

# SUBNATIONAL GOVERNMENTS AROUND THE WORLD

## STRUCTURE AND FINANCE

A first contribution to the Global  
Observatory on Local Finances



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

**A first contribution to the Global Observatory  
on Local Finances**



# FOREWORD

Through the adoption of the New Urban Agenda, the Sustainable Development Goals, the Sendai Framework for Disaster Risk Reduction and the Paris Agreement on climate change, the international community has set a number of ambitious development goals for 2030-50.

This ambition is widely shared by local and regional governments, who will play an important role in meeting these goals, because they are responsible for the delivery of basic services, investment and policies that are essential for development.

Yet, do they have the financial means to do so? To what extent does the financial decentralisation framework of cities and regions allow them to mobilise sufficient resources? Are intergovernmental financial arrangements adapted to the growing needs and circumstances of local governments?

The global observatory of local finances aims to ensure a non-normative monitoring of local governments' ability to implement, from a financial perspective, the tasks that have been entrusted to them by law. It does not aim to promote a particular funding system, but to reflect the diversity and richness of the systems in place in different countries, through

their history, their geopolitical situation and their administrative culture, to highlight basic key elements on local finances. Under what conditions can local funding systems be coherent, efficient, and thereby lead progress towards the development goals that have been set? What reforms need to be undertaken, in each context, to ensure that local resources are well aligned with the needs that have been identified?

Answering these important policy questions argues, first, to have access to the financial data of local authorities in different countries to be able to compare them. This is what the first edition of this statistical study, which will serve to build the global observatory of local finances, sets out to do. This work, undertaken jointly by UCLG Committee on Local Finance for Development and the OECD, in conjunction with the technical and financial support of the French Development Agency, gathers qualitative data on 101 countries and financial data on 95 of them.

The collection of these data has been a major undertaking, especially in countries where the tracking systems of local financial information is less developed and/or available publicly. It remains for us to persuade many countries of the value of this exercise and



demonstrate its importance in helping structure the dialogue between local and central governments via the provision of objective data from both perspectives. International comparisons also provide countries with benchmarks in the global landscape of financial decentralisation, as well as food for thought regarding potential reforms.

This statistical study is a first step towards the global observatory of local finances. It has been conceived as a flagship publication, with the aim of first demonstrating the value and feasibility of such an asset, and then mobilising partners, central governments and cities to develop it further. Indeed, we all must join forces and propose a common-roadmap for the next 3-5 years, to gradually improve the accuracy of the data and eventually provide a more detailed financial analysis, in particular regarding the investment capacity of local governments.

As Mayor of Rabat, Morocco, and Chairman of the UCLG Committee on Local Finance for Development, I am proud to introduce this publication which serves as the first building block of the Global Observatory of Local Finances. I am convinced that this tool will help us improve our knowledge of local financing systems,

and will federate a global community of practice and interest around local finances.

I wish you an insightful reading.



**MOHAMED SADIKI**

Maire de Rabat

President de la Commission des Finances Locales  
pour le Développement/CGLU

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# CONTENTS

<b>OBJECTIVES OF THE STUDY</b> .....	8
<b>EXECUTIVE SUMMARY</b> .....	10
<b>PART I - SYNTHESIS ANALYSIS</b>	
<b>1. SUBNATIONAL GOVERNMENT STRUCTURE</b> .....	13
1.1 SNGs are distributed across one, two or three government layers .....	13
1.2 Over 522 000 subnational governments exercise various different responsibilities .....	15
1.3 The municipal landscape is very diverse .....	16
<b>2. SUBNATIONAL GOVERNMENT SPENDING RESPONSIBILITIES VARY CONSIDERABLY ACROSS COUNTRIES</b> .....	19
2.1 Levels of spending decentralisation are globally very diverse .....	19
2.2 Subnational government expenditure by economic function .....	24
2.3 The role of SNGs as public employers varies widely across countries .....	29
2.4 SNGs are key public investors in many countries in the world .....	32
<b>3. SUBNATIONAL GOVERNMENT REVENUES VARY GREATLY</b> .....	39
3.1 SNG revenue mirror SNG expenditure .....	39
3.2 The breakdown of SNG revenue by category .....	41
3.3 Focus on grants and subsidies .....	46
3.4 Focus on "other revenues" .....	46
3.5 Focus on tax revenue .....	47
<b>4. SUBNATIONAL GOVERNMENT DEBT</b> .....	53
4.1 SNG debt is very unevenly distributed among countries .....	53
4.2 SNG debt is significantly higher in federal countries than in unitary countries .....	54
4.3 SNG debt is greater in high income countries than in lower income countries .....	55
4.4 Loans financing continues to be the first source of external funding .....	57
<b>PART II - METHODOLOGY AND COUNTRY SAMPLE</b>	
<b>1. GENERAL METHODOLOGY AND INFORMATION SOURCES</b> .....	61
1.1 Sources of data and information .....	61
1.2 Scope of public administration .....	62
1.3 Scope of collected data .....	62
<b>2. A SAMPLE OF 101 COUNTRIES SPREAD OVER 7 MAIN REGIONS OF THE WORLD</b> .....	64
2.1 Seven geographical areas .....	64
2.2 The country selection process .....	65
2.3 A sample of 101 countries including 17 federations and 84 unitary countries .....	65
<b>BIBLIOGRAPHY</b> .....	67
<b>PART III - COUNTRY PROFILES</b> .....	68
<b>ANNEXES</b>	
Annex 1. List of countries and ISO codes .....	277
Annex 2. General socio-economic characteristics of the selected countries (reference year 2014) .....	278
Annex 3. Form of the State and subnational government structure in the sample of selected countries (2015) .....	286
Annex 4. Detailed structure of the Classifications of the Functions of Government (COFOG) .....	290



# CONTENTS

Annex 5. Detailed statistics by country .....	291
1. SNG expenditure as a percentage of GDP and of public spending by country .....	291
2. SNG expenditure by COFOG as a % of GDP by country .....	293
3. SNG expenditure by COFOG as a percentage of SNG expenditure by country .....	295
4. SNG staff expenditure as a % of public staff expenditure and of GDP by country .....	297
5. SNG investment as a % of GDP and of public investment by country .....	299
6. SNG revenue as a % of GDP and public revenue by country .....	301
7. SNG grants as a % of GDP and of SNG revenue by country .....	303
8. SNG “other revenues” as a % of GDP and of SNG revenue by country .....	305
9. SNG Tax revenue as a % of GDP and of SNG revenue by country .....	307
10. SNG debt as a % of GDP and of public debt by country .....	309

## LIST OF FIGURES

Figure 1. Breakdown of countries, population and area by their number of SNG tiers.....	14
Figure 2. Breakdown of countries by geographical area* and their number of SNG tiers.....	14
Figure 3. Breakdown of responsibilities across SNG levels: A general scheme.....	16
Figure 4. Municipal average size in selected countries (number of inhabitants, 85 countries).....	17
Figure 5. Average municipal size by geographical area** .....	18
Figure 6. Average municipal size by SNG country system** .....	18
Figure 7. Subnational government expenditure as a % of GDP and public expenditure (2013) .....	20
Figure 8. SNG expenditure as a % of GDP and public expenditure in federal and unitary countries (2013) .....	21
Figure 9. SNG expenditure and income country groups (2013) .....	22
Figure 10. Comparing SNG expenditure as a % of GDP and GDP per capita (2013) .....	23
Figure 11. Comparing SNG expenditure as a share of public spending and GDP per capita (2013) .....	24
Figure 12. Breakdown of SNG expenditure by economic function as a % of GDP (2013) .....	25
Figure 13. Breakdown of SNG expenditure by economic function as a % of GDP by country (2013) .....	26
Figure 14. Breakdown of SNG expenditure by economic function as a % of total SNG expenditure (2013) .....	27
Figure 15. Breakdown of SNG expenditure by economic function as a % of total SNG expenditure by country (2013) .....	28
Figure 16. SNG staff expenditure as a % of public staff expenditure and GDP .....	30
Figure 17. SNG staff expenditure in total SNG expenditure (% , 2013) .....	31
Figure 18. The weight of staff expenditure in GDP, public staff expenditure and SNG expenditure according to the country income group (2013) .....	32
Figure 19. SNG investment as a % of GDP and public investment (2013) .....	33
Figure 20. SNG investment as a % of GDP by income groups (2013) .....	34
Figure 21. SNG investment as a share of public investment and income groups (2013) .....	35
Figure 22. SNG investment as a share of public investment and GDP per capita (2013) .....	36
Figure 23. SNG investment in total SNG expenditure (2013) .....	37
Figure 24. SNG investment as a % of SNG expenditure and income levels (2013) .....	38
Figure 25. SNG investment as a % of SNG expenditure and GDP per capita (2013) .....	38
Figure 26. Subnational government revenue as a % of GDP and public revenue (2013) .....	39
Figure 27. SNG revenue as a % of GDP and public revenue in federal and unitary countries (2013) .....	40
Figure 28. SNG revenue and income groups (2013) .....	40
Figure 29. Breakdown of SNG revenue by category and institutional setting (2013, % of SNG revenue) .....	42
Figure 30. Breakdown of SNG revenue by category and income level (2013, % of SNG revenue) .....	42
Figure 31. Breakdown of SNG revenue by category (2013, % of SNG revenue) .....	43
Figure 32. Breakdown of SNG revenue sources as a % of GDP in federal and unitary countries (2013) .....	44
Figure 33. Breakdown of SNG revenue sources as a % of GDP by country (2013) .....	45
Figure 34. Grants and subsidies as a % of total SNG revenue and GDP (2013) .....	46
Figure 35. Other revenues as a % of total SNG revenue and GDP (2013) .....	47
Figure 36. Tax revenue as a % of total SNG revenue and GDP (2013) .....	48
Figure 37. SNG tax revenue as a % of public tax revenue (2013) .....	49
Figure 38. SNG revenue as a % of GDP, public tax revenue and SNG revenue and income groups .....	50
Figure 39. SNG revenue as a % of GDP and GDP per capita (2013) .....	50
Figure 40. SNG tax revenue as a % of public tax revenue and GDP per capita (2013) .....	51
Figure 41. Expenditure as a % of public expenditure and SNG tax revenue as a % of public tax .....	52
Figure 42. SNG debt as a % of GDP and public debt .....	53
Figure 43. SNG debt as a % of GDP and public debt in federal and unitary countries (2013) .....	54



