of regions (e.g. special provinces in Italy or free states in Germany) (OECD, 2019b, p. 174):

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12 https://portal.cor.europa.eu/divisionpowers/Pages/default.aspx
When abolishing the state ‘districts’ in 2003, Czechia passed most of their responsibilities to ‘municipalities with extended powers’ (OPR). There are nearly three times as many of these as the previous districts and they perform functions delegated from the central government beyond their territory and receive additional funding for these functions. In addition, smaller municipalities can also delegate functions to these OPR if they lack the ability or capacity to provide them. Thus, asymmetric responsibilities balance different capacities between municipalities without the need to centralise responsibilities.

In Sweden asymmetric regionalisation has been implemented through counties with bottom-up processes since the 1990s, with reforms not mandatory for the counties (see also section 2.3).

Metropolitan governance models can also enable asymmetric decentralisation. As indicated by the French example (see sub-section 1.2.1) asymmetry may be between municipalities in a metropolitan area and others. Similarly, the metropolitan governance reform in Italy created a legal structure for specific governance in major metropolitan areas.

Asymmetric decentralisation may be temporary and initiate a new phase of decentralisation. This happens if successful experimental approaches in selected areas can be implemented generally, or may be an answer to an extraordinary situation (see examples for Denmark and Germany in previous sub-sections).

1.2.7 Consistently improve transparency, enhance data collection and strengthen performance monitoring

Transparency contributes to effective decentralisation by building trust in public activities, improving outcomes and reducing corruption. In addition, it supports the voicing of citizens’ opinions. Data collection and performance monitoring are crucial to improving transparency, as they allow citizens to understand government activities (OECD, 2019b, pp. 175-176). The above example of Finish municipalities collecting feedback and monitoring satisfaction with local public services illustrates the benefits of such activities (see sub-section 1.2.5).

Previous analysis indicated that capacity building is closely linked with the ability to improve transparency in policy making and enhance target-oriented data collection. As pointed out above, improved digital skills are needed in public administration (see sub-section 1.2.2). This not only benefits public service performance but is also essential for meaningful monitoring, contributing to transparency and accountability towards citizens (Valenza et al., 2021, p. 28).

There are frequent examples of improved transparency and performance related monitoring for EU funding and programme implementation. Member States have to develop capacities for such monitoring, especially for programmes under shared management (e.g. ESIF) and implementation of their NRRPs. Examples are:
• For their NRRP, Belgian federal authorities have a twofold task. They are responsible for informing the central government about project development and implementation while also being accountable to the local level and citizens (Valenza et al., 2021, p. 20). With the latter they must contribute to NRRP implementation transparency.

• The Italian example of EU programme implementation emphasises performance oriented monitoring and devotes significant resources to updating data to support the timely availability of territorially disaggregated policy area data relevant for regional development (OECD, 2019b, p. 178).

1.2.8 Strengthen national regional development policies and equalisation systems
This last guidance combines development policies and fiscal equalisation to reduce territorial disparities. They may be implemented separately or in a complementary way. The OECD guidance emphasises regional development policies at country level. For the EU the overarching regional development policy to reduce economic, social and territorial disparities is Cohesion Policy. Beyond the cohesion-oriented objectives of funds and programmes under Cohesion Policy, the division of funds follows this logic by defining three types of regions (less developed, transition and more developed). These are eligible for different types of funds (e.g. Cohesion Fund), receiving different amounts of funding, different co-funding rates, etc.13

In view of this overarching regional development policy, additional national and regional development policies are developed to different degrees. In many Eastern European countries, Cohesion Policy is the main source for regional policies. In north-western European countries there is typically less support from EU Cohesion Policy due to their higher level of income. In some of these countries and regions, Cohesion Policy is less important than national regional policy funding. Examples for different approaches beyond EU Cohesion Policy are:

• The French approach to urban policy support focusing on renewing deprived neighbourhoods. This support ‘is formalised through city contracts concerning urban, social and economic development. These are annexed to state-region contracts and mainly passed between the state and the agglomerations, which allows pooling the actions of different communes.’14

• The German central instrument of regional economic and structural policy is the Joint Task ‘Improvement of the Regional Economic Structure’ (GRW), since the

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1970s and focusing on disadvantaged regions. In 2020, the ‘All-German Support System for Structurally Weak Regions’ bundled all regional support together. Funding programmes previously restricted to eastern Germany are extended to all structurally weak regions. In addition, the GRW was completely realigned in 2022, including the launch of the GRW special programme ‘Accelerating the transformation in eastern German refinery locations and ports’.\(^\text{15}\)

Other national regional development policies can be identified in NRRPs, which sometimes address territorial disparities:

- The Belgian NRRP differentiates territorial needs and problems and offers a ‘place-based’ analysis for each axis. For most interventions data supports the description of potential solutions in policy fields (Valenza et al., 2021, p. 45).

- The Croatian NRRP describes disparities, challenges and needs for all pillars in a territorially differentiated way. Examples include (1) disparities between ports of different importance and size and actions to mitigate them and (2) differences in the availability of urban public transport systems (Valenza et al., 2021, p. 42).

Fiscal equalisation can be vertical (between national and subnational levels) and horizontal (between subnational authorities). Vertical equalisation is closely linked to the second guideline ‘Ensure that all responsibilities are sufficiently funded’, which is the subject of the next section. The following focuses on horizontal equalisation which is found in a few OECD countries, especially Germany, Nordic countries and Poland:

- In the Nordic countries ‘local equalisation programmes use an explicit standard of equalisation that determines total pool and allocation among local governments’ (OECD, 2019b, p. 183). The programmes use either solidarity principles, where the pool is fed by wealthier municipalities and supports poorer municipalities, and/or so-called ‘Robin Hood’ principles, with different central government treatment for wealthier and poorer municipalities.

- In Germany fiscal equalisation between the states (‘Länderfinanzausgleich’) bases horizontal distribution of tax revenues on local revenues. This is designed to compensate for differences in financial strength at state level resulting from the distribution of taxes and ensure that all states can provide the assigned tasks. Beyond a vertical element of federal supplementary allocations this redistributes value added tax horizontally to equalise states’ fiscal power (Federal Ministry of Finance, 2022).

- Poland has corrective and compensatory payments for local government units (Kowalik & Kustosz, 2018). Equalisation between Voivodships is through payments from the wealthiest regions to the national budget, which then

\(^{15}\) [https://www.bmwk.de/Redaktion/DE/Dossier/regionalpolitik.html](https://www.bmwk.de/Redaktion/DE/Dossier/regionalpolitik.html)
subsidises the receiving regions. The redistribution concerns tax revenues per capita over 110% of the average for all Voivodships (Kańduła, 2014, p. 19).

1.3 ‘Unfunded mandates’

The second and third OECD guidelines concern financing for decentralisation: ‘Ensure that all responsibilities are sufficiently funded’ and ‘Strengthen subnational fiscal autonomy to enhance accountability’. While horizontal equalisation, as detailed in the previous section, can contribute to ensuring sufficient funding for decentralised responsibilities, the following focuses on vertical equalisation and fiscal autonomy, especially the risk of ‘unfunded mandates’.

In general, approaches to vertical fiscal equalisation have become more popular in OECD countries and ‘are used to reduce fiscal disparities between central government and subnational government … to provide … comparable levels of public services at comparable tax burdens’ (OECD, 2019b, p. 181). However, the calculations are often complex without always improving fiscal equity.

Different indicators can be used to assess the level of funding, subnational autonomy and the risk of ‘unfunded mandates’, as detailed in the following table.
Table 2: Indicators and measures of adequate funding for decentralisation

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue ratio: share of overall subnational expenditure to total government expenditure (Division of Powers portal)</td>
<td>Comparison with the degree of delegation of competences (Division of Powers portal) offers insights into the relation between resources and responsibilities and helps identify unfunded mandates. Different responsibilities, however, imply different costs and the data does not always differentiate between subnational levels.</td>
</tr>
<tr>
<td>Revenue autonomy: share of subnational own revenues (excluding grants) to total subnational revenues (Division of Powers portal)</td>
<td>Compared with the degree of delegation of competences this further illustrates risks of unfunded mandates, assuming there is a high risk of dependence on vertical transfers. The above limitations apply, too.</td>
</tr>
<tr>
<td>Combining Local Autonomy Index (LAI): - Fiscal autonomy - Financial transfer system - Financial self-reliance - Borrowing autonomy</td>
<td>Comparison of the four financial indicators with total LAI support to assess the relationship between resources and other elements of decentralisation. The focus is entirely on the local level, with no information on regional decentralisation.</td>
</tr>
</tbody>
</table>

Source: own elaboration

Figures 5, 6 and 7 present these comparisons. Figure 5 suggests ‘unfunded mandates’ at all subnational levels, when the delegation of competences is ‘rated’ significantly higher than the revenue ratio. This is especially evident in the orange cloud in the second quadrant. Most Member States fall in this quadrant. Only five Member States have high subnational revenue ratios corresponding to medium or high levels of delegation. The third quadrant depicts three Member States where both decentralisation aspects are low.

Within the overall revenue ratio, the degree of autonomy tends to be high for most countries (Figure 6, first quadrant). The comparison of local financial autonomy with the LAI suggests Member States significantly above the 45-degree line risk too little finance and/or fiscal autonomy compared to local decentralisation, as indicated by the orange cloud in Figure 7.
Figure 5: Delegation of subnational competences and revenue ratio

Source: own elaboration based on https://portal.cor.europa.eu/divisionpowers/Pages/Decentralization-Index.aspx

Figure 6: Delegation of subnational competences and revenue autonomy
Despite the limitations of these indicators, Member States in more than one orange cloud may risk ‘unfunded mandates’ at one or more subnational levels, or high dependence on national transfers. Member States in the highlighted clouds in all three figures have the highest risks; Lithuania, Estonia, Bulgaria, Romania and Slovakia. In addition, Hungary and Slovenia are in the highlighted clouds at subnational and local levels (Figures 5 and 7), indicating a risk of ‘unfunded mandates’ especially locally in these two countries. Finally, Austria, the Netherlands and Greece are in the highlighted clouds at subnational level for the revenue ratio and autonomy. While there is no similar evidence for the local level, this suggests a potential lack of funding and or autonomy at regional level. Further evidence is visible in the individual spider webs in Annex I. Other analyses on the autonomy of subnational revenues confirm these findings. Subnational entities in Estonia, Lithuania, Romania and Slovakia strongly depend on transfers from their national governments (Alessandrini, Bosch Chen, Kubeková, & Fiorillo, 2021). In Romania, for example, the share of transfers from the central government is among the highest in the EU and subject to a specific framework (see case study in section 2.2). The box below illustrates challenges for Romania to overcome this mismatch.

**Romania: Factors contributing to persistent unfunded mandates**

Romania continues to decentralise public authorities, but a major challenge for local authorities is still a lack of funds (Guziejewska & Dana, 2020). The incomplete devolution of powers and limited...
financial independence of local governments means insufficient subsidiarity. Moreover, national regulations limit local borrowing to fund investments or refinancing, and Romanian LRAs must comply with a debt servicing limit (30% of the last three years’ average of own operating and capital revenues, excluding asset sales), or it can no longer contract or guarantee loans. This further reduces the flexibility of LRAs to finance their expenditure.

One reason is that most locally collected fiscal income goes to the state budget, not the local one. For instance, profit tax remains entirely with central bodies. Moreover, income tax transferred to the state budget is only partially repaid to local budgets. Also, the (annual) law on the state budget, which amends the law on local public finances, is fundamentally unpredictable so local authorities cannot build a solid forecast of how much they need to balance their budget. Finally, as outlined in the 2022 EC Country Report (European Commission, 2022c), only 42% of real estate properties in Romania are registered in the integrated IT system. Taxes on buildings and land are a key source of own resources for local authorities, which enjoy some discretion in setting rates within a range set out in the tax code. Revenues from property tax remain small, partly due to the weak link between recurrent taxes on immovable property, housing values and information in the land register.

For the Romanian Court of Accounts (2021), varying application rules in multiple legislative texts leads to the possibility that funds are not properly directed. Their use could be suboptimal as local authorities may not be able to comply with legal changes concerning revenue collection or expenditure. Funding decisions at the national level need time to be translated into local actions. There can be a significant mismatch between political commitment and allocated resources with planned and implemented measures. For instance, amounts allocated to local projects/programmes through some ministries are mostly available in the second part of the year or even at the end of the year, creating pressure on local authorities to spend the allocated funds, regardless of the results.

There are also specific challenges at sectoral level, as underlined by the Romanian Court of Accounts (2022). For instance, the system used to settle hospital-type medical services – health costs make up the largest share of local public funds, 23% in 2021 – is often inconsistent with the real costs leading to underfunding of the hospital system. Moreover, hospitals are financed from several sources with multiple objectives, leading to a lack of clarity regarding the allocation of public funds. Also, hospital health unit expenses are predominantly for personnel rather than investment. The Court identified irregularities at the county level, for instance, for public services, transport and education, among which the worst involved unrealistic local budgets. The main reason was the insufficient involvement of local authorities in organising and monitoring the establishment, evaluation and collection of local taxes and fees. This leads to the limited concern of local public authorities to identify and capitalise on revenues from economic activities or their patrimony (Onofrei, Ionel, Cigu, & Vatamanu, 2023).

Finally, some problems concern the efficient functioning of the regions. First, the eight Romanian regions are not ‘administrative-territorial-units’, like counties, cities and communes as they have no legal status. Without being directly elected, these entities cannot efficiently coordinate the divergent interests of the counties. An elected regional assembly, accountable to the whole region,

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16 Order no. 2303/2019 to approve Methodological Norms for granting and processing loans to administrative-territorial units according to art. I from the Government Emergency Ordinance no. 35/2019.

17 These amounts consist of percentages of the income tax and flat amounts from value added tax (VAT) collection. The share of income tax is never the same, and flat amounts from VAT are never predictable or computable, depending on transparent criteria.

18 Although the 2023 country reports were published recently, the 2022 reports were the most recent documents when performing the analysis.
could more efficiently promote projects that need coordination and cooperation between two or more counties (Profiroiu, Profiroiu, & Szabo, 2017). The lack of a clear political mandate is also reflected in the difficulties of implementing regional projects or strategies, as each region can include counties with different economic backgrounds (impacting the revenues from economic activities) with diverging interests and financial potential\(^\text{19}\). Moreover, the regions are in between the central government and the county councils, which are both unwilling to grant more power to them. Finally, Regional Development Agencies (RDAs) operate without funds and resources, making it more difficult to design and implement strategies and programmes such as S3 or Regional Operational Programmes (ROPs).

The ratios for decentralisation in general and for financing typically change slowly as they are subject to structural characteristics of the governance (Blöchliger & Akgun, 2018, p. 30). Apart from the governance, country size tends to matter, with larger countries being usually more decentralised than smaller ones (Blöchliger & Akgun, 2018, p. 27). The countries with the highest shares of subnational tax revenues are Denmark, Finland, Germany, Spain and Sweden (OECD, 2019b, p. 150), none of which had a high risk of ‘unfunded mandates’ in above figures. The box below shows that in Sweden such risks may nevertheless occur.

**Future challenges for Sweden**

Unfunded mandates are identified in the report on municipal and regional authorities by the Swedish Association of Local and Regional Authorities (2023):

- Financing to prevent domestic violence and support its victims has been underfunded in the last 15 years. Targeted funding has been very limited. Local and regional authorities have funded legally imposed mandates using temporary development funds. These funds will be removed from 2023.
- A national reform of sheltered housing for victims of violence has been accompanied by a proposal for national funding of EUR 12 million in 2023 and EUR 28 million in 2024. The Swedish Association of Local and Regional Authorities estimates that this reform will generate additional costs of at least EUR 200 million.
- The Swedish government has decided that adult refugees shall be offered Swedish language education. The target group is estimated at 25,000 persons. However, the budgeted amount of targeted support to municipalities would only cover 6 months of language education for 3,500 persons.
- The compensation for high energy costs has been limited with reference to EU State aid rules, although they do not apply to local and regional authorities. This implies that the national compensation only covers half the increase in energy costs.

Challenges linked to structural changes in the years to come are also identified, including ageing. To maintain the current staff to patient ratio for elderly care and health services, 80,000 additional people would need to be hired by 2031. The total number of additional working age people will increase by 253,000 persons over the same period, of which 84,000 are expected to be studying or for other reasons not in employment. The challenge of recruitment for elderly care and health services is therefore expected to generate major additional costs for local and regional authorities. Regional authorities are already forced to use temporary, more costly, staff in hospitals. These costs are not currently budgeted. (Swedish Association of Local Authorities and Regions, 2022a)

\(^\text{19}\) From interviews with RDAs representatives.
Fiscal autonomy and the risk of unfunded mandates is also subject to reforms and may change as a result of other reforms: ‘In Denmark and France, fiscal reforms led to a decrease in subnational revenue autonomy’ (OECD, 2019b, p. 66), in other EU Member States (Finland, Italy, Portugal) reforms increased this autonomy. The box below illustrates French and Italian examples for the effectiveness of these developments. The Netherlands and Poland more recently also increased fiscal autonomy for subnational entities (OECD, 2019b, p. 151).

**The French ‘Revenu de Solidarité Active’ example**

‘Revenu de Solidarité Active’ (RSA) is a minimum income for unemployed and underemployed workers\(^\text{20}\). It has been managed and financed by the Departments since 2003. This transfer of responsibility was supposed to be compensated by letting Departments benefit from some income from the Taxe intérieure sur les produits pétroliers (TIPP), a tax on fossil fuel. The share of the tax assigned to each Department was based on their cost for the RSA in 2003\(^\text{21}\). However, the RSA cost fluctuates because of economic trends and labour market mismatches. Income from the TIPP does not reflect these changes. Furthermore, the green transition means the TIPP tax base is declining. The mismatch between the RSA cost for Departments and their additional funding from the TIPP was already obvious in 2004.

To compensate for this mismatch, a Fund for the Modernisation of Integration Costs was established in 2006. Its yearly budget of EUR 500 million has been maintained, but has not been adjusted for inflation. The share of the TIPP assigned to Departments was increased between 2009 and 2013.

Two funds were established in 2014. The Fund for Equalised Compensation had a budget of EUR 958 million in 2018 and EUR 994 million in 2019. It financed RSA as well as other integration and support schemes. The Solidarity Fund in the Favour of Departments is a horizontal redistribution scheme which reallocated EUR 589 million in 2019 to Departments with below average income per inhabitant. This was complemented by exceptional support schemes targeting Departments where the cost of support and integration schemes such as the RSA was highest between 2015 and 2017. Such support was made permanent in 2019 with the multiannual Stabilisation Fund for the Departments which had a budget of EUR 200 million for a three year period. (Cour des comptes, 2022b)

Financing for the RSA increased by almost 20% between 2009 and 2019. During the same period, the total cost increased by over 70%.

From 2014, the difference was partly covered by allowing Departments to increase the ‘droits de mutation à titre onéreux’ (DMTO) tax on real estate transactions. In 2022, 98 of the 101 Departments applied the maximum rate of 4.5%\(^\text{22}\). However, income from the DMTO varies significantly from year to year and is not correlated with changes in RSA expenditure.

The discrepancy between incomes and costs led to a change of approach in the most severely affected Departments. A ‘recentralisation’ of the RSA was implemented from 2019 in Mayotte, French Guiana and from January 2020 in Reunion. Thus, the RSA is entirely managed and financed by the state. This experiment was then extended to the three continental Departments of Seine-

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\(^{20}\) From 1 April 2023, the RSA was EUR 607 for a single person with no children, and EUR 911 for a couple with no children.

\(^{21}\) Until 2009, the RSA was called ‘Revenu Minimum d’Insertion’ (RMI)

\(^{22}\) [https://www.impots.gouv.fr/sites/default/files/media/1_metier/3_partenaire/notaires/nid_11316_2022-05-31_dmto_2022_p_fiscal.pdf](https://www.impots.gouv.fr/sites/default/files/media/1_metier/3_partenaire/notaires/nid_11316_2022-05-31_dmto_2022_p_fiscal.pdf). Indre, Morbihan and Mayotte applied a lower rate of 3.8%.
Saint-Denis (northern suburbs of Paris), Pyrénées-Orientales (and its capital city Perpignan) and the rural Pyrenean Department of Ariège.

The autonomous province Friuli-Venezia Giulia in Italy

Friuli-Venezia Giulia has the authority to exercise autonomous political decisions. However, it fails to capitalise on opportunities presented by Articles 5 and 51 of its Statute. Even in implementation of the new Autonomous Local Real Estate Tax (Imposta Locale Immobiliare Autonomia – ILIA), there were no significant changes to the national regulation. Consequently, there is no independent and self-governing regional taxation system, distinct from ‘shared’ finance, but rather national legislative provisions that also govern ordinary regions.

Many Italian regions with ordinary status have advocated for increased autonomy for years. Hence, an entity with significant autonomy that does not make full use of this is exceptional. Several studies suggest this lack of utilisation is due to various national barriers and disincentives, leading some to define the uniqueness of certain autonomous regions solely in terms of financial privileges (Ieraci, 2012). The allocation of state taxes and other specific funds has covered all expenditure. Consequently, it has been unnecessary for the regional legislator to introduce new taxes, which would only add to the substantial burden of national taxation. However, since 2010 the central government started to cut financial resources for the local level, so there are less resources for all LRAs (including both ordinary and autonomous regions).

A key problem is that increased decentralisation has not been followed by an enhanced system to coordinate regions (and LRAs in general) with the central government. This is evident with the Constitutional Law in 2001 that led to a significant increase in regional functions, but regional participation in defining the national political agenda was not thoroughly considered (Ceccherini, 2021). For instance there is no Senate representing LRAs. Nowadays, the main coordination instrument is the State-Regions-Autonomous Provinces Conference but this still plays a secondary role. The number of meetings remains limited and the agendas are generally restricted to issues causing friction between the state and regions, overshadowing its function as coordinator of the entire regional system.

The lack of decentralised functions accompanied by formal procedures (or institutional practices) to cooperate coordination and clearly establish which administrative level oversees which activity, emerged with the COVID-19 pandemic. Notwithstanding the supremacy of the national government in the event of a pandemic, the high degree of health care autonomy for regions matters (especially following the Constitutional reform of 2001) and institutionalised conflict between state and regional policies were clear sources of coordination problems (Capano, 2020). Moreover, the conflictual characteristics of institutional arrangements for Italian regionalism were exacerbated by the asymmetric spread of the pandemic in the country, with the outbreak primarily hitting northern regions. This imbalance created further friction in the Conference which highlighted its limits. The central government declared a state of emergency to recentralise management of the health system and the related decisions, clearly showing the lack of a body to adequately coordinate and govern decentralised functions.

23 Additionally, there are the State-Municipalities-Local Autonomies Conference and the State-Regions-Autonomous Provinces-Municipalities-Local Autonomies Conference (also known as unified Conference).

24 In declaring the state of emergency, the Italian government appointed the Chief of the Department of Civil Protection as a commissioner to coordinate management of the emergency.

25 For instance, weak cooperative regionalism forced the government to appeal to the courts regarding few regions that made decisions against the national guidelines. At the same time, concurrent competences created confusion when the urgent establishment of the red zones was eventually considered necessary.
Comparing the change in subnational expenditure and revenue further illustrates centralisation (third quadrant in Figure 8) and decentralisation tendencies (first quadrant in Figure 8), with potential risks for subnational ‘unfunded mandates’ or a loss of fiscal autonomy where revenue growth remains significantly behind expenditure.26 Among the examples in Figure 8 are Member States for which the status quo analysis did not indicate such risks (e.g. Spain, Sweden, Finland, Germany).

Figure 8: Change of subnational revenue and spending in OECD countries

B. Decentralisation ratios, 1995-2016 or latest

Source: Blöchliger & Akgun, (2018, p. 27)

At the local government level, there are some centralisation tendencies. In many Eastern European Member States ‘the share of local government expenditure within total government expenditure has declined’ (Kuhlmann et al., 2020, p. 19), with Hungary experiencing by far the biggest decrease. Apart from spending and revenue and the share of own revenues, the degree to which local authorities can decide about their finances varies, e.g.:

- Croatian municipal taxes are generally subject to restrictions by the national government, with only tax on public land use being set independently (Alessandrini et al., 2021, p. 23).
- For Italian subnational authorities, debts are prohibited (Alessandrini et al., 2021, p. 100). Thus, they depend on national government transfers if their own resources are insufficient.

26 The data includes intergovernmental grants for subnational spending but not for subnational revenues.
Analysis of OECD data focusing on the regional level identifies different patterns of ‘unfunded mandates’. While the analysis did not include some Member States with such risks (i.e. Estonia, Bulgaria, Romania and possibly Greece and Hungary), it highlights potential risks for Polish, Dutch and Slovak regions and to a lesser extent also for German and Spanish regions. The analysis suggests a tendency of unfunded mandates in centralised countries and, ceteris paribus, regions with less development. (Rodríguez-Pose & Vidal-Bover, 2022, pp. 10-11)

Notwithstanding the analysis of observed expenditure and revenues, the potential risk of underfunding for subnational entities cannot be ruled out for Member States with a seemingly good distribution of tasks and finances across levels. Unexpected developments, crises or shocks can affect the ad hoc assessment and may require amendments in the division of public resources. One example is the response of different Member States to local funding following COVID-19 investment and service needs. Beyond general transfers from central to regional and especially local governments to support liquidity, service provision and investments or similar investment packages in Austria, Estonia, Greece, Ireland, Lithuania and Spain, some Member States applied other interventions to support local finances (Alessandrini et al., 2021):

- interest free loans to Croatian authorities ensured funding for LRA functions;
- in addition to compensation, Finland increased municipalities’ share of corporate tax;
- the Latvian central government increased the borrowing limit for local investment projects;
- in addition to compensations, the Dutch changed the rules for municipal fund distribution.

Another example is the ongoing discussion about financing accommodation and integration for asylum seekers and refugees in Germany. While responsibility and decision-making are at national level, states and especially local authorities receive, care and support asylum seekers and refugees and cover the corresponding costs. High refugee flows challenge local and regional public finances so they request increased central government support.27 This also mirrors other limitations of German local authorities affecting their decentralisation: ‘since local governments perform a comparatively large share of state functions and the elected representatives do not have any political decision-making rights, this entails a certain tendency towards the ‘nationalisation’ of local governments’ (Kuhlmann et al., 2020, p. 14).

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27 See e.g. https://www.bundesregierung.de/breg-de/aktuelles/fragen-und-antworten-fluechtlinge-2187726
2 GOOD PRACTICE EXAMPLES

Four case studies deepen the insights into decentralisation and the relation to OECD guidelines. The varied territorial focus allows insights from different perspectives. The French and Romanian case studies have a primarily national focus, whereas the studies from Sweden and Italy show a regional perspective and the regions’ embeddedness in their national framework. The four case studies have diverse historical frameworks of governance and administrative structures and different decentralisation in recent years.

2.1 France

France has three main levels of government: municipalities (LAU), departments (NUTS 3) and regions (NUTS 1). The number of municipalities remained stable around 36,500 until 2015, then decreased to some 34,800 between 2016 and 2019, stabilising at this level. However, practically all French municipalities are part of intermunicipal cooperation bodies, ‘public establishments levying taxes’ (‘EPCI’). There were 1,254 EPCIs in 2022, including 21 metropolitan regions. The metropolitan regions of Paris and Lyon have specific competences.

There are 101 departments, five of which are in outermost regions. The competences of departments are social policy (elderly care, childcare, services for handicapped people), infrastructure (e.g. roads, sports facilities), protected areas, emergency and rescue services, education (junior high schools), cultural heritage, libraries and sports facilities. The ‘European Collectivity of Alsace’, which includes the Departments of Haut-Rhin and Bas-Rhin, has a special status, with some regional competences.

The number of regions decreased from 21 to 12 in 2015, excluding the special status of Corsica and the five outermost regions. Their competences include public transport, education (high schools) higher education and research jointly with national authorities, training, economic development and innovation and regional planning (including ESIF programme management).