Figure 44. Breakdown of SNG debt by levels of SNGs in federal countries (2013, % of GDP) .....	55
Figure 45. SNG debt as a % of GDP and GDP per capita (2013) .....	56
Figure 46. SNG debt as a % of public debt and GDP per capita (2013) .....	57
Figure 47. Debt composition in federal and unitary countries (2013) .....	58
Figure 48. Debt composition by country (% of total SNG debt, 2013) .....	58
Figure 49. Seven geographical areas .....	64
Figure 50. The sample of countries by geographical area .....	65
Figure A1. SNG expenditure as a % of GDP (2013) .....	291
Figure A2. SNG expenditure as a % of public spending (2013) .....	292
Figure A3. SNG expenditure dedicated to education (% of GDP, 2013) .....	293
Figure A4. SNG expenditure dedicated to social protection (% of GDP, 2013) .....	293
Figure A5. SNG expenditure dedicated to general public services (% of GDP, 2013) .....	293
Figure A6. SNG expenditure dedicated to health (% of GDP, 2013).....	293
Figure A7. SNG expenditure dedicated to economic affairs and transport (% of GDP, 2013) .....	294
Figure A8. SNG expenditure dedicated to housing and community amenities (% of GDP, 2013) .....	294
Figure A9. SNG expenditure dedicated to recreation, culture and religion (% of GDP, 2013) .....	294
Figure A10. SNG expenditure dedicated to environmental protection (% of GDP, 2013) .....	294
Figure A11. Share of SNG expenditure dedicated to education in SNG expenditure (% , 2013) .....	295
Figure A12. Share of SNG expenditure dedicated to general public services in SNG expenditure (% , 2013) .....	295
Figure A13. Share of SNG expenditure dedicated to economic affairs and transport in SNG expenditure (% , 2013) .....	295
Figure A14. Share of SNG expenditure dedicated to social protection in SNG expenditure (% , 2013).....	295
Figure A15. Share of SNG expenditure dedicated to health in SNG expenditure (% , 2013) .....	296
Figure A16. Share of SNG expenditure dedicated to housing and community amenities in SNG expenditure (% , 2013) .....	296
Figure A17. Share of SNG expenditure dedicated to recreation, culture and religion in SNG expenditure (% , 2013) .....	296
Figure A18. Share of SNG expenditure dedicated to environmental protection in SNG expenditure (% , 2013) .....	296
Figure A19. SNG staff expenditure as a % of GDP (2013) .....	297
Figure A20. SNG staff expenditure as a % of public staff expenditure (2013) .....	298
Figure A21. SNG investment as a % of GDP (2013) .....	299
Figure A22. SNG investment as a % of public investment (2013) .....	300
Figure A23. SNG revenue as a % of GDP .....	301
Figure A24. SNG revenue as a % of public revenue .....	302
Figure A25. SNG grants and subsidies as a % of GDP (2013) .....	303
Figure A26. SNG grants and subsidies as a SNG revenue (2013) .....	304
Figure A27. SNG "other revenues" as a % of GDP (2013) .....	305
Figure A28. "other revenues" as a % SNG revenue (2013).....	306
Figure A29. Tax revenue as a % of GDP (2013) .....	307
Figure A30. Tax revenue as a % of SNG revenue (2013) .....	308
Figure A31. SNG debt as a % of GDP (2013) .....	309
Figure A32. SNG debt as a % of public debt (2013) .....	310

## LIST OF TABLES

Table 1. Number of subnational governments by level (2015-16).....	15
Table 2. SNG expenditure and income country groups (2013).....	22
Table 3. Main financial indicators.....	63
Table 4. The 17 selected federations by regional area and income group.....	66

# ACRONYMS

<b>COFOG</b>	Classifications of the Functions of Government (COFOG)
<b>CIT</b>	Company income tax
<b>GDP</b>	Gross Domestic Production
<b>LGFA</b>	Local government funding agencies
<b>SNG</b>	Subnational government
<b>UWA</b>	Unweighted average
<b>VAT</b>	Value Added Tax




# OBJECTIVES OF THE STUDY

Monitoring local finances is an essential step towards assessing subnational governments' financial capacity to exercise the responsibilities assigned to them and to design effective and efficient development policies.

At the international level, several initiatives and instruments have been launched over recent years to provide subnational finance data in a comparable and reliable way. However, they remain limited or focused on micro-data or on a limited sample of countries, and do not provide a global vision of the state of subnational finances worldwide. In addition, few of these initiatives are interconnected, neither are they updated on a regular basis. At the national level, accounting and reporting systems are developed by the different ministries and agencies in charge of economic statistics, public finance and local governments. However, they are largely heterogeneous in terms of quantity and quality of information, depending on countries, and sometimes lack transparency or ease of access for external stakeholders. There are still a number of countries which have not yet implemented harmonised national accounting systems according to the international standards of the System of National Accounts.

Having and sharing reliable and comparable data on subnational finance is essential for a better understanding of the financial and investment capacities of subnational governments at the local, national and international scales. This need was acknowledged during the Third International Conference on Financing for Development and in the Zero Draft of Habitat III. This is also crucial to promote and facilitate dialogue between the various levels of government and enhance the multi-level governance framework, as well as to enhance accountability and transparency at subnational levels and improve trust with citizens. Finally, availability and reliability of subnational finance data are instrumental to access external resources such as borrowing or private resources.

The OECD and United Cities and Local Government (UCLG) have decided to join forces to prepare this statistical study launched in October 2016 at the UCLG Summit in Bogota. It is a first attempt to build a systematic data compilation on local finances on 101 countries in the world, based on quantitative and qualitative data.



This study presents the main organisational and financial indicators related to subnational governments in 101 federal and unitary countries worldwide. It provides, through country profiles and a synthesis analysis, qualitative information on subnational government structure and responsibilities, as well as macro financial data assessing subnational government spending, investment, revenue and debt. Financial indicators of the country profiles are accompanied by short comments on the structure of expenditure and investment (by type and economic function), revenue (tax, grants, user fees and property income, etc.) and the main characteristics of the debt and fiscal rules.

This study is a first exploratory step: the study process has identified the main information sources at international and national levels, as well as some major methodological and information gaps which will need to be addressed for further development. The goal is to also link this global overview to other national and international initiatives, and as a second step, to include “micro-data” at city or regional levels, based on the collection of individual city and regional accounts.

With this perspective in mind, further support and commitment from a broader range of international development partners will be needed to transform this building block into a more comprehensive and permanent tool that can assess subnational governments' capacity to effectively carry out their responsibilities, in a more transparent and accountable manner.

**The 101 countries of the sample represent 5.965 billion inhabitants i.e. 82% of world population spread over the seven main regional areas in the world. The sample represents in total 87.5% of the world GDP**

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# EXECUTIVE SUMMARY

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

## THE STRUCTURE AND SIZE OF SUBNATIONAL GOVERNMENT VARIES ACROSS COUNTRIES

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

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

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

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

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

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

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

## SNGs ARE MAJOR PUBLIC EMPLOYERS

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

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

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

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

## SNG DEBT IS VERY UNEVEN AMONG COUNTRIES

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

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

## WEALTHIER COUNTRIES TEND TO BE MORE DECENTRALISED

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

## OBJECTIVE AND SCOPE OF THE STUDY

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

The 101 countries of the sample account for 82% of the world's population, or close to 6

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

The background is a complex, abstract composition of various colored geometric shapes, including triangles, rectangles, and polygons. The colors range from bright blue and green at the top to purple and grey at the bottom. The shapes have a textured, almost fabric-like appearance. The text is overlaid on the upper portion of this background.

**PART I**

# **SYNTHESIS ANALYSIS**

---

# 1. SUBNATIONAL GOVERNMENT STRUCTURE

The 101 countries of the sample<sup>1</sup> comprise a total of 522 629 subnational governments, including 250 706 SNGs for India alone<sup>2</sup>. Excluding India, the total number of SNGs is 271 923. A subnational government is considered to be a decentralised entity elected through universal suffrage and having general responsibilities and some autonomy with respect to budget, staff and assets<sup>3</sup>. Therefore, several categories of subnational entities have been excluded from the count (Box 1).

## 1.1 SNGs ARE DISTRIBUTED ACROSS ONE, TWO OR THREE GOVERNMENT LAYERS

SNGs are distributed across one, two or three levels of government. However, it may be that one single level comprises several sub-layers as is the case for Peru, Russian Federation or South Africa for example. Some countries present a very complex SNG structure, with four or even five levels of subnational government such as in China.

In 31 countries, there is only one level of SNG: the municipal level. It comprises entities called “municipalities” in a majority of countries but also local bodies in others with various different names (local government areas, local councils, local authorities, districts, etc.).

Among these single-tier SNG countries, it should be stressed however, that some include one or two autonomous regions, with some legislative powers, on only part of the national territory (Finland, Georgia, Portugal, Serbia, etc.), established for geographical, historical, cultural or linguistic reasons.

<sup>1</sup> See Part II – Methodology and country sample and Annex 3 “Annex 3. Form of the State and subnational government structure in the sample of selected countries (2015).”

<sup>2</sup> India counts around 250 000 villages and small towns called gram panchayat which are the cornerstone of a local self-government organisation in the country)

<sup>3</sup> Exceptions have been made for some countries. For example, the subnational government structure can include entities only elected through indirect suffrage or “dual” entities i.e. having an elected council but an executive appointed by the central government. It may also be that the absence of local elections is just temporary or is currently changing thanks to a decentralisation process (e.g. transformation of deconcentrated entities into decentralised entities). In other countries, despite being elected, SNGs may have no autonomous budget or staff, being still managed by the central government.

### BOX 1

#### SUBNATIONAL ENTITIES EXCLUDED FROM THE COUNT OF SUBNATIONAL GOVERNMENTS

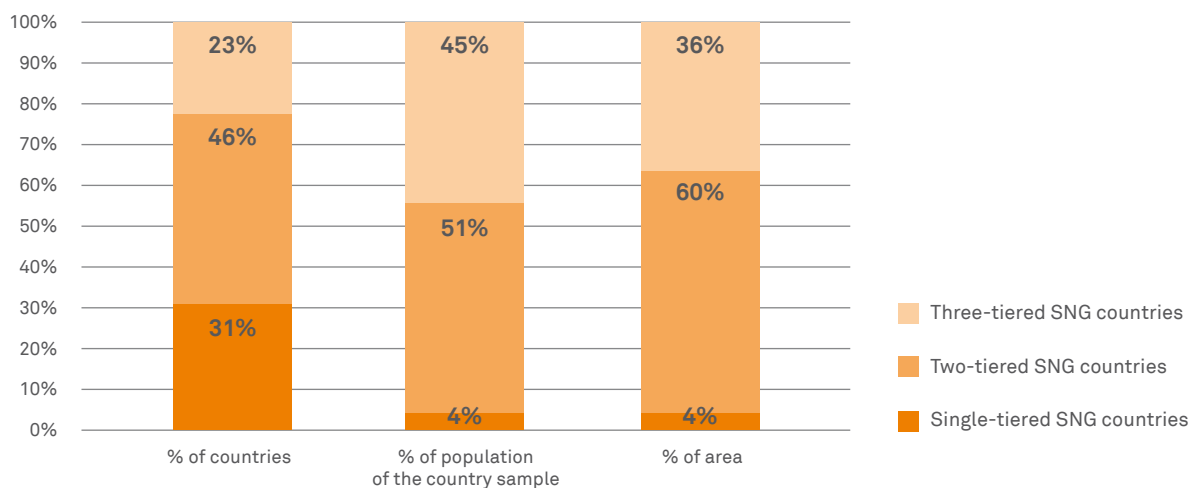
The count of subnational governments does not include all public entities located at the subnational level. It only encompasses decentralised governments, elected by universal suffrage, with general competencies and enjoying some autonomy with regards to their budget and staff.

Therefore, the following subnational entities are not included:

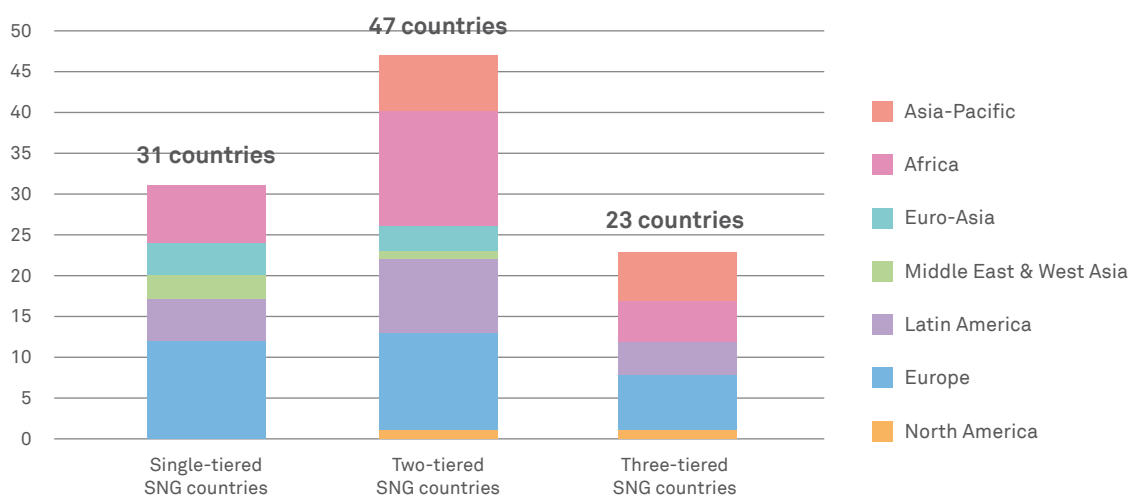
- **Deconcentrated districts or agencies of the central/federal/state government** established for administrative, statistical or electoral purposes only.
- **Special purpose entities**, such as school boards, transport districts, water boards, inter-municipal co-operation groupings, even if they have deliberative assemblies elected by direct universal suffrage and taxing powers (functional decentralisation).
- **Sub-municipal localities** (civil parishes, villages, wards, community boards, settlements, etc.) even if they are municipal administrative subdivisions under public law that may have their own delegated budget, staff and tasks as well as elected representatives (council, mayor). In fact, they cannot be considered to be self-governing, as being “deconcentrated” creatures of the municipality established at the initiative of the municipality. They do not have full local autonomy and depend on their “mother-municipality”. Numerous countries have these types of localities which can exist across the whole national territory, or only part of it, in rural and/or urban areas (Greece, Ireland, Korea, Netherlands, New Zealand, Portugal, Slovenia, United Kingdom, etc.).
- In some cases, **special areas** (e.g. Indian reserves and settlements in Canada and the United States) as well as communities located in unorganised or unincorporated areas (e.g. Australia and Canada).

In general, single-tiered SNG countries are small in terms of population and/or area. Taken together, they represent 4% of the total area and population of the country sample (Figure 1). There are no countries from the Asia-Pacific area in this group (Figure 2). In contrast, there is a large majority of European countries (39%).

**Figure 1. Breakdown of countries, population and area by their number of SNG tiers**



**Figure 2. Breakdown of countries by geographical area\* and their number of SNG tiers**



Note: see “Part II – Methodology and country sample” for the breakdown of countries by geographical areas

The majority of countries (47) have two levels of SNGs, the municipal and the regional level (states, regions, provinces). Twelve federal countries belong to this group. They all have various different sizes in terms of population and area, but overall they represent 51% of population and 60% of the total area of all countries. More than half of African and Asia-Pacific countries belong to this group as well as 64% of Latin American countries.

Finally, 23 countries, including five federal countries, have three layers of SNGs: municipal and regional, with a

third intermediary layer between them: *départements* in France, provinces in Belgium, Italy and Spain, districts in Germany, Mali and Vietnam, counties in Poland, United Kingdom and the United States, *raions* in several Euro-Asian countries (Kazakhstan, Kyrgyzstan, Moldova, etc.). Some large cities of “regional importance” may also have the status of intermediary government, such as in Thailand. With some exceptions, they are among the most populated countries. In total, the 23 countries represent 45% of population and 36% of the total area of all countries. Almost half of Asia-Pacific countries of the sample have three levels of SNGs.



## 1.2 OVER 522 000 SUBNATIONAL GOVERNMENTS EXERCISE VARIOUS DIFFERENT RESPONSIBILITIES

In total, the study identified around 522 629 subnational governments: 509 748 municipal-level governments, 11 181 intermediate governments and 1 700 regions or state governments. Again, there are more than 250 000 subnational governments in India. Without India, the total number is cut by almost half.

Table 1. Number of subnational governments by level (2015-16)

	Number of municipal-level governments	Number of intermediate level governments	Number of state/ regional-level governments	Total number of SNGs
Single-tiered SNG countries	5 718	0	7*	5 725
Two-tiered SNG countries	302 843	102	1 050	303 995
Three-tiered SNG countries	201 187	11 079	643	212 909
<b>Total</b>	<b>509 748</b>	<b>11 181</b>	<b>1 700</b>	<b>522 629</b>

\* Autonomous regions

SNGs can greatly differ in terms of administrative status, competences and funding across the same category of SNG in a given country. This is also the case in federal countries when local governments are governed by federated state constitution and legislation<sup>4</sup>. Their names, status, responsibilities and funding can vary from one federated state to another (Argentina, Australia, Canada, Russian Federation, United States, etc.).

A detailed distribution of responsibilities across levels of government is provided in the country profiles, showing a wide diversity between countries. However, some general schemes emerge (Figure 3). In most federal countries, federal governments have exclusive and listed competences (foreign policy, defence, money, criminal justice system, etc.) while state governments have wider responsibilities. At the local level, local government responsibilities are defined by state constitutions and/or laws, and they can differ from one state to another. In unitary countries, the assignment of responsibilities is generally defined by national laws, referring sometimes to the general clause of competence or “subsidiarity principle”, especially for the municipal level. Laws can also define whether a subnational responsibility is an own/exclusive local function, a delegated task on behalf of the central government or a shared responsibility with another institutional government level. Some SNG tasks can be mandatory while others are optional. As a result, the breakdown of competences between

central/federal government and SNGs as well as across SNG levels is particularly complex in many countries, leading sometimes to competing and overlapping competences and a lack of visibility and accountability concerning public policies (OECD 2016a).

### A detailed distribution of responsibilities across levels of government is provided in the country profiles, showing a wide diversity between countries

<sup>4</sup> In most federations, local governments are “creation of the states” by whom they are also governed. There are some exceptions such as Brazil. According to the Brazilian federative pact, municipalities are granted the status of federal entities, at the same level as the states. They are governed by an organic law and enjoy the same legal status.

Figure 3. Breakdown of responsibilities across SNG levels: a general scheme

MUNICIPAL LEVEL	INTERMEDIARY LEVEL	REGIONAL LEVEL
<p><b>A wide range of responsibilities:</b></p> <ul style="list-style-type: none"> <li>• General clause of competence</li> <li>• Eventually, additional allocations by the law</li> </ul>	<p><b>Specialised and more limited responsibilities of supra-municipal interest</b></p>	<p><b>Heterogeneous and more or less extensive responsibilities depending on countries (in particular, federal vs unitary)</b></p>
<p><b>Community services:</b></p> <ul style="list-style-type: none"> <li>• Education (nursery schools, preelementary and primary education)</li> <li>• Urban planning &amp; management</li> <li>• Local utility networks (water, sewerage, waste, hygiene, etc.)</li> <li>• Local roads and city public transport</li> <li>• Social affairs (support for families and children, elderly, disabled, poverty, social benefits, etc.)</li> <li>• Primary and preventive healthcare</li> <li>• Recreation (sport) and culture</li> <li>• Public order and safety (municipal police, fire brigades)</li> <li>• Local economic development, tourism, trade fairs</li> <li>• Environment (green areas)</li> <li>• Social housing</li> <li>• Administrative and permit services</li> </ul>	<p><b>An important role of assistance towards small municipalities</b></p>	<p><b>Services of regional interest:</b></p> <ul style="list-style-type: none"> <li>• Secondary / higher education and professional training</li> <li>• Spatial planning</li> <li>• Regional economic development and innovation</li> <li>• Health (secondary care and hospitals)</li> <li>• Social affairs e.g. employment services, training, inclusion, support to special groups, etc.</li> <li>• Regional roads and public transport</li> <li>• Culture, heritage and tourism</li> <li>• Environmental protection</li> <li>• Social housing</li> <li>• Public order and safety (e.g. regional police, civil protection)</li> <li>• Local government supervision (in federal countries)</li> </ul>
	<p><b>May exercise responsibilities delegated by the regions and central government</b></p>	
	<p><b>Responsibilities determined by the functional level and the geographic area:</b></p> <ul style="list-style-type: none"> <li>• Secondary or specialised education</li> <li>• Supra-municipal social and youth welfare</li> <li>• Secondary hospitals</li> <li>• Waste collection and treatment</li> <li>• Secondary roads and public transport</li> <li>• Environment</li> </ul>	

Source: OECD (2016a), Regions at a Glance.