2.1.1 The main decentralisation processes

The tradition of centralised powers in France can be traced back to 17\textsuperscript{th} century royal absolutism, Jacobine thinking in successive French revolutionary movements and Bonapartist practices that prevail to this day. It is therefore deeply embedded in French society. Decentralisation over the last 40 years has faced major structural obstacles. The numerous levels of administration (municipalities, cantons, departments, regions, urban communities) is referred to as the French ‘territorial millefeuille’. Some commentators consider this ‘millefeuille’ a symptom of difficulties to address structural obstacles. Lawmakers may have accumulated ad-hoc ‘fixes’ piecemeal, due to their reluctance to engage in systematic structural reform. (Cour des comptes, 2023)

28 \url{https://www.vie-publique.fr/fiches/19620-quelles-competences-exercees-par-les-departements}
The adoption of the ‘Deferre’ laws between 1982 and 1986 is generally referred to as the ‘first phase of decentralisation’ in France. These laws abolished the authority of state representatives (‘prefects’) over local authorities, limiting their role to ex-post control of legality. They also transferred functions from prefects to department and regional councils, e.g. for urban planning, social policy, training and education. They established the notion of ‘blocks of competences’, for consistent and clear divisions of responsibility between administrative levels. The French Court of Auditors (2023) notes that this principle was lost in the following decades. The second phase of decentralisation initiated with the constitutional reform of 2003. This created a legal basis for experimental approaches implemented by the state or local and regional authorities and provides a framework for local direct democracy. It also enables new local authorities with a special status, e.g. in Corsica or Outermost Regions. Finally, it guarantees the financial autonomy of local authorities. It states that ‘fiscal revenue and other types of own income constitute a decisive part of their total resources’ (Article 72-2 paragraph 3). They may make decisions on taxation rates and bases within the limits of the law. It was followed by the 2004 ‘law on local freedoms and responsibilities’, which transfers competences to regions and departments. This concerns the same fields as the first phase, plus economic development, social housing and culture.

The ‘3DS’ law on ‘differentiation, decentralisation, deconcentration and various measures to simplify local public action’ of February 2022 marks an important step for French decentralisation. It strengthens the regulatory power of local and regional authorities, broadens possibilities for transfers of competences between local and regional levels and specifies divisions of responsibilities between Metropolitan regions and their member municipalities. This law clarifies responsibilities assigned to different government levels. It also improves coordination between levels of government. Information exchanges between sectoral authorities reduce reporting obligations for individual LRAs.

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**Contractual approach to relations between national and local and regional authorities**

France has been a forerunner in contractualising relations between levels of government. This is specific to France to ‘build adequate co-ordination mechanisms among levels of mechanisms’. Principles of contractualisation and implementation are essential components of current dialogues and cooperation between national authorities and LRAs in France.

State-Region Planning Contracts (‘CPER’) were initiated in 1982, following first contracts between the state and urban communities, medium-sized towns and so-called ‘pays’ in 1970, 1973 and 1975 respectively. These are for six-to-seven-year periods and address spatial planning, infrastructure and economic development. Contracts help coordinate public policies around a shared vision for

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development in each region. The current 2021-2027 CPERs are the 7th generation. Their timing is aligned to Cohesion Policy programming periods. They involve the state and regional authorities, as well as authorities of departments and below.\(^{33}\)

The contractual approach has expanded in recent years:

- City contracts were launched in 2014, to promote social cohesion, urban rehabilitation, economic development and jobs in 435 areas;
- Rural contracts were launched in 2016 and target 489 areas;
- Recovery and ecological transition contracts (CRTE) were launched in 2020, as a further development of the Ecological Transition Contracts (CTE) launched in 2018. These target 847 EPCIs and groups of EPCIs, helping to implement the NextGenerationEU instrument in France.\(^{34}\) CRTEs will eventually replace rural contracts, under the new designation ‘Rurality and ecological transition contracts’.

There are also specialised contracts, such as regional planning contracts to develop training courses and vocational guidance (CPRDFOP)\(^{35}\). These are based on an assessment of training needs and economic development perspectives. They include training elaborated in dialogue between regional councils, prefects and regional state representatives coordinating educational policy.

Contracts are perceived as enabling the state to preserve some control over regional and local policy priorities in the ‘decentralised Republic’ established by the 2003 constitutional reform. Commentators note that the notion of ‘contract’ is used differently than in civil law, as a policy process rather than a ‘contract’ in the legal sense. Some have also suggested that contracts are a form of ‘invisible recentralisation’, partly because of asymmetries between financial contributions of the different parties (Dupont & Taurine, 2021).

\[2.1.2\] Financial and fiscal autonomy

In spite of the constitutional provisions regarding financial autonomy, the share of fiscal incomes in local and regional authority revenues has fallen substantially since 2010, from 76% to 55% (Cour des comptes, 2022a). The French Constitutional Council stated in 2009 that ‘it does not follow from Article 72(2) of the Constitution or from any other constitutional provision that the territorial authorities enjoy fiscal autonomy’ (decision n° 2009-599, recital 64). Only a small proportion of local and regional authority income comes from taxes with a local and regional taxation base and with locally or regionally determined rates. This is almost entirely property tax which, since 2021, only benefits municipalities. The ‘financial autonomy’ of French regions and departments therefore rests extensively on the assignment of their share of national taxes. French regulations include these incomes in the ‘own resources’ of local and regional authorities. As a result, the ‘ratios of financial autonomy’ of French municipalities, departments and regions have increased substantially since 2003. For regions, it went from 56% in 2014 to 76% in 2021. Municipal ratios increased from 66% in 2014 to 71% in 2021. However, at the same time, the share of income from

\(^{33}\) https://www.collectivites-locales.gouv.fr/les-relations-contractuelles-avec-les-collectivites-territoriales

\(^{34}\) https://www.economie.gouv.fr/plan-de-relance

taxes regions levy fell from 18% to 2%, and the share of income from national taxes increased from 16% to 59%. The share of taxes levied by departments has also recently fallen considerably, from 14.5% in 2017 to 1.3% in 2021. This ratio fell more modestly for municipalities, from 52% in 2017 to 47.5% in 2021. (Cour des comptes, 2022a, p. 43). The fiscal decision-making power of French regional authorities has therefore decreased substantially in recent years (Cour des comptes, 2023).

Debates on these issues are complicated by the broad definition of local and regional ‘own resources’ in legislation adopted since the 2003 constitutional reform. The definition includes taxes where they have no decision-making power. However, financial autonomy (i.e. share of ‘own resources’) is a key indicator to track progress in decentralisation. This system does not comply with the fiscal equivalency principle, as political jurisdiction for taxing and spending are disconnected. Proposals to amend frameworks for the fiscal and financial autonomy of local and regional authorities were presented in a 2018 parliamentary report (Jerretie & Courson, 2018).

2.1.3 French decentralisation in relation to the OECD guidelines

The following observations can be made for each guideline:

- The assignment of responsibilities to different government levels was initially guided by the principle of ‘blocks of competences’. This was supposed to lead to transfers of major responsibilities with corresponding resources. However, this principle has proved difficult to implement, as most policies require dialogue and cooperation between multiple government levels. The ‘contractual’ approach has to some extent helped address this challenge but implies a concentration of strategic leadership at national level. As noted, the notion of ‘contract’ may be misleading if interpreted in the same way as in civil law. Similarly, indicators describing financial autonomy (see previous section) blur the division of financial responsibilities between government levels.

- A global assessment of the extent to which local and regional responsibilities are funded is difficult due to the complexity of the funding system and unpredictability of LRA incomes. However, the financial situation of LRAs is good as a whole. The French court of auditors therefore advocates a revision of the current funding system. The objectives would be to establish a simplified system which is easier to understand by LRAs and citizens, with a clearer division of responsibilities (Cour des comptes, 2022a).

- The fiscal decision-making power of French regional and local authorities has decreased substantially in recent years (Cour des comptes, 2023). Financial autonomy was enshrined in the French constitution in 2003, however implementation seems ambivalent.

- Permanent staff of French local and regional administrations belong to the ‘Territorial Civil Service’ (‘Fonction Publique Territoriale’). Except for technical functions, they are all recruited on the basis of competitive exams. The
French National Centre or the Territorial Civil Service (CNFPT) is the main body responsible for training local and regional civil servants. The transfer of responsibilities for ESIF programme management to regions has also been accompanied by major capacity building efforts.

- French authorities have extensively supported municipal cross-jurisdictional cooperation, with the generalisation of the EPCI. There are also inter-regional cooperation bodies targeting mountain ranges and river basins.
- The 2003 constitutional reform established a ‘right to experimentation’. A concrete framework for LRAs wishing to implement experimental approaches was established in 2021, along with a national system for monitoring these.
- Asymmetric decentralisation has been promoted in the outermost regions, the island of Corsica and the border region of Alsace, as well as in metropolitan regions such as Paris and Lyon.
- Transparency of LRAs has improved in recent years, with open data and new principles on financial transparency in 2015. LRAs must publish studies on the multiannual financial impact of major investments, budgets and accounts and must send budgetary information in a predefined format to national authorities.
- French national regional development policies have been strengthened with a deeper contractual approach, multiple programmes targeting disadvantaged social neighbourhoods, small and medium-sized towns, industrial regions, historical mining regions, mountain areas and digitalisation. These programmes are coordinated by the French National Agency for the Cohesion of Territories (ANCT).

2.2 Romania

Romania's local administrative structure is organised into administrative units of 103 municipalities (municii), 217 cities (orașe) and 2,856 communes (comune). These units are grouped into 41 counties (județe) and one city with a special status, Bucharest. Counties are then grouped into eight regions.

Before the pandemic the economic performance of Romania was impressive, but regional development has been uneven (OECD, 2022). Bucharest and many secondary

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37 [https://www.ecologie.gouv.fr/gestion-eau-en-france](https://www.ecologie.gouv.fr/gestion-eau-en-france)
39 [https://www.collectivites-locales.gouv.fr/finances-locales/open-data](https://www.collectivites-locales.gouv.fr/finances-locales/open-data)
40 [https://www.finistere.gouv.fr/contenu/telechargement/15308/125769/file/circulaire%20DGCL%20du%2030%20avril%202021.pdf](https://www.finistere.gouv.fr/contenu/telechargement/15308/125769/file/circulaire%20DGCL%20du%2030%20avril%202021.pdf)
41 There is no clear benchmark regarding the status of municiiu even though it generally applies to localities which have a population usually above 15,000, and extensive urban infrastructure. It corresponds to LAU II level. Localities that do not meet these characteristics are generally classified as towns or in rural areas, communes.
cities have become hubs of prosperity and innovation, and their purchasing power GDP per capita exceeds Berlin or Madrid, but poverty persists in rural areas. The Southern and North-Eastern regions are among the poorest in the EU. These territorial disparities are emphasised by the uneven capacity of LRAs to use their own finance to face economic and social challenges. They have the highest dependency on government transfers (see below), and tax revenue is low due to poor compliance and low taxation levels in Romania.

2.2.1 The main decentralisation processes

Decentralisation in Romania has evolved significantly over time, influenced by laws, constitutional amendments and transfers of responsibilities from the central government to local authorities. However, Romanian LRAs are still highly dependent on transfers from the central government, and their own revenues only cover a small fraction of their needs. In 2018, more than 80% of LRA revenue depended on transfers compared to the EU average of 43.3%, while own taxes, tariffs and fees are significantly smaller (OECD, 2019a).

2.2.1.1 Reforms

The decentralisation process in Romania begun with the 1991 constitution, the first after the fall of communism. This established the principles of local autonomy and decentralised public services, also defining the roles and responsibilities of local councils, county councils, and prefects. This laid the foundation for initiating decentralisation (Dobre, 2010).

During the initial phase, the primary focus was on developing the administrative structure. Law no. 69/1991 on public administration emphasised that local autonomy would only concern administrative matters. To enhance local government funding, Romania implemented local taxes. This clarified funding for local governments and resulted in a significant increase in local expenditure as a share of total public expenditure, rising from 14.4% in 1998 to 26.6% in 2001 (Profiroiu et al., 2017).

Decentralisation extended beyond administration to encompass specific sectors. Child protection services were decentralised in 1997 (Conway Luana Pop & Zamfirescu, 2000), followed by social protection services in 2003. In response to the added responsibilities, the central government enhanced the allocation of income tax to local governments (Profiroiu et al., 2017). However, frequent overlaps of power led to conflicts and created ambiguity in the separation of powers.

A revision in 2003 brought modest changes to the 1991 constitution, reinforcing the principles of decentralisation, local autonomy and devolved public services. At the municipal level, both the mayor and the city council are elected by residents, while the county council is the elected authority at county level (Dobre, 2010). A law enacted in 2008 introduced direct elections for the county council president (although this reverted back to being elected by the county council after 2015).

In the 2004 reform, the constitution incorporated regional development and eight development regions were established. These regions are explicitly defined as non-
administrative entities and do not have a legal personality. Their primary purpose is to develop, implement and assess regional development policies, as well as collect specific statistical data (Rodean, 2020; Scutariu & Scutariu, 2015). Further regionalisation was adopted in 2020, establishing regional management of ERDF ROPs in the 2021-2027 programming period.

Law no. 195/2006 played a significant role in Romania's decentralisation, since it introduced key principles such as subsidiarity, responsibility, stability, predictability and equity. Consequently, the central government must consider potential economies of scale and geographic aspects when making decisions regarding the decentralisation of services. Moreover, the law guarantees local autonomy by ensuring adequate resources, including taxes and levies, and prohibits the central government from imposing obligations on local governments without providing sufficient financial resources.

Following the change of government in 2012, additional efforts to decentralise responsibilities from the central government were attempted in 2013 for agriculture and rural development, culture, tourism, education, environment and climate change, fishing, health, youth, sport and transportation. In 2014, the Constitutional Court overturned the law as it infringed on local autonomy principles, since it was adopted without proper consultation with local government representatives (Profiroiu et al., 2017).

In 2017, the government developed the ‘General Strategy for Decentralisation’, under an Inter-ministerial Technical Committee for Decentralisation (CTID), to further transfer responsibilities. The capacity of LRAs to manage responsibilities, budgetary resources and increased local financial autonomy were assessed through a consultative process. However, due to the pandemic, the deadlines set in the strategy have been postponed42. In June 2022, the provisions for organisation, operation and attributions of CTID and the working groups for decentralisation of competences came into force.

2.2.1.2 Government levels

Each county has a council directly elected every four years and a president elected by the council. The council monitors implementation of public administration legislation and is responsible for distributing public funds, economic, social and environmental development, as well as managing county property and some public services.

The eight regions (structured as NUTS 2 development regions) covering multiple counties were established in 2004, along with the institutional framework and the primary objective of Romania's regional development policy. The regions are administered by the National Council for Regional Development and coordinated by RDAs and regional development councils. A Regional Development Board in each

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42 https://www.sng-wofi.org/country-profiles/, Romania – Unitary country, April 2022 Update.
region is a voluntary association of local authorities without legal personality.\textsuperscript{43} Due to their lack of a legal entity and with their limited functions outlined above, the eight regions have very limited decision-making capabilities and are largely subordinated to the central government. They result from a convention agreed by representatives of the county councils within each region. This unique approach fosters a coordinated effort among the counties concerning regional development.

LRAs in Romania are generally responsible for financing public service provision, housing and community amenities, local transport, social welfare and most pre-school, primary and secondary education costs. New responsibilities for education, healthcare and local police have been devolved to them. County councils have increased responsibilities for coordinating local councils. Finally, some public services are performed by state-owned companies, especially energy and transport.\textsuperscript{44} However, most of these are heavily indebted, barely profitable and lack transparency.\textsuperscript{45} Energy companies have high profits but transport companies have significant losses and receive substantial subsidies from central and local governments, while their performance remains limited.

\subsection*{2.2.2 Financial and fiscal autonomy}

The local government financing system in Romania encompasses three categories of taxes and fees:

- Income tax is the primary source of local revenues other than grants and subsidies from central government. It is collected and deposited in the state budget, then allocated monthly as 88\% of the previous month's collection to the local budgets (Guziejewska & Dana, 2020). Of this allocation, around 47\% goes to cities, municipalities, and communes, 13\% is transferred to the county budget, and 22\% is retained in a special account to balance the local budgets. Out of this account, which also includes a quota from state revenues, 27\% is transferred to the county budget, and the remaining 73\% goes to the local budgets of cities, towns, and communes.

- Local taxes and fees solely covered by local budgets include building tax, land tax, transport fees, hotel fees, taxes on shows, fee for certificates, permits and authorisations, as well as fees for advertising and publicity, fines and penalties. However, these are not significant in local budgets (Guziejewska & Dana, 2020).

- Additional local revenues come from property, service supplies, capital and financial operations. These additional sources contribute to the financial sustainability of local government.

\textsuperscript{43} Each Board is composed of presidents of the County Councils in the region, one representative of the Local Municipal Councils, one representative of Town Councils and one representative of Local Commune Councils in each County.

\textsuperscript{44} By the end of 2018, 225 companies were owned by the central government and 1,231 by subnational governments.

\textsuperscript{45} https://www.sng-wofi.org/country-profiles/, Romania – Unitary country, April 2022 Update.
The distribution and significance of locally generated revenues within overall local revenue varies significantly. In several cases, amounts excluded from local budgets, such as VAT transfers from the state budget and subsidies from public budgets such as unemployment or health insurance, are less significant than the revenues directly generated by local entities. Romania’s framework is unique in the EU. About 85% of local revenues are transferred from the central government (see Figure 9), one of the highest proportions in the EU (OECD, 2019a). Municipalities have limited options to generate their own income. They have limited control over 90% of local revenues, and 50% of decisions regarding revenues require state involvement (Plaček, Ochrana, Půček, & Nemec, 2020).

The most significant changes to fiscal autonomy in Romania occurred from the end of the 1990s to the beginning of the 2000s, with minimal variations thereafter. The proportion of spending at sub-national level (excluding borrowing) in relation to total public expenditure (the expenditure ratio) has risen from 14% in 2000 to 29% in 2009, and has remained stable since then. The ratio of locally generated to total government revenues, (the revenue ratio) has remained relatively stable at around 4% to 5% between 2000 and 2020. Additionally, revenue autonomy, the share of local revenue (such as taxes and fees) compared to all local revenue, including grants, has decreased from approximately 35% to 15%. This decline is primarily due to larger national grants, as evidenced by the increased ratio of fiscal imbalance/transfer dependency, which has grown from 65% to 85%. This confirms the high reliance of local authorities on transfers, which results in practical challenges to managing their finances, as presented in the box in section 1.3.

**Figure 9: Subnational revenues by source in Romania**

![Subnational revenues by source in Romania](image)

*Source: European Commission (2022b)*
2.2.3 Romanian decentralisation in relation to the OECD guidelines

Decentralisation in Romania appears to follow OECD guidelines, but mostly to a limited extent:

- The assignment of responsibilities to various government levels is clearly outlined in Law no. 195/2006 (and subsequent laws). Nonetheless, a report by the European Commission (Directorate-General for Employment, Stamule, Hammerschmid, & Thijs, 2018) emphasised excessive administrative-territorial fragmentation with a lack of alignment between local and central strategies and policies.

- The Romanian central state generally ensures adequate funding for local authority responsibilities, although there may be exceptions. In certain sectors, the calculation method frequently results in underfunding for the corresponding policy area. Furthermore, national resources and funds may not always be appropriately and promptly directed to LRAs. The delayed availability of funds from ministries for specific local projects/programmes creates pressure on local authorities to spend the funds regardless of the results.

- In comparison to other EU countries, Romanian LRAs face a notable limitation to their fiscal autonomy. Although the Romanian framework provides for local autonomy, the central administration ultimately exerts control over subnational authorities (OECD, 2016). They lack the power to initiate or eliminate taxes and fees, or the ability to adjust tax rates, resulting in a lack of financial autonomy and ability to independently manage their fiscal affairs. It is worth noting that in
2020, the revenue generated by subnational governments in Romania was a mere 5% of total public tax revenue, among the lowest in the EU.

- The main instrument in Romania to support subnational capacity building was the Administrative Capacity Operational Programme (POCA), co-financed with EUR 553.2 million from 2014-2020 ESF resources. The programme addressed all eight Romanian development regions targeting central public authorities and institutions, autonomous administrative authorities, NGOs, social partners, higher education and research institutions, local public authorities and institutions at county level and the municipalities, authorities and local public institutions benefiting from Integrated Territorial Investment (ITI), as well as institutions in the judiciary.

- At local level, horizontal coordination between municipalities within the same county is ensured by the county administration, though coordination on public policies is often more formal than practical (Matei & Dogaru, 2013). In recent years there has been some improvement, with growing recognition of the advantages of more collaborative and interconnected governance (Stanica & Aristigueta, 2019).

- For cross-jurisdictional cooperation, there are mechanisms for local authorities to promote coordination among themselves. Since 2006, municipalities can enter into inter-municipal agreements, pooling their resources to provide high-quality services and benefit from economies of scale (Stănuș, 2011). Moreover, the establishment of regions has facilitated coordination and cooperation among counties, particularly for cohesion policy.

- To strengthen innovative and experimental governance, and promote citizen engagement, there is an e-platform for public consultation on legislation. However, public institution consideration of citizen input for policymaking seems to be limited (Directorate-General for Structural Reform Support (European Commission), 2021b). As a component of the NRRP (European Commission, 2022b), initiatives and funding promote digital participation in the public sphere. This includes training for civil society to enhance engagement in public consultations. Additionally, other investments foster partnerships between local government and civil society.

- To make the most of asymmetric decentralisation, law no. 195/2006 introduced the concept of administrative capacity, included under the principle of subsidiarity. In the process of transferring tasks and responsibilities to the local level, LRAs are classified as having administrative capacity that can immediately exercise the responsibilities or those that need to first develop their capacities before exercising the responsibilities. Some research (Neamtu, 2016)

46 https://e-consultare.gov.ro/
points out that most individuals in key local administrative positions perceive asymmetric decentralisation as limiting local autonomy and an unnecessary innovation in the Romanian administrative system.

- To improve transparency, enhance data collection and strengthen performance monitoring, the Government implemented open government principles and an open data platform in 2013\textsuperscript{47}. The 2020 Digital Economy and Society Index (DESI) report (European Commission, 2020) noted that Romania lagged behind the EU average for access to government information and open data. However, the 2022 report (European Commission, 2022b) indicates significant improvement, with Romania nearly reaching the EU average.

- Through the transfer mechanisms, the Romanian central government looks to ensure fiscal equalisation while national regional development policies reduce territorial disparities. The 2006 Law on local finance further defined the intergovernmental transfer system, particularly equalisation grants, shared taxation and local debt. It also increased local government control over own revenues and allowed local councils to administer their own taxes. In addition, as outlined in sub-section 2.2.1.2 councils receive financial resources from the national government and are responsible for distributing these to the regions, cities, towns and communes. However, smaller LRAs, often in rural areas, tend to have more financial constraints as they rely less on revenues from income tax and are more dependent on transfers.

2.3 Västra Götaland

Sweden has 290 municipalities and 21 counties (‘län’), whose authorities are known as ‘regions’. Three of these counties have considerably more economic weight than the others and contain more than half of Sweden’s population: Stockholm (2.4 million inhabitants), Skåne (Malmö) (1.4 million) and Västra Götaland (Gothenburg) (1.7 million).

The socio-economic profile is central to understanding decentralisation in Västra-Götaland and also shapes the region’s involvement in the European Semester (see section 3.2.3). Västra Götaland, whose capital city is Gothenburg, hosts an extensive manufacturing industry. In 2021, it had the highest value of goods exports\textsuperscript{48}, and the second largest value of service exports for Swedish counties\textsuperscript{49}. Service exports were still 62\% lower than for the Stockholm region. Export growth in recent years has been around the national average\textsuperscript{50}. GDP per inhabitant is slightly below the national

\textsuperscript{47} https://data.gov.ro/
\textsuperscript{48} https://www.svensktmaringsliv.se/regioner/vastra-gotaland/vastra-gotaland-exporterar-mest-i-sverige_1196249.html
\textsuperscript{49} https://www.regionfakta.com/vastra-gotalands-lan/regional-ekonomi/brp-per-sysselsatt/
\textsuperscript{50} https://tillvaxtverket.se/tillvaxtverket/statistikochanalys/statistikomregionalutveckling/regionalexportstatistik.1845.html
average\textsuperscript{51}. The share of the workforce living on unemployment benefits, sickness leave compensation or other forms of social support is 13.6%, just above the national average of 13.3\%\textsuperscript{52}.

2.3.1 The main decentralisation processes

The key features for decentralisation in Västra Götaland concern the regions, municipalities and financial autonomy. Decentralisation in Västra Götaland is embedded in the overall Swedish process.

2.3.1.1 Regions

Swedish regions were established recently, between 1999 and 2019. Before then, regional authorities were known as ‘county councils’. These elected councils were primarily responsible for delivering health and public transportation services. The region-building process means that responsibility for regional development and strategic planning was transferred from the regional representative of national authorities (‘County administrative board’ or ‘Länsstyrelse’) to elected regional councils.

Today’s Västra Götaland county is the result of the merger of Älvsborg, Göteborg, Bohus and Skaraborg counties (except two municipalities) in 1998. It was then one of two territories, alongside Skåne, who could transition from county councils (‘Landsting’) to regions on a tentative basis from 1999. This was the starting point of regional transition that finalised in January 2019, when the last seven Swedish counties became regions. Västra Götaland was therefore a forerunner in this national process.

Regional competences cover:

- Compulsory responsibilities – health care, dentistry for youth up to 23 years old, regional development;
- Optional responsibilities – culture, education, tourism;
- Compulsory responsibilities shared by regions and municipalities – regional and local public transport.

Regional councils are also actively involved in implementing Cohesion Policy programmes. However, they are not managing authorities, and each programme area includes multiple counties. Regional councils are primarily involved in selecting projects to be funded. Regions employ around 6\% of the total workforce in Sweden\textsuperscript{53}.

2.3.1.2 Municipalities

Municipalities are a stronger player in the Swedish institutional system than regions. Sweden has a strong tradition of municipal autonomy, which was included in the

\textsuperscript{51} https://www.regionfakta.com/vastra-gotalands-lan/regional-ekonomi/brp-per-sysselsatt/
\textsuperscript{52} Measured in full time equivalents, https://www.scb.se/pressmeddelande/farre-forsorjs-av-sociala-ersatningar-och-bidrag-stora-skillnader-mellan-kommuner/
\textsuperscript{53} https://skr.se/skr/tjanster/englishpages/municipalitiesandregions.1088.html
Constitution in 1974 but has been a principle of public governance since the 19th century. Swedish municipalities play an extensive role in delivering public services such as schooling, childcare, elderly care and social services. They are also responsible for planning physical infrastructure and land use. Municipalities employ close to 20% of the workforce in Sweden. In spite of their economic weight, some commentators argue that their strategic role may be limited. This is partly a result of detailed control by national governmental agencies, and the increasing volume of ‘targeted state subsidies’ (‘riktade bidrag’) to municipalities (Swedish Association of Local Authorities and Regions, 2022b).

Municipal responsibilities cover:

- Compulsory responsibilities – social care (for the elderly and disabled, individual and family care), pre-school, primary, secondary school and municipal adult education, planning and building, environmental and health protection, sanitation and waste management, water and sewerage, rescue services, emergency preparedness and civil defence, library services and housing;
- Optional responsibilities – leisure and culture, energy, employment, business development.

Intermunicipal cooperation involves:

- Local federations (‘Kommunalförbund’) with legal personality that can perform any activity on behalf of member municipalities and/or regions;
- Joint committees (‘Gemensam nämnd’) that can be established by two or more municipalities and regions for a specific purpose;
- Coordination federations (‘Samordningsförbund’) for municipalities, regions and national authorities to coordinate professional rehabilitation programmes.

This is known as ‘agreement-based cooperation’ and implies the joint exercise of a specific competence by multiple municipalities and/or regions. Municipalities and regions have been able to engage in ‘agreement-based cooperation’ since July 2018.

There are four local federations in Västra Götaland:

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54 https://skr.se/skr/tjanster/englishpages/municipalitiesandregions.1088.html
55 https://skr.se/skr/tjanster/kommunerochregioner/faktakommunerochregioner/kommunernasataganden.3683.html
56 https://skr.se/skr/demokratiledningstyrning/styrningledning/organiserastyraleda/driftformer/gemensamnamndkommunalforbund.1755.html
57 https://skr.se/skr/demokratiledningstyrning/styrningledning/driftformer/avtalssamverkan.17186.html
• The Gothenburg Region, which also includes one municipality of the neighbouring Halland county (1 million inhabitants). It was established in 1995, building on different forms of intermunicipal cooperation since the 1940s58.

• The Borås region – Sjuhärad local federation, in the southwestern part of Västra Götaland (280,000 inhabitants). It was established in 1999, at the same time as the ‘extended county’ and ‘experimental region’ of Västra Götaland.

• Fyrbodal local federation, in the north-western part of Västra Götaland (260,000 inhabitants) was established in 200559.

• Skaraborg local federation, which includes municipalities from the previous county of Skaraborg (264,000 inhabitants) was established in 2006 as the merger of three not-for-profit intermunicipal cooperation associations60.