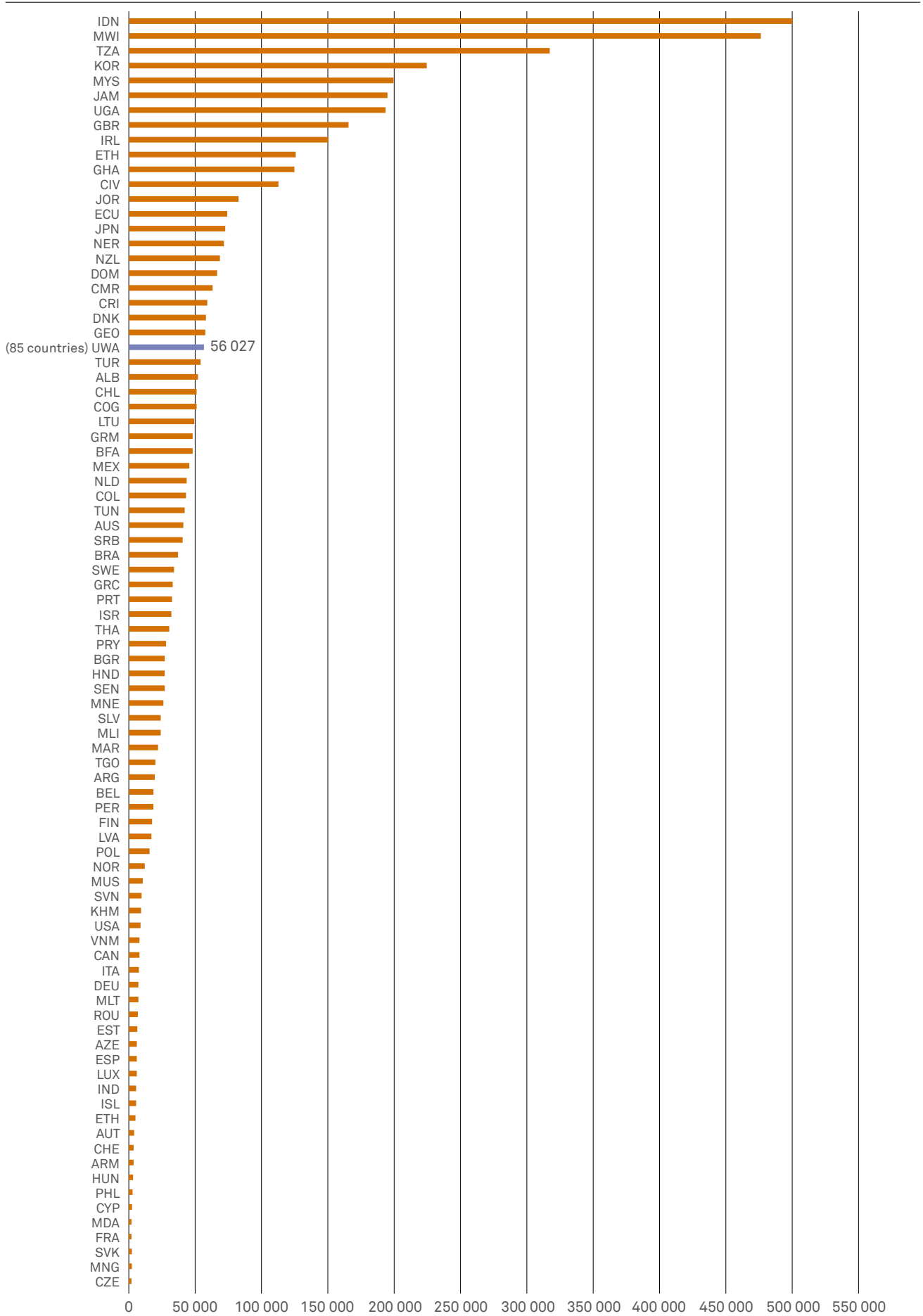
## 1.3 THE MUNICIPAL LANDSCAPE IS VERY DIVERSE

A multiplicity of municipal administrative statuses can be found within the same country depending on political and administrative characteristics (federal vs unitary country) but also on demographic, geographic, economic, cultural and historical characteristics. The most commonly found distinction is between urban and rural municipalities (and/or according to municipal size). A distinction can also be made for cities with dual status, in particular the municipal status and the status of an upper level of SNG (e.g. statutory cities in Austria and Czech Republic, city-states and district-free cities in Germany). They enjoy, in some cases, extended responsibilities or prerogatives.

The municipal sector is subject to important territorial reforms aiming at changing their structures through municipal mergers and improving the efficiency of services they provide, in particular through inter-municipal co-operation (Chatry I. and Hulbert C., 2016 forthcoming). In fact, in many countries, municipalities are considered to be too small to carry out their tasks efficiently and realise economies of scale. The average municipal size illustrates this issue, the unweighted average amounting to 56 027 inhabitants (based on 85 countries). Figure 4 illustrates the vast

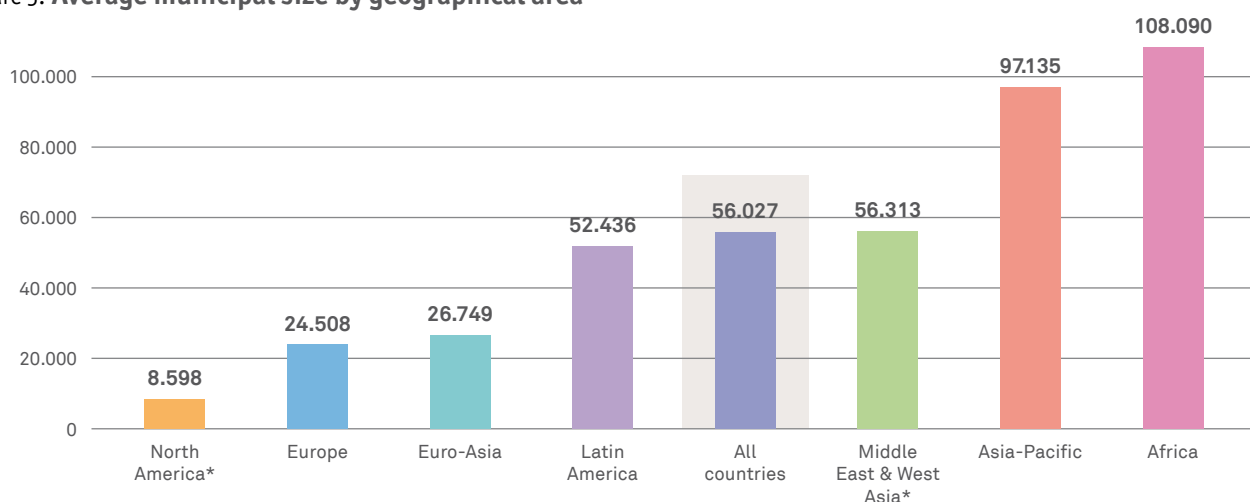
differences between countries from highly fragmented municipal landscapes, such as the Czech Republic, France, Mongolia and Slovak Republic (less than 2 000 inhabitants on average) to very large municipalities in countries such as Indonesia, Korea, Malawi, Malaysia and Tanzania, (100 times higher i.e. 200 000 inhabitants on average). It is however important to underline that countries with large municipalities often have a well-developed and structured network of sub-municipal localities that allow to retain proximity for the provision of local services.

Figure 4. Average municipal size in selected countries (number of inhabitants, 85 countries)

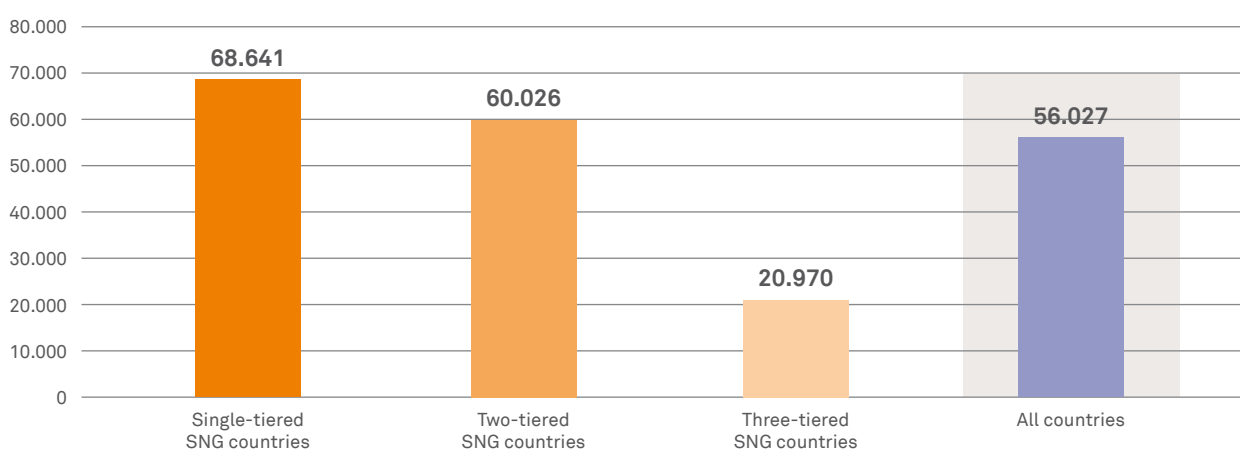


Average municipal size also reveals some common features by geographical area, African and Asia-Pacific municipalities being larger on average than European, Euro-Asia and North American municipalities (Figure 5). This can be partly related to on-going processes of decentralisation in African countries that is not achieved, with the number of subnational government entities growing rapidly, such as in Uganda. The general structure of subnational government layers of each country may also play a role. Three-tiered SNG countries seem to have smaller municipalities on average than single or two-tiered systems (Figure 6).

**Figure 5. Average municipal size by geographical area\*\***



**Figure 6. Average municipal size by SNG country system\*\***



\* Only three countries for the Middle East and West Asia area and two for North America.

\*\* Averages are based on unweighted averages of national averages.

However, the average municipal size indicator remains insufficient compared to other indicators such as the median or the distribution of municipalities according to population size class (OECD 2016b). In many countries, it is considered that the problem is not the average municipal size which masks municipal diversity in terms of size, but the high number of very small municipalities that are not able to cope with their

responsibilities due to insufficient financial, human and technical capacity. Size matters because it affects the ability of local governments to reap the benefits of scale economies in service provision. In other countries however, the trend is reverse i.e. resulting in the creation of new municipalities instead of amalgamations. In some cases it reflects a trend towards more decentralisation, proximity and accountability towards citizens.

## 2.

# SUBNATIONAL GOVERNMENT SPENDING RESPONSIBILITIES VARY CONSIDERABLY ACROSS COUNTRIES

## 2.1 LEVELS OF SPENDING DECENTRALISATION ARE GLOBALLY VERY DIVERSE

In 2013, SNG expenditure accounted for 9.0% of GDP and 23.9% of public spending on average (unweighted) in 95 countries of the sample. These averages conceal a wide variety of national situations.