The four local federations result from autonomous, primarily bottom-up processes. These processes have been coordinated to establish a complete partition of the region into four federations, covering all municipalities with no overlaps. The local federations implement a broad range of activities, especially economic and social development, health and education.

2.3.2 Financial and fiscal autonomy

Swedish municipalities and regions levy part of the income tax in Sweden. The fact that income tax rates are decided by municipal and regional councils is symbolically important and leads to significant differences in taxation levels. In 2023, municipal income tax rates varied between 16.9% and 23.8%. Regional income tax varied between 10.83% and 12.8%. Västra Götaland has an income tax rate of 11.48% and municipal income taxes ranging from 19.96% to 23.38%61. Rates are highest in more peripheral and rural municipalities, so there are significant differences also within regions.

Tax income made up to 66% of municipal income in 2021. An additional 17% came from the income redistribution system, which is 93% funded by the state. The picture is similar at regional level: taxes make up 63% of income, with 9.4% from the redistribution system and non-targeted national support. The remaining income primarily comes from targeted national support. As a whole, municipalities and regions have income that exceeds costs. For municipalities, this was 7.1% of income in 2021 and 5% in 2022. Of the 290 municipalities, 21 had less revenue than costs in 2022. (Swedish Association of Local Authorities and Regions, 2023).

58 https://goteborgsregionen.se/var-organisation#-~:text=G%C3%B6teborgsregionens%20kommunalf%C3%B6rbund%20(GR)%20bildades%201975,G%C3%B6teborgs%20f%C3%B6rorters%20f%C3%B6rbund%20(GFF).
59 https://www.fyrbodal.se/om-oss/om-kommunalforbundet/
61 https://www7.skatteverket.se/portal/apier-och-oppna-data/utvecklarportalen/oppetdata/Skattesatser%20per%20kommun

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The municipality of Gothenburg had a surplus of 7.1% of income in 2020, 7.3% in 2021 and 6.8% in 2022 (Göteborgs Stad, 2023). For regions, the surplus was 6% in 2021 and 2.4% in 2022. Västra Götaland had a surplus of close to EUR 140 million in 2022 (Västra Götaland Region, 2023).

In Sweden as a whole, sub-national spending (using all resources available, except borrowing) relative to total government expenditure (the ‘expenditure ratio’) increased from 40% to over 50% between 2000 and 2020. During the same period, the volume of locally raised revenue relative to total government revenue (the ‘revenue ratio’) was stable. Revenue autonomy, the share of the local own revenues (e.g. from taxes and fees) compared to all local revenue, including grants, decreased from around 80% to 62%. This is mainly a result of more national grants, as reflected by the increased fiscal imbalance/transfer dependency. National authorities therefore entrust local authorities with managing an increasing share of public spending. At the same time, the local share of public revenue remains stable.

**Figure 11: Evolution of financial ratios in Sweden (2000-2020)**

The 2023 report by the Swedish Association of Local Authorities and Regions on municipal and regional income and spending suggests that Swedish regions as a whole should have a financial deficit of around EUR 1 billion in 2023. Västra Götaland has budgeted a deficit in 2023 and 2024 which will be financed by the surplus accumulated

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in past years (Västra Götaland Region, 2023). Swedish municipalities are expected to generate a surplus of EUR 800 million, which is the weakest financial result since 2004. (Swedish Association of Local Authorities and Regions, 2023).

2.3.3 Swedish decentralisation in relation to the OECD guidelines

Swedish decentralisation mainly follows OECD guidelines, with no specificities identified for Västra Götaland. The following observations can be made for each guideline:

- Responsibilities are relatively clearly assigned to different government levels. However, the Swedish Agency for Public Management observes that national authorities have tended to ‘micro-manage’ municipal and regional activities. There have been recent improvements such as schooling services. However, these improvements are ‘marginal’. (Statskontoret, 2023)

- Economic relations between the state and LRAs are governed by the ‘funding principle’, which implies that no LRA shall be forced to increase taxes or change its priorities to finance a new state-imposed role or responsibility. However, as noted above, there are discussions on how much this principle is applied. The state and LRAs have diverging assessments of the cost of new obligations. In addition, national policies can generate additional costs for municipalities even if they do not formally establish new roles or responsibilities. Finally, the cost of roles and responsibilities can evolve significantly, e.g. from energy prices.

- Swedish LRAs have a high degree of fiscal autonomy compared to other European countries. However, this autonomy is limited by targeted state funding. Since 2019, the share of targeted support has decreased for municipalities, but increased for regions (Statskontoret, 2023).

- Support for subnational capacity building uses different channels:
  - National Agencies implement capacity building for municipalities and regions targeting specific issues such as domestic violence, national minority rights, elderly care and education for people with specific needs.
  - 20 targeted national funding schemes can be used to develop the capacity of municipal and regional staff.
  - Swedish LRAs concluded a joint agreement with trade unions on competence and adaptation. This implies that LRA-associated employers contribute to an Adaptation Fund, from which employees can get support.

- The Swedish Agency for Public Management considers that national authorities send out more signals on how local and regional policies should be implemented

63 https://skr.se/download/18.67abbf2018378da662128dc7/1664542845336/22-Cirkul%C3%A4romverenskommelse%20om%20Kompetens-och%20omst%C3%A4llningsavtal%20lydelse%20-%2022-10-01-1.pdf
than LRAs can handle (Statskontoret, 2023). Sweden has a well-established tradition for consensus-based policy elaboration. The system for extensive consultations on national policies and reports sixty-four, where municipalities and regions and other stakeholders contribute publicly available inputs, is a pillar of inter-institutional cooperation in Sweden. However, implementation of this system in relation to EU policies has encountered some limits. Local and regional authorities considered that their involvement in elaborating national partnership agreements was too limited in the 2014-2020 programming period. This has been recognised by the Swedish Agency for Economic and Regional Growth. (Głøersen, 2022)

- Swedish municipalities and regions have had an unrestricted right to engage in ‘agreement-based cooperation’ since July 2018. Such cooperation implies the joint exercise of a specific competence.

- The Swedish Government appointed a Parliamentary Committee on Experimental Activities in municipalities and regions in 2021. Its interim report notes that many LRAs lack the resources to design and implement experimental activities to promote citizen engagement (Committee on Experimental Activities, 2022). The Committee will deliver proposals on how best to address this issue in December 2023.

- The Swedish Government appointed a Parliamentary Committee on Municipalities, which in 2020 concluded that the advantages of asymmetric decentralisation would not outweigh the negative impacts on local democracy. It also considered that such arrangements could jeopardise Swedish municipalities’ central position in the public government system. (Committee on the Strengthening of Municipal Capacities, 2020, p. 498). However, some asymmetric arrangements have been implemented in the island region and municipality of Gotland.

- As with all other public bodies in Sweden, LRAs offer public access to official documents sixty-five. The Swedish Association of Local and Regional Authorities has developed a consistent performance monitoring (‘Municipal Compass’). sixty-six

- Swedish has an ambitious system for fiscal equalisation, which will distribute more than EUR 15 billion in 2023 sixty-seven which limits national regional development policies. National authorities provide compensatory funding on the basis of

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64 Known as ‘Remissväsendet’ in Swedish. See https://www.regeringen.se/remisser/
67 https://www.ekonomifakta.se/Fakta/Offentlig-ekonomi/kommunalkonomi/kommunala-utjanningssystemet/
regional development preconditions. Funds to support research and development are distributed through competitive calls. 70% of these funds go to beneficiaries in Skåne, Stockholm or Västra Götaland.

Sweden has advanced decentralisation for core services and tentative decentralisation for regional strategic planning. Most OECD guidelines are followed to a large extent. However, the ability to implement asymmetric arrangements adapted to local challenges and opportunities is limited. This also concerns major metropolitan regions such as Gothenburg.

2.4 Autonomous region Friuli-Venezia Giulia

Friuli-Venezia Giulia Region is one of five autonomous regions in Italy which has a total of 20 regions, divided into 107 provinces and 7,926 municipalities. Italy is often labelled as a ‘regionalised country’, especially since the constitutional reform of 2001 and a 2009 law on ‘fiscal federalism’ granted greater autonomy to LRAs.

The Italian institutional system recognises specific characteristics of autonomous regions, for which they need special forms of representation and governance. Their autonomy is recognised in the Italian Constitution, where Article 116(1), prescribes that they ‘have particular forms and conditions of autonomy, according to the respective special statutes adopted by constitutional law’\(^{68}\). The main difference between special and ordinary status is that an ordinary statute is adopted and modified by regional law, a special statute is adopted by constitutional law.

2.4.1 The main decentralisation processes

The first four statutes (Sicily, Sardinia, Valle d’Aosta, and Trentino-Alto Adige) were adopted by 1948, while the special statute of Friuli-Venezia Giulia was the last in 1963. Valle d’Aosta and Trentino-Alto Adige (with two autonomous provinces of Trento and Bolzano) were established to represent populations with different languages and territorial specificities\(^{69}\). These regions have special autonomy, particularly in education. Friuli-Venezia Giulia’s autonomy emerged from territorial disputes with Yugoslavia and the Cold War, which resulted in significant economic isolation and developmental challenges\(^{70}\). Autonomy for Sicily and Sardinia is justified as these are islands.

The unique status and recognition of these territories do not imply autonomy in specific policy domains under a federal state. The Italian Constitution does not explicitly refer to federalism, but emphasises territorial specificities and cooperation between the Central State and regions in managing autonomous dynamics (Palermo, 2012). Since

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\(^{68}\) Italian Republic Constitution, Article 116, paragraph 1.

\(^{69}\) The De Gasperi-Gruber Agreement, signed in Paris in 1946, aimed to safeguard the rights of the German-speaking minority in Trentino-Alto Adige.

\(^{70}\) ‘The economic crisis in the shipbuilding and industrial sectors, intensified by geopolitical isolation during the Cold War, became pronounced in the 1960s. This led to a decline in employment and stagnant economic activities’ translation based on Andreozzi & Panariti (2002).
each autonomous region has its own distinct statute, devolution varies based on the characteristics of each region and on their capacity to use the autonomy. The Province of Bolzano is more advanced, with the most implementation rules of the statute (187, compared to Friuli-Venezia Giulia with 56, and Sardinia with 40). The provinces of Bolzano and Trento, compared to the other autonomous regions, also have complete autonomy for health and education (for instance, both provinces pay teachers, while in other regions the central government does this). Moreover, the five autonomous regions have individual fiscal regimes. Only Valle d’Aosta, Trentino-Alto Adige and Friuli-Venezia Giulia have a bilateral agreement with the central government while Sicily and Sardinia have very similar fiscal regimes to ordinary regions.

Starting from the 1970s, the central government initiated a comprehensive review of the tax system. This peaked in 1976 and 1984, with a new co-participation mechanism which transferred responsibility for newly introduced state taxes from central government to the regions. During the last part of the century, reforms increased the taxes destined for regional budgets following new functions assigned to autonomous regions (Ieraci, 2012). This mostly concerned health expenditure in the 1990s (and enhanced in the early 2000s). Also in the 1990s, significant fiscal devolution began, favouring the regions and granting them their own finance, which marked a turning point in fiscal decentralisation. The state acknowledges the regions' own taxes, including significant ones such as IRAP (Regional Tax on Productive Activities) and the regional surtax on income of individuals, IRPEF. Finally, the Constitutional reform of 2001 increased the powers of ordinary statute regions, especially regarding concurrent jurisdiction between state and region. To some extent, this reform weakened the distinction between ordinary and special status regions.

The most significant connotation of financial autonomy for autonomous regions in Italy is the share of state taxes as the main source of financing, which is on average 61% but peaking above 80% (against 39% in other Italian regions). Partnerships are in the form of a transfer, as taxes are not withheld directly by the regions (except for Friuli-Venezia Giulia) but are returned after the state levy (a tortuous mechanism, often leading to delays and claims against the state). However, they differ from transfers due to a lack of destination constraints, enhancing the independence of autonomous regions. The shares of tax revenue produced by each region are therefore linked to the local economy, strengthening the link between regional finance and the territory.

2.4.2 Financial and fiscal autonomy

The specificity of Friuli-Veneziag Giulia has resulted in the state devolving a very broad range of competences. As stated in article 5 of its Special Statute, the region has many legislative prerogatives: governance, regional taxes, healthcare and public housing.

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71 The regional tax rates are listed in the special statute of the region (Article 49).

72 Statute of Friuli-Venezia Giulia, Article 12 (2) states ‘In addition to determining the form of government of the Region, it also establishes the procedures for the election of the regional council, the president of the region, and the assessors’.
The region can adapt national laws according to its needs for education and training, employment, social security and welfare.

These prerogatives have evolved over the years through disputes with the state, which have also reached the Constitutional Court, and through reforms of local government and general taxation, which have also affected ordinary regions. However, the main channel of communication between the region and the state to develop these prerogatives is the bilateral agreement. This defines the measures and modalities of each region’s contribution to public finance objectives, the allocation of new functions, adjustments of tax sharing rates, as well as measures supporting critical issues. For instance, the last advance in public finance autonomy was a significant bilateral agreement between the state and Friuli-Venezia Giulia in 2019, expanding authority in tax matters.

Autonomy was first affirmed in 2022, with the introduction from 2023 of a new Autonomous Local Real Estate Tax (Imposta Locale Immobiliare Autonomia - ILIA), which replaces the local real estate tax (Imposta Municipale propria – IMU). IMU is established at national level to provide direct financial support to municipalities, which also have some autonomy in determining the rates. This new tax replaces the national tax in the regional territory, although the overall structure remains largely unchanged.

According to the Regional Councillor for Local Autonomies, this reform is primarily intended to provide the region with fiscal instruments to tailor the tax according to its economic and development objectives.

The special autonomy and fiscal framework have led the region being fully funded to carry out its duties. As the region's responsibilities have expanded, there has been a corresponding increase in shared resources, own resources, and tied transfers. So, the fiscal autonomy of the region is ultimately ensured by the state rather than the region's own territorial resources (Ieraci, 2012).

The most significant changes to fiscal autonomy in Italy occurred from 2008, coinciding with implementation of fiscal autonomy reforms and the economic crisis. The crisis compelled the state to reassess its expenditure, resulting in reductions, including expenditure managed by regional administrations.