Different groups of countries can be distinguished (Figure 7). Three countries stand apart from the others in terms of their particularly high subnational spending in GDP and total public expenditure: two are unitary countries (China and Denmark), while the third is a federal country (Canada). In China, 85% of public expenditure is made by SNGs. In fact, there has been considerable devolution of expenditure responsibilities at SNG levels, including the decentralisation of social protection systems, and China might seem to be one of the most decentralised countries in the world. However, these figures can also give a misleading picture of the reality concerning actual devolution of power (Box 2). In China, SNGs have no “inherent” power as China’s Constitution stipulates that subnational governments’ power and responsibilities are delegated by the central authorities, who may also rescind them (OECD 2015b).

The second group with high level of public spending at subnational level (over 35%) and accounting for a large share of GDP (between 15% and 25%) are mostly

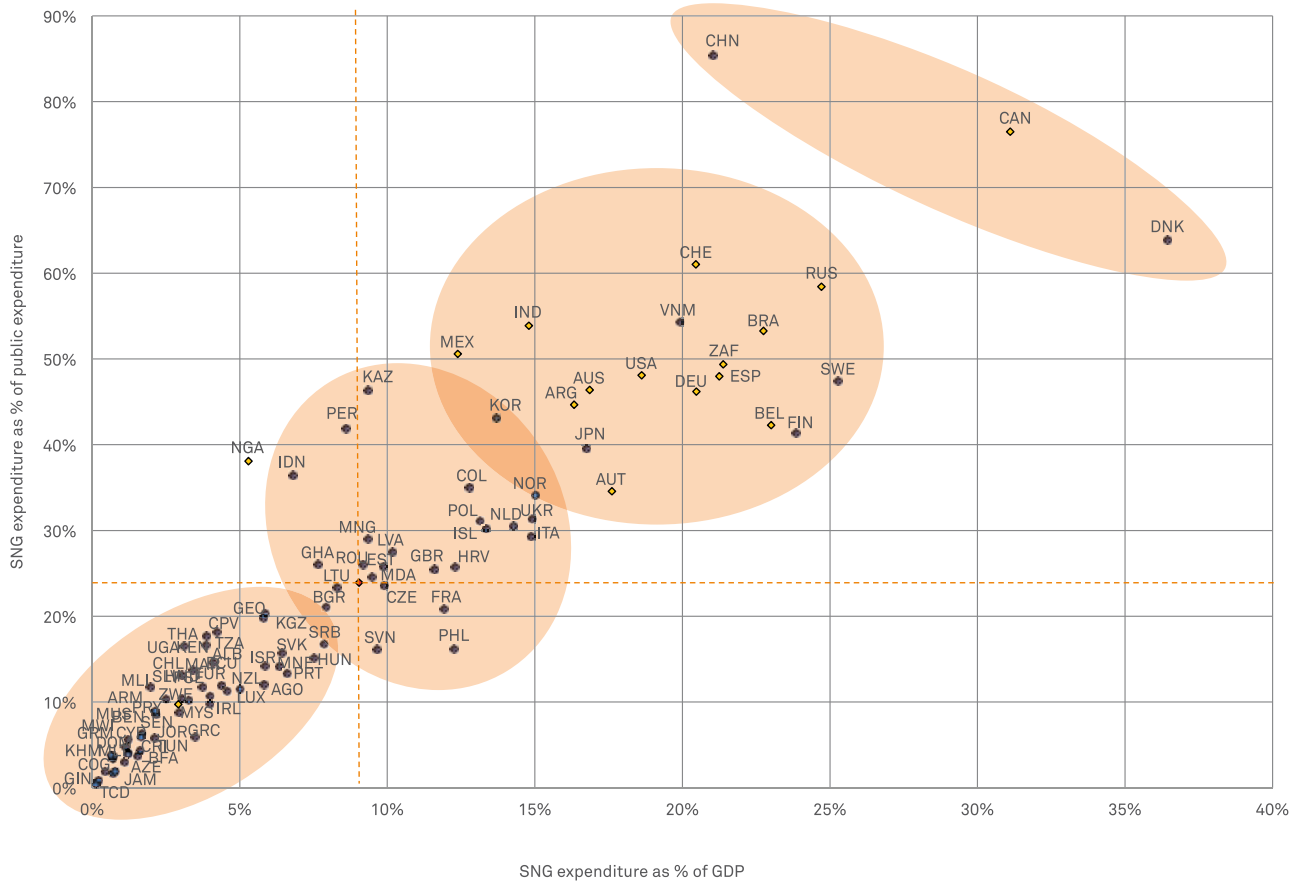
### BOX 2 SPENDING RATIO LIMITS AS AN INDICATOR OF DECENTRALISATION

Spending ratios as an indication of spending autonomy should be interpreted with caution. In fact, a high level of subnational expenditure does not necessarily mean a high level of decentralisation, as in some cases these expenditures are delegated from the central government. The assignment of responsibilities to SNGs does not mean that SNGs have full autonomy in exercising them and regarding the choice of how and where expenses are allocated. SNGs may simply act as a “paying agent” with little or no decision-making power or room for manoeuvre. It is often the case when SNGs are in charge of paying teachers or health staff wages or social benefits on behalf of central government, without control on their development. It is also the case when SNGs do not have full autonomy and decision-making authority in their fields of responsibility, functioning sometimes more as agencies funded and regulated by the central government rather than as independent policy makers. In addition, SNGs can also be constrained by regulations, norms and standards which can impose compulsory expenditures (environmental norms, security standards, etc.) resulting in higher spending. Consequently, the share of SNGs in general government expenditure or GDP, while providing a valuable macroeconomic overview of the level of decentralisation, is sometimes open to overestimation, in particular in countries where SNGs have numerous spending obligations on behalf of the central government.

Source: OECD (2016) *Regions at a Glance*.

federal countries, where expenditure of the state and local governments are combined. This group is made up of eight out of nine federal countries from the OECD (the ninth, Canada, being in the first group) as well as Argentina, Brazil, India, Russian Federation and South

Figure 7. Subnational government expenditure as a % of GDP and public expenditure (2013)



Africa. However, one can also find several unitary countries such as Finland, Korea, Japan, Vietnam and Sweden.

The third group comprises countries which share the global average of between 8% and 15% of GDP and 15% and 35% of public spending. This group comprises only unitary countries with a majority from Europe. However, there are two Latin America countries (Colombia and Peru), three Asian countries (Indonesia, Mongolia and Philippines), two countries from Euro-Asia (Kazakhstan and Moldova) and only one from Africa (Ghana).

At the other end of the spectrum, we find centralised countries where local authorities have limited spending responsibilities. In these countries, SNG expenditure accounts for less than 8% of GDP and 20% of public spending. The group comprises only one federal country (Malaysia), all others being unitary. They include almost all African countries (85% of African countries fall into

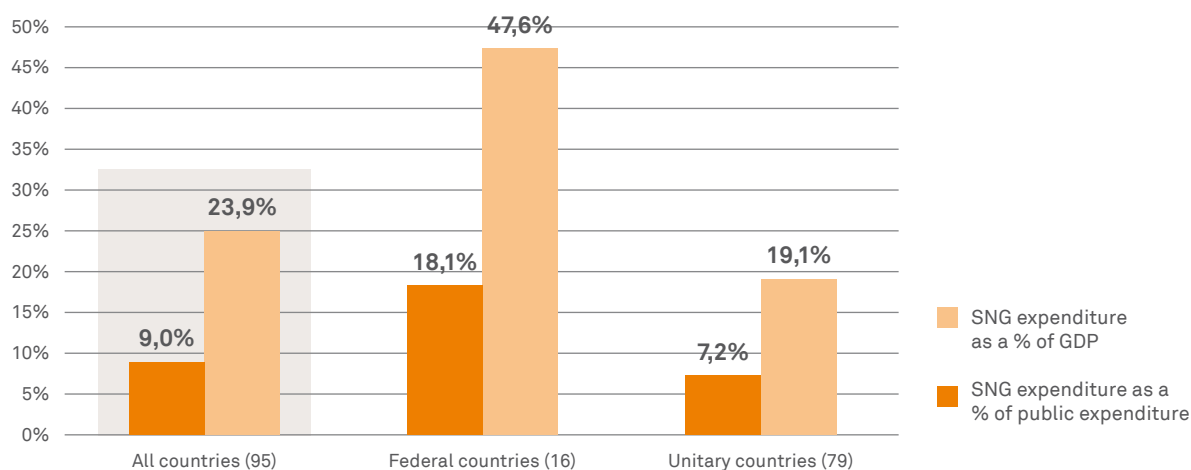
this category) but also several OECD countries such as Chile, Greece, Hungary, Ireland, Israel, Luxembourg, New Zealand, Portugal, Slovakia, Slovenia or Turkey as well as 65% of the selected Latin America countries (Costa Rica, Dominican Republic, Paraguay, Guatemala, Honduras, El Salvador, etc.), several Euro-Asia countries (Azerbaijan, Armenia, Albania, etc.) and some few Asia-Pacific countries (Thailand, Cambodia).

Overall, 58% of countries of the sample are below the average in terms of spending-to-GDP ratio as well as regarding the share of SNG in total public spending (Figures A1. and A2. in Annex 5).

This wide diversity of scenarios regarding spending decentralisation is explained by the assignment of responsibilities across levels of government as well as the availability of resources for SNGs to effectively perform their duties (which vary considerably from country to country). In fact, there can be a mismatch



Figure 8. SNG expenditure as a % of GDP and public expenditure in federal and unitary countries (2013)



between expenditure responsibilities and revenue sources, restraining SNGs from carrying out all the devolved tasks.

SNG spending responsibilities may vary according to whether the country is federal or unitary, its geographical area and population size or its territorial organisation. The degree of decentralisation and the nature of responsibilities carried out by SNGs over certain sectors are also crucial factors. In fact, some spending areas, such as education, social services and health, generate a greater volume of expenses than others, because they involve significant current expenditure (e.g. social benefits or payment of teachers, social workers or hospital staff wages). When SNGs are in charge of those responsibilities, this automatically results in a high level of expenditure.

In federal countries, as underlined above, SNG expenditure is the sum of the state and local governments. Therefore, it represents a higher ratio amounting to 18.1% of GDP and 47.6% of public expenditure on unweighted average based on 16 countries (Figure 8). Some federal countries are however, significantly below these federal averages, in particular Malaysia and Nigeria while Brazil, Canada, Russian Federation, South Africa and Switzerland are well above both federal averages (Figures A1. and A2. in Annex 5).