Spending at the sub-national level (excluding borrowing) in relation to total public expenditure (the expenditure ratio) has remained relatively stable. It was 30% in 2000 and increased to 32% by 2022, with a peak of 35% in 2008. Meanwhile, the ratio of

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73 Statute of Friuli-Venezia Giulia, Article 6 (1) and (2).
74 The main difference is in the rates for buildings used for economic activities. According to national law, the maximum rate is 1.06%. However, the regional law lowers this to 0.96%, Regional Law 17/2022, Article 9 (7). Additionally, the regional administration will contribute up to 70% to the loss of revenue from the reduction of the rate applied to buildings used for economic activities, from 0.96% to as low as 0.86% (Regional Law 17/2022 (9) (2.b)).
75 https://www.ilgazzettino.it/nordest/pordenone/imu_dove_non_si_paga_regione_friuli_cancella_tassa_sulla_casa_da_quando_cosa_succede-6919690.html
76 See the National Health Fund in force for Friuli-Venezia Giulia from 1978 to 1996.
locally generated to total government revenues (the revenue ratio) has remained relatively steady, between 13% and 14% from 2000 to 2020. However, revenue autonomy, the share of local own revenues (such as taxes and fees) compared to all local revenues, including grants, has varied significantly, closely tied to the economic cycle. This indicates that greater government assistance was required during periods of negative economic performance. This is further evidenced by the fiscal imbalance/transfer dependency which grew from 53% to 61%, with considerable fluctuations throughout the years. The data confirms the reliance of ordinary LRAs on external financial support, particularly during times of economic hardship.

**Figure 12: Evolution of financial ratios in Italy (2000-2020)**

![Graph showing evolution of financial ratios in Italy (2000-2020)](https://portal.cor.europa.eu/divisionpowers/Pages/default.aspx)

2.4.3 Italian decentralisation in relation to the OECD guidelines

Summing up the previous observations, Italian decentralisation seems to follow the OECD guidelines to a moderate extent:

- The assignment of responsibilities to various government levels is clearly outlined in autonomous and ordinary regions. The Italian Constitution outlines the responsibilities of the administration, emphasising subsidiarity between government levels. Following the major constitutional reform of regional and local authorities in 2001, many disputes between regions and the central state have been presented to the Constitutional Court, mainly due to imprecise identification of qualifications in Article 117 (Tarli Barbieri, 2021). However, Friuli-Venezia Giulia and other autonomous regions special statutes clearly assign specific responsibilities to the regional administration.

- The central government determines and ensures adequate provision for essential services allocated to regions and local administrations across the nation, including a municipal equalisation fund. This fund should bridge the gap between needs and fiscal capacity, particularly regarding essential functions.
Nonetheless, there is a significant challenge to accurately assessing the needs of local authorities, especially given the multiple and diverse municipalities across the country (Brosio, 2019). This is different for autonomous regions as they have distinct bilateral communication with the state. Approximately every three years, these regions engage in direct dialogue with the state to determine their specific financial requirements.

- Valle d’Aosta, Trentino-Alto Adige and Friuli-Venezia Giulia have fiscal autonomy even at the local level (e.g., ILIA). Nevertheless, the state has a strong control over taxes, leaving little room for manoeuvre (for instance, double taxation is prohibited) The process initiated with the Constitutional Reform of 2001 explicitly established financial autonomy for all regions (reaffirmed in 2009). However, subsequent legislation and the financial records of local authorities fail to provide substantial evidence supporting fiscal autonomy (Casalone, 2016).

- Italy has used European funds for many years to enhance subnational capacity building and provide technical assistance. In the current multiannual financial programming period, Italy is implementing the National Operational Programme ‘Capacità per la Coesione’ (Capacity for Cohesion). This aims to reinforce local administration human capital, organisational processes, administrative organisation, partnership processes and knowledge sharing.

- The Italian system incorporates several vertical and horizontal coordination mechanisms. The Council of Local Self-Government facilitates coordination between regions and local entities such as municipalities, provinces, and mountain communities. For cooperation between central government and the regions, there is the Conference for Relations between the state, regions, and the Autonomous Provinces. Another important body is the Conference of Regions and Autonomous Provinces which, despite its long-standing existence, was only institutionalised in 2022. However, while several institutions help coordination, as discussed in the next session, Italy lacks a chamber/institution that adequately represents local and regional interests.

- Cross-jurisdictional cooperation in Italy needs comprehensive and systematic reform. There are various institutions and methods through which territorial entities can collaborate. The reform of local territorial entities in 2014 established new metropolitan cities and provinces were reformed. Provinces maintain the role of coordination for the territories, although the reform significantly weakened them. On the other hand, metropolitan cities are significant urban centres that can transcend municipal boundaries. These are entrusted with strategic planning, urban development and economic growth. However, studies have shown mixed results regarding cooperation (Paris & Casella, 2018). Additionally, many municipalities have recently initiated various
types of partnerships among public entities created specifically for each context, to manage local programmes.

- To strengthen innovative and experimental governance and promote citizen engagement, Italian law requires local governments to introduce participation (Vesperini, 2009). This results in various channels and mechanisms for several regional and local authorities (Bartoletti & Faccioli, 2016). Additionally, at the national level, the 'ParteciPa' platform enables citizens to actively participate in ongoing decision-making processes (Directorate-General for Structural Reform Support (European Commission), 2021a). This platform can be used by central and local administrations for consultations.

- Although Italy is a unitary and indivisible state, various forms of asymmetric decentralisation have been implemented. The autonomous regions are a prominent example of such decentralisation. Furthermore, since 2018, ordinary regions have pushed for greater differentiation, facilitated by Article 116 of the Constitution, which allows for differentiated autonomy. As a result, three ordinary regions have recently entered into preliminary agreements with the state, to attain greater autonomy.

- According to the DESI of the European Commission (2022b), Italy is 19th among Member States for digital public services. However, it surpasses the EU average for open data policies. Furthermore, the 2016 Freedom of Information Act obliges Italian public administration to provide information and documents to citizens within 30 days, enhancing the transparency of public administration. As part of the Recovery and Resilience Plan, the Italian government has allocated EUR 1.7 billion to enhance technological infrastructure and data collection, processing and analysis in public administration. In addition to these investments, Italy has established e-portals such as ‘OpenCoesione’\(^77\), which provide access to public administration data and are open-government platforms for Cohesion Policy in the country. Also, the ‘CPT system’\(^78\) provides quantitative data on public expenditure at the regional level.

- Italy, with substantial regional disparities, has implemented a range of policies to strengthen fiscal equalisation and regional development policies to address the substantial territorial disparities. Disparities are particularly pronounced between wealthier northern regions and economically disadvantaged southern regions. In the second half of the last century, substantial transfers and investments aimed at reducing regional disparities were overseen by the Bank for the South (Banca per il Mezzogiorno). Presently, the central government is focusing on new investments supported mainly by EU cohesion policy (Sacco, 2018).

\(^{77}\) [https://opencoesione.gov.it/](https://opencoesione.gov.it/)

\(^{78}\) [https://www.contipubbliciterritoriali.it/](https://www.contipubbliciterritoriali.it/)
2022). Moreover, with the NRRP, new investments and assistance are also being channelled to southern regions.
3 DECENTRALISATION AND THE EUROPEAN SEMESTER

The European Semester was introduced in 2011 to make the EU’s economic governance more resilient through better coordination of policies across Member States. In addition to a strengthened Stability and Growth Pact79 and the Macroeconomic Imbalance Procedure80, exchanges between EU institutions and Member States during the European Semester aim to synchronise policy coordination and align fiscal, economic and employment policies. The European Semester can deal with Member State investment agendas as well as improvements to policy implementation and future resilience. Reforms may tackle any of these policy fields and can refer to decentralisation. This raises the question of how far the European Semester is used to support the effectiveness of decentralisation in Member States.

To identify effective and potential future use, this chapter reviews the European Semester from two perspectives. Firstly, processes are analysed to identify the potential to involve LRAs. This assumes that involving LRAs is important for many policies where LRAs are responsible or are implementation bodies. Secondly, the analysis searches for evidence of effective decentralisation efforts. This can only be country specific, so the focus is on recent country specific Council recommendations and NRPs. The analysis is complemented by the four case studies.

3.1 European Semester processes

A more resilient governance objective means the European Semester involves close policy dialogue between EU institutions and Member States when developing policy documents. Country specific objectives are mainly subject to the second phase of the European Semester when Member States outline their objectives, priorities and plans (NRPs) and the European Commission publishes country reports and draft country specific recommendations.81 Preparation of these documents starts during earlier phases of the European Semester to facilitate exchange and coordination between the European Commission and Member States and within Member State authorities. So, LRAs may be involved during preparation of the NRPs to enhance the effectiveness of decentralised policy making and decentralisation, if adequate.82

A previous study on LRA involvement in the process indicates strong limitations (Valenza et al., 2020, pp. 29-33):

82 The degree LRAs may be involved in implementing and monitoring the European Semester is not considered here, since the focus is on the potential use of the European Semester to advocate decentralisation, which would first need to be included in the NRP drafting process.
• Local authority involvement is usually very limited (through their associations) and typically formal and unilateral, without considering their inputs.

• The timing of the process is critical. LRAs often receive information top-down without a real opportunity to exchange or raise locally perceived needs.

• Even in federal countries, regions are rarely involved early in the process.

• No active LRA role was identified in reforms, as required for decentralisation.

There seem hardly any possibilities for LRAs to advocate for decentralisation and effective implementation in Member State NRPs. At the same time, the level of decentralisation is a country specific issue not to be discussed with EU institutions or when implementing EU policies. However, independently of the level of decentralisation, its effective use involves multi-level governance aspects.

Following the pandemic and subsequent recovery and resilience measures, the European Semester and implementation of recommendations have gained more attention (Bokhorst, 2022, pp. 101-102). Bockhorst (2022) illustrates how the European Semester can exert pressure for structural reforms in Member States, through issues that were addressed by the European Commission in country specific recommendations. For example:

• Including a country specific recommendation for Italy on liberalising professional services in a bigger package tackling structural impediments helped to develop a narrative for the liberalisation reform that was previously not fully addressed (Bokhorst, 2022, pp. 107-108).

• Similarly, the recommendation for Belgium to amend its indexation of wages could only be effectively tackled after it was embedded in a broader strategy (Bokhorst, 2022, pp. 111-112).

Thus, the question arises whether opportunities exist to enhance decentralisation when drafting country reports and recommendations. Also, how far would this require further policy processes, negotiations between the European Commission and Member States or decentralisation recommendations embedded in other recommendations and strategies.

3.2 Decentralisation evidence in the European Semester

The following reflections highlight evidence in the 2022 European Semester documentation, with a comparison of Council recommendations and NRPs.83 This does not claim to be complete but aims to illustrate different types of support for effective decentralisation in the European Semester. In this context decentralisation is addressed in a wider sense, which not only refers to the decentralisation of functions, competences, budgets, etc., but considers other aspects in line with the OECD

83 These were the most recent documents when performing the analysis. In the following further source information is only provided when other documents have been used.
guidelines. This ensures different elements illustrate crucial aspects of making decentralisation effective.

3.2.1 Country specific recommendations

Little evidence was identified for decentralisation in the country specific recommendations of all Member States in 2022. Only about a third of the recommendation reports included some references, most on decentralisation in general and only very few touch on fiscal aspects of decentralisation. In line with the overall objective of the European Semester fiscal aspects concern only the national level and overall budget.

Other decentralisation recommendations mostly address clarification, capacity building or cooperation, rarely about moving functions or competences to lower administrative levels. Proposals are frequently sector specific:

- According to the 2022 recommendations, Czechia lacks social housing legislation which hampers housing policy coordination with clear national and regional responsibilities.
- The recommendations for Spain acknowledge cascading recycling targets to lower government levels but request better vertical coordination to meet the corresponding obligations.
- Without specifying the relevant levels beyond national ministries, the Lithuanian country specific recommendations note that a lack of cooperation hampers integrated social service provision.
- For Hungary the recommendations identify that centralised management hinders school headmasters in improving teaching quality.
- The recommendations for Greece highlight the limited administrative capacity of mostly smaller municipalities that would benefit from national support.

3.2.2 National Reform Programmes

Evidence in NRPs on decentralisation is much more frequent, since there are considerations in the large majority of 2022 NRPs, using a wider understanding of decentralisation. This holds for governance functions, competences, etc. as well as for fiscal aspects. Fiscal decentralisation and autonomy are less frequently addressed than general decentralisation issues. The issues and details of decentralisation vary greatly, mirroring the needs of Member States and their varying administrative structures:

- A few NRPs tackle decentralisation in a narrow sense. For example, the Portuguese NRP describes decentralising responsibilities for health care in municipalities and Croatia is reforming the education system including a new financing model especially for local authorities with low financial capacity.
- Different forms of cooperation are frequently detailed. The Bulgarian NRP foresees better vertical cooperation for integrated territorial approaches when
implementing the regional development programme. The Finnish NRP describes experiments to transfer an employment service to municipalities to combine resources from different levels more effectively. The Swedish NRP describes the set-up of a specific cooperation format between national and regional levels (Forum for Sustainable Regional Development 2022-2030).

- **There are examples of comprehensive approaches dealing with different aspects of decentralisation.** Estonia considers a combination of governance actions to develop local government capacity and better service provision at different levels. A review and clarification of responsibilities across government levels should increase local competence for the green transition. The Romanian NRP aims to resume and strengthen decentralisation (see box in section 3.2.3).

- **Fiscal support for local levels does not necessarily imply better fiscal autonomy at lower levels of government.** One example is Luxembourg’s Housing Pact (and Housing Pact 2.0), through which municipalities could receive funding for housing and public infrastructure construction.

- **Only one explicit reference to the OECD guidelines.** The Swedish NRP details adjustments in line with these guidelines as a result of refugees from Ukraine. These lead to additional responsibilities for municipalities (see box in section 3.2.3), for which additional funding has been provided and access to funding for lower levels has been improved.

- **Decentralisation needs are sometimes acknowledged but do not seem to be tackled.** The Polish NRP highlights opinions from Marshall Offices (regional level authorities) and from the EU that see a need for more integration at national and local levels on cohesion policy. The NRP further admits that the local level is excluded in the documents, so their needs are not considered. Slovakia notes negative impacts on economic development due to its fragmentation of local government.

NRPs suggest that different forms of contracts have become more frequent to enhance accountability and especially vertical coordination. Illustrations from France and the Netherlands illustrate different approaches:

- **France initiated State-Region Planning Contracts in 1982,** These run for six to seven years and coordinate public policies for spatial planning, infrastructure and economic development. In recent years this approach has been extended by launching other types of contracts (see box in section 2.1.1).