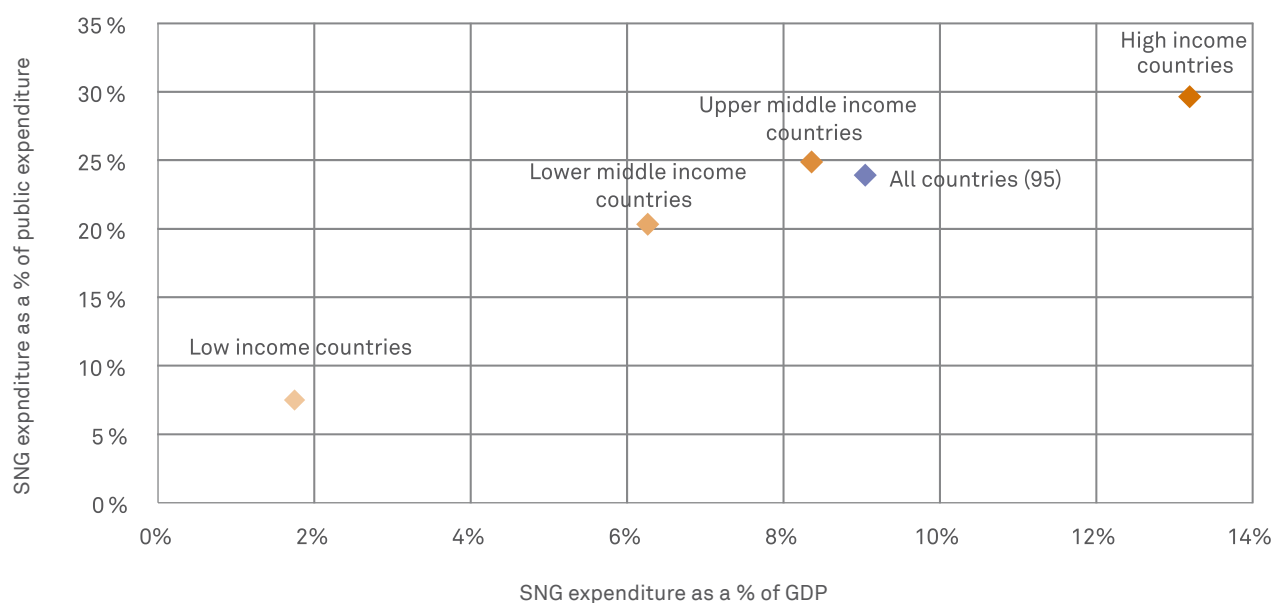
In unitary countries, local government expenditure is significantly lower than in federal countries, representing 7.2% of GDP and 19.1% of public expenditure on unweighted average (Figure 8). The

situation of unitary countries is however very diverse across the sample (Figures A1. and A2. in Annex 5). There are great differences between countries where local governments have limited responsibilities and therefore a low level of spending, and very decentralised countries. In 25 unitary countries (out of 79), SNG expenditure is equal to or less than 3% of GDP. At the other end of the spectrum, there are 19 countries in which SNG expenditure exceeds 10% of GDP and even 15% in seven countries (China, Denmark, Finland, Japan, Norway, Sweden and Vietnam) reflecting the strong involvement of SNGs in the economy and society. However, it is important, one again, to insist on the relativity of the spending ratio. In several countries cited above, SNG spending is more "decentralised" or "delegated spending" made on behalf of central government than decentralised spending (Box 2).

**There can be a mismatch between expenditure responsibilities and revenue sources, restraining SNGs from carrying out all the devolved tasks**

Most decentralised countries belong, for their majority, to the group of countries having the highest income. By the same token, the least decentralised ones belong to the group of countries having a low income (Figure 9 and Table 2).

**Figure 9. SNG expenditure and income country groups (2013)**



**Table 2. SNG expenditure and income country groups (2013)**

SNG expenditure	Low income	Lower middle income	Upper middle income	High income	All 95 countries
% of GDP	1,7%	6,3%	8,3%	13,2%	9,0%
% of public expenditure	7,5%	20,3%	25,1%	29,7%	23,9%

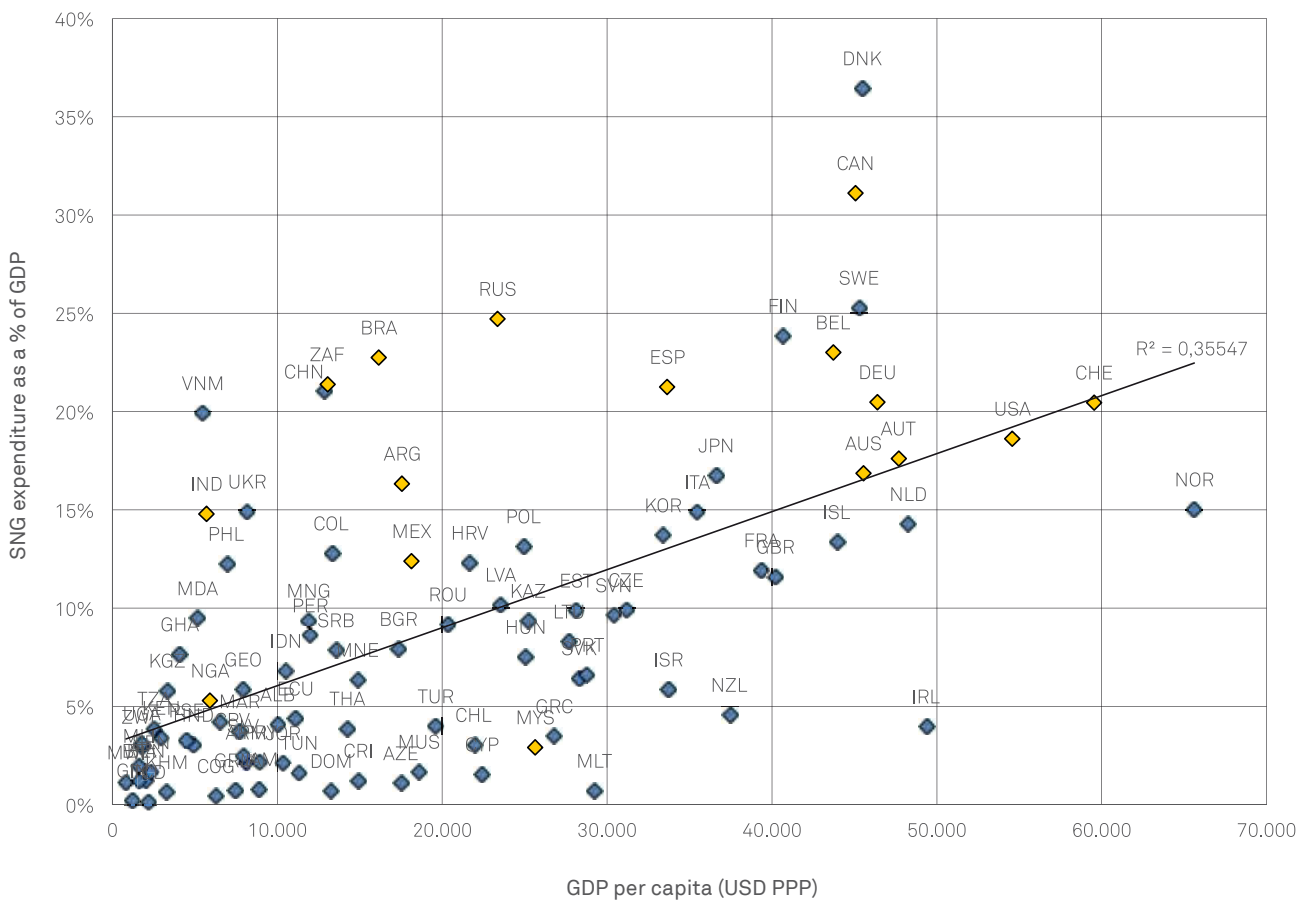
If we compare the level of spending decentralisation, measured by the share in GDP or in public spending, with the GDP per capita, there seems to be a positive correlation (Figures 10 and 11). It means that most decentralised countries seem to have the highest GDP per capita while the most centralised countries would have the lowest. Of course, this is not a general rule and there are several counter-examples. In fact, it is important to note that the cause-effect link between decentralisation and the level of development (measured by the GDP per capita or the income group) may not be always clear,

in particular which way the causation works. Some high income countries are centralised while several low or middle income countries are decentralised. In fact, decentralisation is not a panacea for any type of problem a country can face. It may offer opportunities, but it also entails risks in terms of efficiency (public policies and services delivery), representation (political governance) and national unity. It may produce perverse effects and fail to deliver on the promise of improved efficiency and political gains. Therefore, decentralisation is not good or bad in itself. Its outcomes much depend on





Figure 10. Comparing SNG expenditure as a % of GDP and GDP per capita (2013)