- **The Netherlands have concluded governance and administrative agreements between the Ministry of Economic Affairs and Climate Policy and each region for offshore wind energy deployment, mitigation and complementary activities.**

Chapter 1 noted Cyprus and Malta as being among the most centralised countries in the EU. According to their NRPs decentralisation pathways seem to be very different:
• The Cyprus NRP details several aspects of decentralisation. Cyprus wants to improve coordination between national and local government and tackle municipal fragmentation through a series of reforms and capacity building programmes. Reforms shall enhance local financial autonomy, new administration models, the transfer of competences and central government funds, local financial sustainability, administrative autonomy and better transparency and democratic accountability.

• Malta, in contrast, highlights centralised public administration and subsidies to the local level to minimise the impacts of inflation.

Some NRP descriptions do not clearly indicate whether they will lead to decentralisation or centralisation or what they imply for effective governance. One example is financing for kindergartens in Slovakia. The NRP states that this financing shall no longer be a competence of municipalities and local governments, but a system is planned for consistent, predictable and targeted funding for pre-primary education.

In the above examples, no reference to country specific recommendations of the corresponding or a previous year could be identified. Thus, it is not possible to assess the influence of Council recommendations on decentralisation in NRPs. These changes could be driven by the European Semester or other processes. The Swedish example on the adjustment of responsibilities and funding is driven by a domestic initiative. The Welfare Commission appointed by the government in 2019 identified measures for improving the provision of good quality services from municipalities and regions.

3.2.3 Links between country specific recommendations and NRPs

Complementing the findings from NRPs with no reference to country specific recommendations, some descriptions in NRPs refer to decentralisation recommendations from earlier years. Reforms in the recommendations cannot necessarily be immediately implemented and related processes require effective monitoring. Examples are:

• The Croatian NRP 2022 details measures to reduce ‘territorial fragmentation of the public administration and streamline functional distribution of competencies’ (Government of the Republic of Croatia, 2022, p. 33) as suggested in the 2019 country specific recommendation. The measures have been partly implemented or are planned for 2022 to 2024.

• The Danish answer to the request in 2021 to prioritise fiscal structural reforms, including ‘by strengthening the coverage, adequacy, and sustainability of health and social protection systems’ (Ministry of Finance, 2022, p. 51). One measure proposed to address this is through a new organisation with population-based areas and responsibility shared by hospitals, general practices and municipalities.

• The German NRP 2022 reacts to the 2021 recommendation to improve skills for disadvantaged groups with an amendment of the Länder Fiscal Equalisation Act:
Finally, the 2022 country specific recommendations and NRPs highlight examples of immediate links between these documents. Below are some examples illustrating the variety of links.

**Table 3: Relations between country specific recommendations and NRPs in 2022**

<table>
<thead>
<tr>
<th>Country specific recommendation</th>
<th>NRP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recommendations that induced action</strong></td>
<td></td>
</tr>
<tr>
<td>Lithuania: A lack of collaboration hampers integrated provision of social services</td>
<td>A project to develop a long-term care service model to be implemented by 2024</td>
</tr>
<tr>
<td>Luxembourg: Support municipalities to locally plan renewable energy deployment</td>
<td>Climate Pact 2.0 encouraging municipalities to strengthen the fight against climate change</td>
</tr>
<tr>
<td>Spain: Sustained vertical cooperation can help meet waste and recycling obligations</td>
<td>Cooperation between different levels of administration shall be improved.</td>
</tr>
<tr>
<td><strong>Recommendations that induced action which may not imply effective decentralisation</strong></td>
<td></td>
</tr>
<tr>
<td>Hungary: Centralised management of schools limits school headmasters autonomy and tools to improve the quality of teaching</td>
<td>Public financing development and increasing capacities of local governments aim to improve service provision efficiency in municipalities</td>
</tr>
<tr>
<td><strong>Not addressed or postponed reactions to recommendations</strong></td>
<td></td>
</tr>
<tr>
<td>Austria: Address a lack of fiscal transparency and political accountability due to a mismatch between expenditure and revenue-raising responsibilities at subnational level</td>
<td>Confirmation of existing fiscal equalisation system, strengthened support for municipalities with limited budgets and a plan to extend the current fiscal equalisation scheme for two more years</td>
</tr>
<tr>
<td>Lithuania: Foster public procurement cooperation at national and local levels</td>
<td>No reference identified</td>
</tr>
</tbody>
</table>

Source: own elaboration based on 2022 country specific recommendations and NRPs

Complementing these findings, case study analyses allow more in-depth assessments of the effectiveness of the European Semester processes to implement decentralisation. The French case study, for instance, provides insights for different sectors across different years.

2020-2021 country specific recommendations for France mention the challenges of ‘persistent labour market segmentation’, low transition from short-time to open-ended work contracts and skills mismatches. The ‘3DS’ law gave regions the possibility to establish regional coordination for employment policy, which would be co-chaired by the president of the regional council and the regional prefect. However, employment policies remain a primarily national prerogative.
reorganisation of French employment agencies is in the pipeline, with replacement of ‘Pôle emploi’ by ‘France Travail’ in January 2024 and new territorial governance models with committees for labour market areas (‘bassins de vie’), departments, regions and the national level. Representative organisations of local authorities consider their role in such coordination remains insufficiently precise. The Association of French Regions considers that regions should be responsible for designing and implementing training policies. Decentralisation in employment policies therefore remains tentative.

2022 country recommendations encourage French authorities to accelerate the development of renewable energy. Regional renewable energy plans have been elaborated as part of regional planning, sustainable development and territorial equality (SRADDET). Such plans are elaborated by regional councils and approved by regional prefects. The Climate and Resilience law of August 2021 and the ‘3DS’ law of February 2022 strengthen the role of regions in energy transitions. Renewable energy investments are also funded under CTE and CRTE contracts. These developments are too recent to be evaluated. No synthesis of renewable energy investments foreseen in the 841 CRTE contracts could be identified. A 2021 review of SRADDET plans shows that medium to long-term consistency could be improved, and concrete outputs remain insufficient.

2022 country recommendations also observe that ‘high socio-economic and regional inequalities in the French education system impact the level of basic skills’. How much decentralisation helps address these challenges is difficult to assess. Regional and local authorities are primarily responsible for educational infrastructure provision and maintenance (mainly school buildings). However, a 2021 report on decentralisation in the education sector notes the division of responsibilities between levels is constantly evolving and can be inconsistent (Inspection générale de l’éducation, du sport et de la santé, 2022). The state-controlled management of educational human resources ensures some homogeneity of recruitment across the country. Socio-economic disparities result more from spatial segregation within regions. Evidence that decentralisation helps to mitigate effects of this segregation on the performance of the educational system could not be identified.

The review of Italian country reports and Council recommendations for recent years illustrate how recommendations directly affect LRAs and continuously note governance weaknesses.

In recent years, the Council's recommendations to Italy, under the European Semester, have not focused on strengthening local and regional resources and responsibilities. However, many recommendations have touched on policy issues that also concern LRAs. For instance, the 2021 country specific recommendations (2021/C 304/12, 2021) emphasised the importance of addressing the COVID-19 pandemic, sustaining the economy, and supporting recovery. Specifically, to strengthen the resilience and capacity of the healthcare system, the recommendations highlighted the need to enhance coordination between national and regional

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86 [https://www.centre-infos.fr/site-centre-infos/actualites-centre-infos/le-quotidien-de-la-formation-actualite-formation-professionnelle-apprentissage/articles-2023/france-travail-regions-de-france-plaide-pour-davantage-de-decentralisation](https://www.centre-infos.fr/site-centre-infos/actualites-centre-infos/le-quotidien-de-la-formation-actualite-formation-professionnelle-apprentissage/articles-2023/france-travail-regions-de-france-plaide-pour-davantage-de-decentralisation)
88 [https://cler.org/vers-des-regions-100-energies-renouvelables/](https://cler.org/vers-des-regions-100-energies-renouvelables/)
It is worth noting that Italian regional authorities have autonomy in planning and managing healthcare within their territories. The Commission Recommendation for a Council opinion on Italy’s 2023 Stability Programme (COM(2023) 612 final, 2023) also stressed the need to strengthen administrative capacity, including at the subnational level, to enable swift implementation of European programmes such as REPowerEU. Furthermore, the 2022 EC Country Report pointed out that weaknesses in the public sector are major barriers to investment and productivity growth. The 2019 EC Country Report on Italy (SWD(2019) 1011 final, 2019) emphasised the importance of fostering stronger partnerships and implementing bottom-up policy approaches, particularly for smart specialisation. It called for increased participation of cities and other local entities in decision-making processes. Additionally, the report underscored the need to enhance the capabilities of metropolitan areas to tackle poverty challenges arising from agglomeration and changing population trends. A comparison of the Romanian country report 2022, recommendations and the NRP illustrate that country report observations are not fully translated into other documents. The 2022 EC Country Report for Romania (European Commission, 2022c) highlights the need to strengthen local capacity as local authorities have limited own resources. Despite decentralising responsibilities to local governments, subnational expenditure needs are covered disproportionately by earmarked transfers from the central government, whose use is outside local administrative control. LRAs are spending agents on behalf of the central government, rather than independent administrative units. The report stresses that the absence of ownership, management deficiencies and unpredictable distribution of equalisation grants limit local authority capacity to plan ahead, resulting in poor quality local services and infrastructure. The country recommendations for Romania do not explicitly mention these problems, even if the first of three recommendations indicates that Romania should ‘Pursue fiscal policies in line with the Council Recommendation of 18 June 2021 with a view to bringing an end to the situation of an excessive government deficit in Romania’. As recognised in the Convergence Programme (Governul Romaniei, 2023a), an increased share of budget revenues will be supported by accelerated absorption of European funds, simultaneously with improved collection of tax debts. Reducing the government deficit can also be helped by more efficient and effective allocation and collection of revenues, together with more efficient implementation of local expenditure. The National Reform Programme of 2023 (Governul Romaniei, 2023b) foresees measures to consolidate decentralisation. The Ministry of Development, Public Works and Administration is in charge of decentralisation and will assist central and local public administration authorities involved in the decentralisation process to draft sectoral decentralisation laws. The ministry will continue to coordinate the development of quality and cost standards for decentralised public services. Moreover, the government intends to establish a unified legal framework for central and local public administration, including a Local Public Finances Code by 2025. The government also intends to revise local property taxation to make it more efficient, transparent, fair and simplified by 2024. Finally, implementation of the National Electronic Payment system should increase the efficiency and effectiveness of tax and fee collection across over 1,200 institutions and prevent and combat fraud and evasion. Country recommendations for Sweden in 2022 include:

89 The other two indicate that Romania should proceed with implementation of its recovery and resilience plan and reduce a reliance on fossil fuels.
1. Pursue neutral policy stance (i.e. neither accelerate, nor restrain economic growth), while standing ready to adjust current spending to the evolving situation (e.g. energy prices and the war in Ukraine);
2. Stimulate investment in residential construction to ease the most urgent shortages;
3. Implement the recovery and resilience plan;
4. Reduce the impact that pupils’ socio-economic and migrant backgrounds have on their educational outcomes;
5. Reduce reliance on fossil fuels by accelerating the deployment of renewables.

Concrete effects of decentralisation on implementation of these recommendations can primarily be observed in hosting refugees from Ukraine and pursuit of the green transition in connection with the recovery and resilience plan. There is potential to stimulate investments in residential construction. The box below details these impacts with a focus on Västra Götaland.

**Hosting refugees from Ukraine:** As Swedish local and regional authorities are responsible for healthcare, social services, education and housing, they are at the forefront of all aspects of hosting refugees, notably from Ukraine. Västra Götaland has a training programme to support refugees with post-traumatic syndromes as well as guidelines for health checks of refugees and has translated health service and access to healthcare material into Ukrainian. The city of Gothenburg has provided housing, food and education for refugees.

**The Green Transition, with financing from the Recovery and Resilience Fund:** Västra Götaland is the foremost industrial region in Sweden. The transfer of responsibilities for development strategies to regional authorities between 1999 and 2019 has allowed the regional councils of Västra Götaland and Västerbotten (northern Sweden) to engage in a cooperation called ‘Swedish Battery Regions’. They are joining forces to develop renewable energy production, skills and raw material supply (minerals and recycling by the chemical industry)

Regional authorities jointly with the County administrative board (i.e. State representative) chaired the council for Industrial Transition, which includes representatives from major industries. Formal involvement in this council was made possible by the transfer of responsibilities for regional development strategies to the regional council.

**Counter-cyclical measures to support housing construction:** For encouragement to invest in residential construction, Swedish municipalities control several policy instruments:

- Municipal councils must adopt guidelines to supply housing for every term of office,
- Municipal councils control land use and own extensive land areas.
- 92% of municipalities have one or more public housing company. These are not necessarily fully owned by municipalities, but the council always has a determining influence on their

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90 https://www.vgregion.se/regional-utveckling/program-for-hallbar-omstallning/program/hallbar-energi-och-bioinnovation/
91 https://klimat2030.se/industriradet/
operations. Housing agencies or other systems to apply for housing are associated with these companies.

- There are municipal rent guarantees in 67 of 290 municipalities. Greater Gothenburg has the greatest concentration of municipalities providing such guarantees in Sweden (31%).

The Greater Gothenburg Region has insufficient housing in 12 of 13 municipalities\textsuperscript{92}. The city of Gothenburg on average built more than 5,000 new dwellings per year between 2019 and 2022\textsuperscript{93}. Construction is expected to decrease by about half in 2023 and remain at a low level in the following years. This is a result of high inflation, interest rates and construction costs, falling real wages of households and deteriorating financing conditions for construction companies\textsuperscript{94}. The housing policy is extensively decentralised and therefore falls short of playing a fully countercyclical role.

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\textsuperscript{92} https://www.boverket.se/sv/samhallsplanering/bostadsmarknad/bostadsmarknaden/bostadsmarknadenskaten/region-kommun/storstadsregionerna/

\textsuperscript{93} https://goteborg.se/wps/portal/start/goteborg-vaxer/sa-arbetar-staden-med-stadsutveckling/sa-utvecklas-bostader-och-bebyggelse/om%20bostadsbyggandet

https://goteborg.se/wps/wcm/connect/30785c2f-43c3-8d3a-a24/Bostadsbyggandet+i+G%C3%B6teborg+2018+kv3.pdf?MOD=AJPERES

\textsuperscript{94} https://vargoteborg.se/bostad/ny-rapport-om-halverat-bostadsbyggande-i-goteborg/
4 CONCLUSIONS AND POLICY RECOMMENDATIONS

This study confirms that decentralisation (in line with OECD guidelines) can benefit effective policy making. Empirical analyses illustrate the positive effects of fiscal autonomy for subnational governments. This can be explained by better accountability and the possibility to benchmark local government performance within and across jurisdictions. This facilitates competition between local authorities and politicians to benefit local residents (OECD, 2019b, p. 150). Different decentralisation dimensions have varying potential to support the effectiveness of decentralisation. Financial aspects seem to be particularly important.

There are good examples for effective decentralisation based on adequate own subnational financial resources. Examples include the Nordic countries (see the Västra Götaland case study). This shows that decentralisation of public financial resources need not lead to excessive tax competition or a poorly functioning local public sector. However, different tax bases matter (van Eijkel & Vermeulen, 2018, p. 199). Apart from a few examples, sufficient finances should not be equated with a sufficient degree of financial autonomy. Even without evidence of unfunded mandates in several Member States, there may not be sufficient financial autonomy for subnational authorities. This can be illustrated by comparing terms used to describe financial relations of these authorities and how misleading these may be (see box below).

<table>
<thead>
<tr>
<th>Revenue autonomy</th>
<th>Own resources</th>
<th>Financial self-reliance</th>
<th>Fiscal autonomy</th>
</tr>
</thead>
<tbody>
<tr>
<td>CoR Division of power platform</td>
<td>French case study</td>
<td>LAI</td>
<td>LAI</td>
</tr>
<tr>
<td>The share of subnational own revenues (excluding grants) compared to total subnational revenues. This includes tax transfers from higher levels and taxes which the subnational authority cannot determine.</td>
<td>The share of national taxes assigned to these subnational authorities. These authorities have neither the capacity to decide about these resources nor how they are collected at subnational level.</td>
<td>The proportion of local government revenue from own/local sources, including taxes, fees or other charges. While all these resources are raised locally, this does not imply local decision-making authority.</td>
<td>The extent that local government can independently tax its population. This refers exclusively to taxes set and kept by a subnational authority.</td>
</tr>
</tbody>
</table>

These ambiguities call for more clarity, common understanding and monitoring of financial autonomy indicators.

Apart from the potential lack of clarity for terms that describe the independent revenue raising and self-sufficiency of LRAs, analyses show how fiscal autonomy and the risk of unfunded mandates may change over time. This can be the result of fiscal reforms, reforms affecting the budget balance of LRAs or developments impacting LRA expenditure and resources. There are, however, no clear trends towards increasing or decreasing subnational revenue autonomy, or any development of other financial indicators. While fiscal reforms in Denmark and France reduced subnational revenue autonomy, it increased in recent years in Finland, Italy and Portugal (OECD, 2019b, p.
In addition, the case studies illustrate that subnational authorities may not be equally affected by fiscal policies. Their resources within each country can differ greatly. The Romanian case study shows how smaller LRAs, often in rural areas, tend to have more financial constraints. They can rely less on revenues from income tax and depend more on transfers from the state budget.

- These findings suggest that fiscal reforms should be subject to a thorough impact assessment not only at national level but for different types of territories and all levels of government.
- Any reform affecting the distribution of tasks and allocation of public funds needs to consider territorial differences and require territorial impact assessments.
- Finally, the on-going debate\(^ {95} \) on the necessity of reform for EU economic governance requires active involvement of LRAs for fiscal consolidation, reforming tax systems, rethinking fiscal rules, LRA revenue structures and equalisation formulas.

Despite many achievements in line with the OECD guidelines, the analyses show limitations remain. In some cases, they illustrate how historical structures hamper reforms, in other cases they may reflect that such reforms imply processes that last several years or even decades. Thus, monitoring progress is important but implementation of measures supporting the effectiveness of (existing) decentral structures may not be immediate. Analysis indicates balanced decentralisation in Member States (Ladner et al., 2021, p. 74). LAI scores were unchanged for 13 Member States for 2015 to 2020. The remaining Member States almost equally had increasing and decreasing LAI scores in this period (see Table 4).

### Table 4: LAI score in Member States 2015-2020

<table>
<thead>
<tr>
<th>Decreasing LAI</th>
<th>Unchanged LAI</th>
<th>Increasing LAI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>Belgium</td>
<td>France</td>
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<tr>
<td>Hungary</td>
<td>Bulgaria</td>
<td>Germany</td>
</tr>
<tr>
<td>Italy</td>
<td>Cyprus</td>
<td>Ireland</td>
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<tr>
<td>Latvia</td>
<td>Czechia</td>
<td>Malta</td>
</tr>
<tr>
<td>Poland</td>
<td>Denmark</td>
<td>Netherlands</td>
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<tr>
<td>Romania</td>
<td>Estonia</td>
<td>Slovakia</td>
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<td>Finland</td>
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<td>Croatia</td>
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<td>Greece</td>
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<td>Lithuania</td>
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<td></td>
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<td>Luxembourg</td>
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<td>Portugal</td>
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<td></td>
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<td>Slovenia</td>
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<td></td>
<td></td>
<td>Spain</td>
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<tr>
<td></td>
<td></td>
<td>Sweden</td>
</tr>
</tbody>
</table>

Source: own elaboration based on Ladner et al. (2021, p. 74)

The evolution of these scores hides the variety of underlying decentralisation and recentralisation trends, territorial reforms and new approaches to managing public tasks, all of which affect decentralisation. Examples can illustrate the variety of trends (Kuhlmann et al., 2020, p. 40 ff.):

- transfers of administrative functions and responsibilities within the multi-level governance system;
- genuine decentralisation by shifting administrative functions and political decision-making powers;
- decentralisation in previously unitary structures implementing (quasi-) federalisation;
- regionalisation;
- territorial restructuring of administrative units or consolidation through soft cooperation or territorial amalgamation;
- reduced state responsibilities, restructuring public administrations and their processes according to the New Public Management doctrine and its follow-up.

There is significant variation in effective decentralisation and connected trends and different challenges across countries suggest that successful experience cannot easily be transferred but may inspire decentralisation. Achieving effective decentralisation is complex and critical reflection of process impacts and their interplay may not always be sufficient. The following examples illustrate the ambiguity of some processes and mechanisms:

- Decentralisation trends include different forms of coordination. Among these are contracts between higher and lower levels of government (see the French, Polish and Dutch examples above) for different purposes and with varying conditions. However, these do not necessarily improve decentralisation per the OECD guidelines, even if they involve coordination between government levels (Guideline no. 5). Depending on the accompanying processes for cooperation and consultation, they may result in another ‘fuzzy’ control by the central state.

- The comparison of different dimensions of decentralisation sometimes illustrates a lack of coherence, e.g. between decentralising functions and finances. The Romanian case study shows how a lack of decision-making capacity on local taxes and borrowing makes it hard for local authorities to fulfil their tasks and flexibly adapt them to local needs. In other words, subsidiarity is insufficiently implemented.

- Even if functional and financial decentralisation is coherent, political accountability may not be sufficiently allocated to the responsible level. Examples are the limited political decision-making power of German municipalities and Romanian NUTS 2 level authorities (see section 1.3). For the
former there is a mismatch in functions and political accountability, for the latter there is no political mandate leading to dependence on the region’s counties and their political mandates. This, in turn, undermines regional resources and mandates. Also in France, a disconnection of political jurisdiction between areas for taxing and spending was identified (see section 2.1).

- Finally, the legal room for manoeuvre for decentralisation may not always be used. This can be due to a lack of capacity or coordination mechanisms. The Italian case study of Friuli-Venezia Giulia illustrates this. Despite a special status and considerable decentralisation in functions as well as collecting and distributing revenues, the effectiveness of decentralisation suffers from a lack of coordination between levels. Across Member States there are different cooperation formats, with different degrees of effectiveness and accountability. These findings suggest a triangle of simultaneous or at least well-coordinated processes to achieve effective decentralisation. These include consistent allocation of functional, financial and political mandates. All three dimensions together are necessary to create ownership and political accountability, not least for an effective division of responsibilities, which also needs enhanced coordination mechanisms. Accountability for coordination is crucial for its effectiveness. The following figure illustrates this need.

**Figure 13: Triangle of reform processes for effective decentralisation**

Translated into the terminology of the OECD guidelines, this can differentiate between guidelines that are at the heart of decentralisation (items in the centre) and those supporting effectiveness (at the edge).
This illustrates the interplay between individual guidelines and may help identify missing elements if there is sufficient coherence between them. In line with the very diverse trends regarding decentralisation, Member States may identify challenges to effective decentralisation inside or at the edge of the figure.

These findings show that effective decentralisation is very complex, both for the dimensions and the time horizon. To fully assess the effectiveness of decentralisation, quantitative indications need to be complemented with qualitative observations on relations and processes, as shown in this report. Being subject to various influences and reforms, the effectiveness of decentralisation changes over time. This requires sound monitoring. The CoR Division of Power platform provides a good basis as it is based on the state of decentralisation in recent years.

To reinforce monitoring the effectiveness of decentralisation, the platform should be regularly updated and further developed to become a tool for policy makers. It should offer easy access to comparable and transparent information, including clear indication of the time dimension and changes over time. Extensions of the platform should include:

- better alignment with the OECD guidelines;
- explicit presentations of good practices to support benchmarking;
better comparison across countries (beyond the parallel text presentation for a policy area of two countries), including comparisons of guideline implementation and overviews of multiple countries;

- monitoring of local authority fragmentation (e.g. thresholds to fulfil local responsibilities effectively and efficiently);

- useful information related to the European Semester.

OECD guideline no 9 requests better transparency, data collection and performance monitoring. Being compulsory for the implementation of EU funds such as ESIF, Member States make a lot of effort. However, this monitoring is frequently considered burdensome and its benefits are not always appreciated, notwithstanding the potential to reduce the monitoring burden without risking the benefits. As a consequence, monitoring may not always be equally transferred to other policy areas in Member States, despite its contribution to transparent policy making and thus accountability.

This suggests the need to enhance the interest and willingness of reporting authorities to engage in meaningful monitoring and transparency activities, even if this is not compulsory. Existing monitoring requirements could be revised to reduce their burden without losing the benefits. Secondly, more communication should highlight the benefits of transparency and monitoring in policy making.

For the European Semester, different elements of decentralisation are considered. The extent and focus however differ strongly. Decentralisation, at least when going beyond clear responsibilities, capacity building or horizontal and vertical collaboration and coordination, may be frequently considered a national issue that is not necessarily part of the European Semester or other EU level activities. However, apart from decisions about the degree of decentralisation, the European Semester could support monitoring of governance and policy implementation to assess the effectiveness of decentralised policy making.

It is not obvious how much decentralisation is perceived as a process of the European Semester or whether it is a means to communicate reforms initiated from within the Member State. Findings are ambiguous, at least when no direct link could be detected to recommendations from the current or previous years. Overcoming this ambiguity requires additional insights beyond the scope of this study, through interviews complementing desk research and a more extensive review of multi-year documents.

The evidence in section 3.2.2 of needs or plans to enhance the effectiveness of decentralisation appears to be incidental. Apart from requiring further research this also raises the question of how effective decentralisation could be more strategically presented during the European Semester.

Identifying possibilities for more strategic use should involve previous findings on subsidiarity limitations in the European Semester. Apart from time limitations, and though varying between Member States, the study (Valenza et al., 2020, p. 77) summarised a lack of:
• consolidated consultation channels;
• cooperation from national authorities responsible for NRP processes;
• regional policy maker awareness;
• sufficient technical and institutional capacity at regional and local levels.

As a consequence, the study concludes with recommendations that can be related to OECD guidelines. These include capacity building and design of the multilevel dialogue during the European Semester (Valenza et al., 2020, p. 79). This indicates how European Semester processes depend on implementation of the OECD guidelines.

 If these limitations persist and there is a lack resources to enhance the dialogue and capacity through own resources, ESIF programmes could support European Semester processes, especially to enhance multi-level dialogue.

Apart from presenting effective decentralisation measures in a more strategic way, this may also require stronger involvement of LRAs in the European Semester as already noted in previous research (Valenza et al., 2020). To involve LRAs in NRPs this report suggested e.g. to ‘dedicate a specific section of the NRP to LRA contributions for processes and inputs’ (Valenza et al., 2020, p. 86). The large majority of recent NRPs contain a section on institutional processes and the inclusion of stakeholders. These sections are frequently either generic or are dedicated to LRAs only to a limited extent, often emphasising other stakeholders related to NRP policy themes. These observations allow for several recommendations, taking into account the persistent challenges for including decentralisation and LRAs in the European Semester.

 The proposed ‘Code of Conduct for the involvement of local and regional authorities’ to support improved governance (European Committee of the Regions, 2017) suggests territorial monitoring as part of the European Semester. This refers to the different challenges and opportunities for territories. This may not automatically include monitoring sub-national public finance. However, for effective decentralisation such monitoring should also include a chapter on regional finances to explicitly consider potential unfunded mandates.

 Considering the limited LRA involvement in NRPs in many Member States, presenting stakeholder involvement, and explicitly that of LRAs, would be beneficial, whether in the NRP or a separate process (see further below). Given the potential reluctance of national governments, this request would have to be formulated by European institutions.

Notwithstanding any efforts for more inclusion of LRAs in the European Semester, an effective and sustainable change is unlikely without more generous timing of the whole process. Reforms affecting LRAs may need more time not only for implementation but for adequate discussion of effective decentralisation. While the annual schedule may be beneficial to support stabilisation and convergence across Member States, it does not seem adequate for processes affecting lower levels of government.
To consider the time needed to adequately involve LRAs while avoiding overburdening national authorities responsible for drafting NRPs, biennial reporting on multi-level governance processes could be envisaged instead of the half-mandatory section on institutional aspects in the annual NRP. Without being overly lengthy this biennial report could explicitly:

- consider European Semester reforms that should involve LRAs for adequate subsidiarity while acknowledging different degrees of decentralisation across EU Member States;

- present implementation of the ten OECD guidelines in general and related to the European Semester. This would support monitoring on the Division of Powers platform.
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ANNEX I - DECENTRALISATION PROXIMITY INDICATOR VARIATIONS ACROSS EU MEMBER STATES
Created in 1994, the European Committee of the Regions is the EU’s political assembly of 329 regional and local representatives such as regional presidents or city-mayors from all 27 Member States, representing over 446 million Europeans.

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