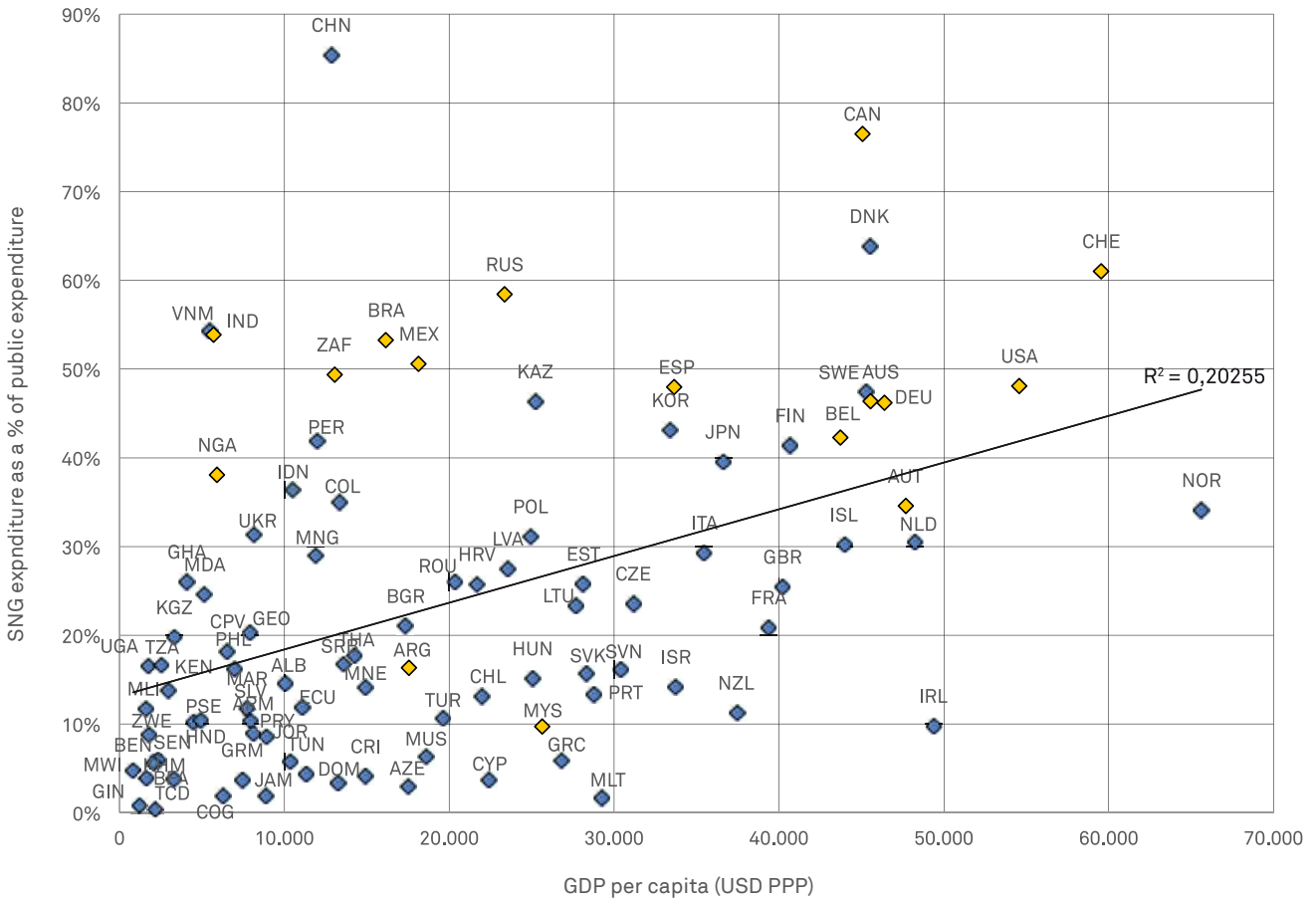


Note: Luxembourg is not represented on the graph as it is an extreme case due to its high GDP per capita (USD 98 163 PPP).

the way the process is designed and implemented, on the degree of maturity of institutions, on adequate subnational capacities and on the quality of multi-level governance, including efficient coordination mechanisms across levels of government.

**There seems to be a positive correlation between the level of spending decentralisation measured by the share in GDP or in public spending, and the development level of the countries, measured by the GDP per capita**

Figure 11. Comparing SNG expenditure as a share of public spending and GDP per capita (2013)



Note: Luxembourg is not represented on the graph as it is an extreme case due to its high GDP per capita (USD 98 163 PPP).

## 2.2 SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC FUNCTION

The breakdown of SNG expenditure by economic function reflects both the involvement of SNGs in some key areas for local development and well-being (education, health, social protection, environment, etc.) and the distribution of responsibilities across the different levels of government.

Expenditure (current and capital) by economic function presented below follows the classification of the ten functions of government or COFOG<sup>5</sup>. However, this international classification is not used in all countries. Where national classification did exist but was too different or partial, it was not included in the statistical analysis. These two factors explain the relatively small sample of countries (61 countries including 51 unitary and 10 federal countries).

### The weight of SNG expenditure by economic function in GDP

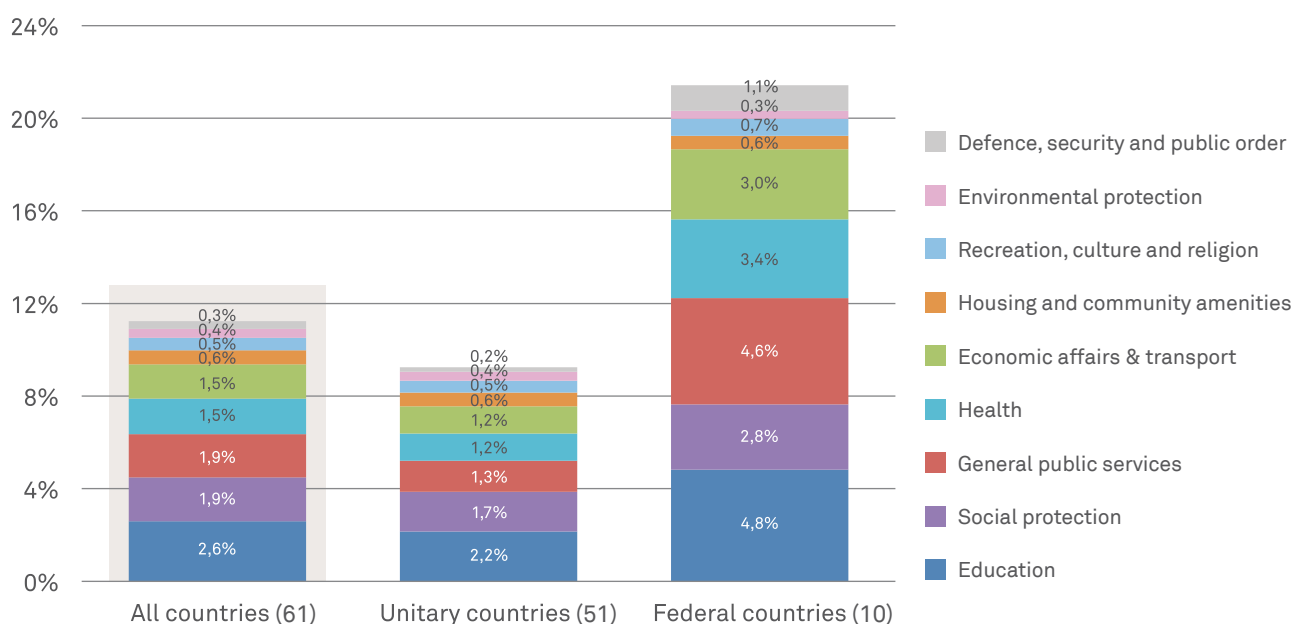
In the country sample, the primary area of SNG spending as a % of GDP is education (primary and secondary as well as higher education in some countries) amounting to 2.6% of GDP on unweighted average (Figure 12). The share of spending on education is significantly higher in federal countries (4.8% of GDP) than in unitary countries (2.2%), for which it remains the highest SNG spending share overall.

<sup>5</sup> See Part II “Methodology and country sample” and Annex 4 “Detailed structure of the Classifications of the Functions of Government (COFOG)”

Education is followed by social protection (social services and benefits as well as investment in social infrastructure for families, children and youth, elderly, the unemployed, disabled people, deprived persons, immigrants, etc.). SNG spending in this area represented 1.9% of GDP in 2013 for all countries (2.8% in federal countries and 1.7% in unitary countries).

The third highest spending area is general public services (1.9% of GDP), a function which accounted for 4.6% in federal countries and only 1.3% in unitary countries. This function includes all expenses relating to the organisation and operation of government, the collection of taxes and the management of public debt.

Figure 12. Breakdown of SNG expenditure by economic function as a % of GDP (2013)



Spending on health represented 1.5% of GDP, and as much as 3.4% of GDP in federal countries where SNGs, in particular state governments, often have wide responsibilities, including the management of public hospitals, specialised medical services and basic healthcare.

SNG spending on economic affairs (economic interventions in the industrial, energy, mining, agricultural and construction sectors, etc.) and transportation (roads, public transport, etc.) also represented 1.5% of GDP, reaching 3.0% in federal countries.

Housing and community amenities (water supply, public lighting, urban heating, social housing, community development, etc.) accounted for 0.6% of GDP for all countries, be they federal or unitary.

Spending on recreation, culture and religion (sports, libraries, recreational areas, museums, cultural heritage, etc.) and environmental protection (waste, sewerage, parks and green areas, air pollution, noises, soil protection, nature preservation, water quality, etc.) accounted for respectively 0.5% and 0.4% of GDP.

Public order and safety includes local and regional police services, fire-protection services, prisons, civil protection and emergency services. Defence remains marginal as it is very rarely a subnational responsibility. Taken together, they represented 0.3% of GDP for all 61 countries but more than 1.1% of GDP in federal countries where state governments may have significant responsibilities for public order and safety.

The breakdown of SNG expenditure by economic function as a percentage of GDP by country provides a good overview of the importance of responsibilities carried out by SNGs in each country (Figure 13 and also Figures from A3 to A10 in Annex 5).

In Belgium, Canada, Switzerland and the United States, SNGs spent more than 5.4% of GDP on education, Belgium standing out with a ratio of 7.3% of GDP (Figure A3).

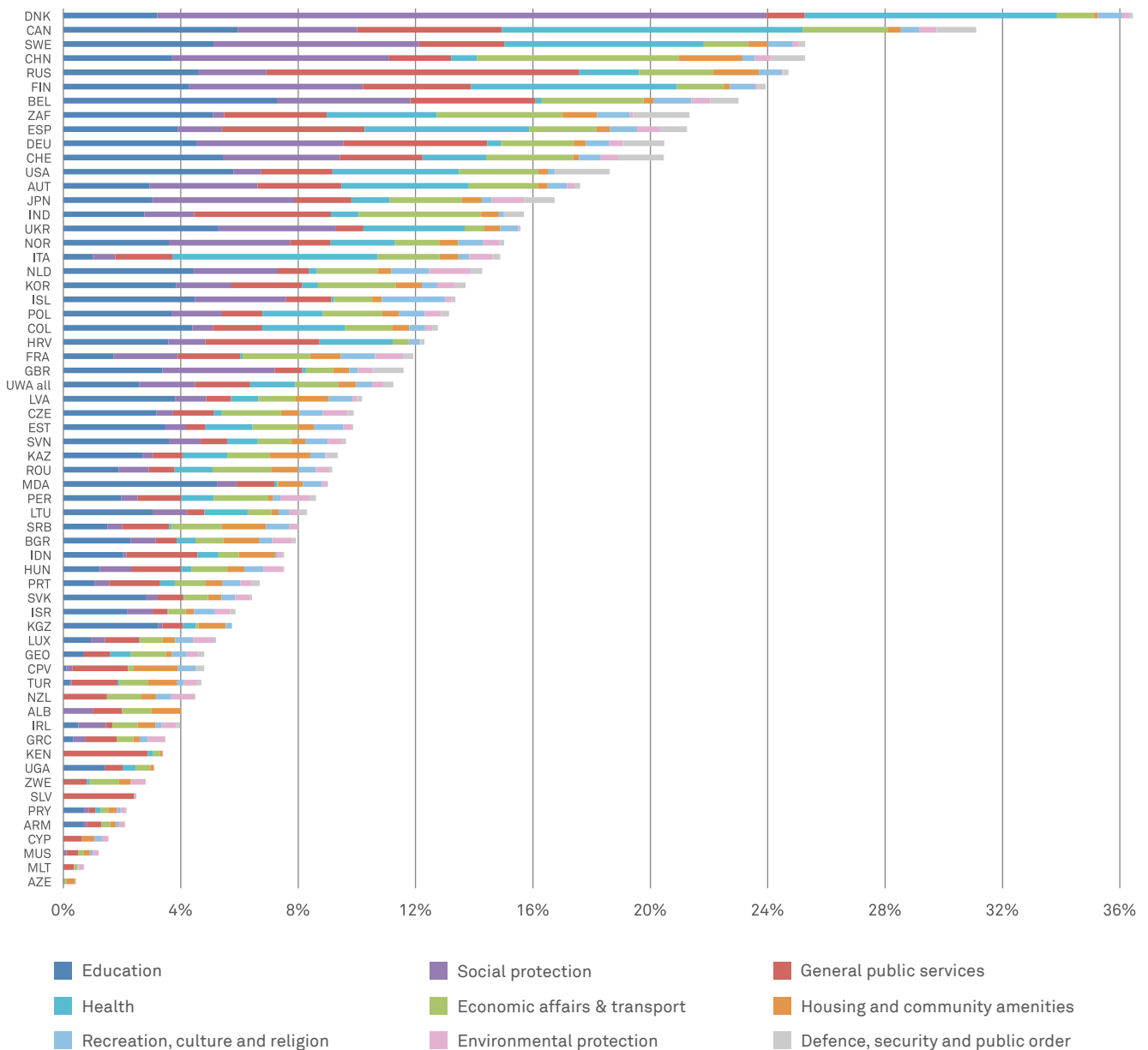
In Denmark, over 20% of GDP is spent by SNGs in the social sector, largely due to the fact that municipalities administer a number of social security transfers (OECD 2016a). In China, Finland and Sweden SNG social spending represented more than 5% of GDP (Figure A4).

Expenditure related to general public services is particularly high in the Russian Federation, accounting

for almost 11% of GDP. In other federal countries such as Belgium, Canada, Germany, India and Spain, SNG spending in this area represented between 4% and 5% of GDP (Figure A5).

SNG spending on health was over 5% of GDP in Denmark, Finland, Italy, Spain and Sweden, with Canada reaching 10.2% of GDP. In these countries, both federal and unitary, SNGs and in particular, the state/regional levels have extensive responsibilities in the health sector (Figure A6).

Figure 13. Breakdown of SNG expenditure by economic function as a % of GDP by country (2013)





In the sector of economic affairs and transport, SNGs in China, South Africa and India spend significantly more than the average; almost 7% of GDP for China and around 4.5% of GDP in South Africa and India (Figure A7). Belgium, Canada and Switzerland also stand out from the others with high spending ratios in this sector (between 2.9% and 3.5% of GDP).

Spending on housing and community amenities by SNGs amounted to more than 2.0% of GDP in China and around 1.5% of GDP in Cabo Verde, Kazakhstan, Russian Federation and Serbia (Figure A8).

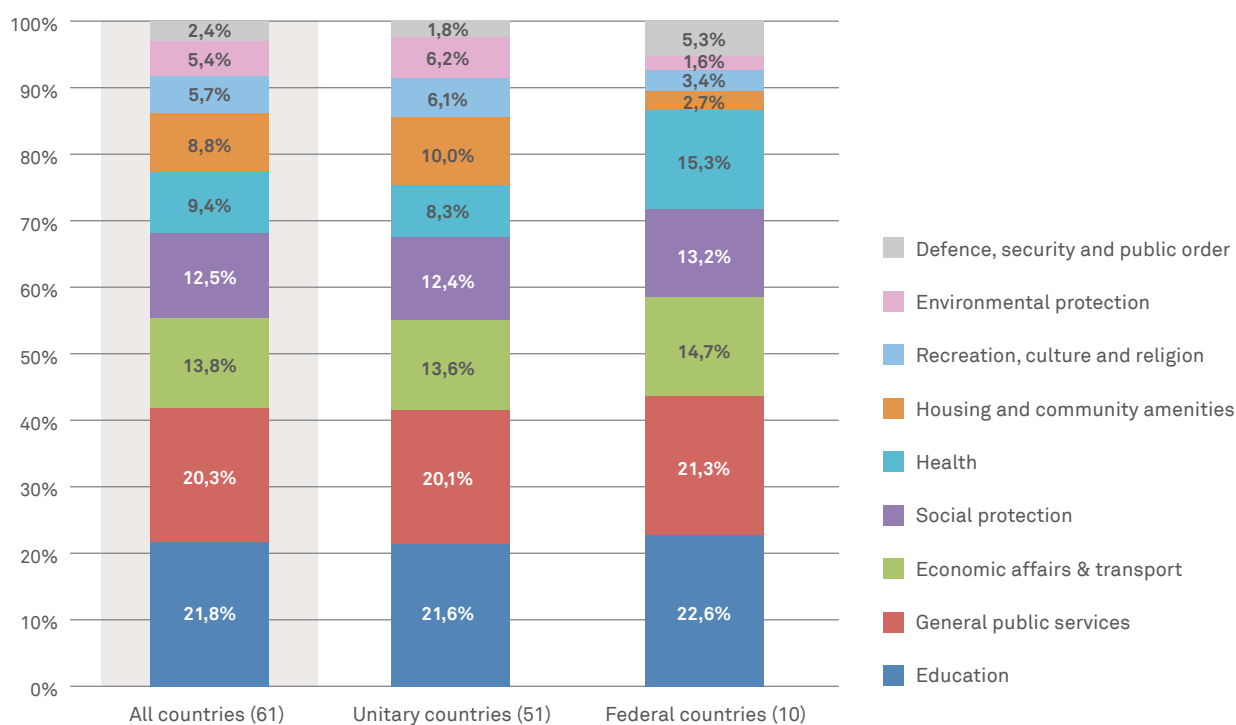
Iceland stands out for its high level of SNG spending dedicated to recreation and culture (2.2% of GDP), culture being considered as a driving force for economic and social development at the national and regional level in this country. In Belgium, France, the Netherlands and South Africa, SNG involvement in culture and recreation is also substantial (Figure A9).

Finally, in the Netherlands, SNG spending on environmental protection represented almost 1.5% of GDP as well as more than 1% of GDP in Japan, in relation in particular to high spending in waste water management, waste management and the protection of ambient air (Figure A10).

### SNG expenditure by economic function as a share of total SNG expenditure

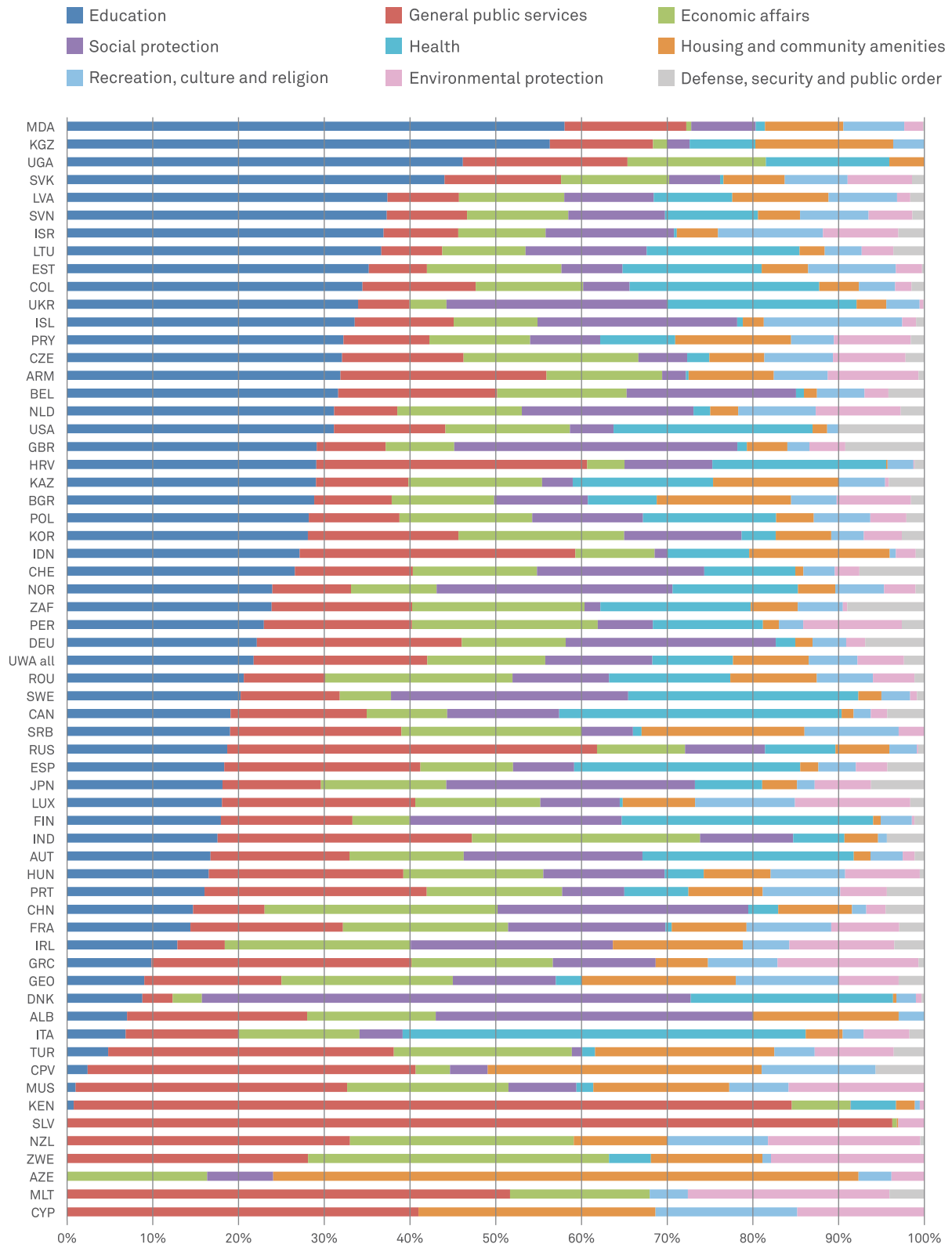
If we look at the weight of each economic function in SNG expenditure (Figure 14), there is no significant difference between federal and unitary countries for the main functions. Education comes first representing 21.8% of SNG spending, and slightly more for federal countries. Education is closely followed by general public services (20.3%). The third most important item of spending is economic affairs and transport (13.8% of SNG spending). Social protection spending accounted for approximately 12.5% of SNG spending. Health represented 9.4% of SNG spending in all countries but significantly more in federal countries (15.3%). Housing and community amenities, environmental protection and recreation and culture accounted for a larger share of SNG expenditure in unitary countries than in federal countries, these functions being classically carried out by local governments, in particular by municipalities.

Figure 14. Breakdown of SNG expenditure by economic function as a % of total SNG expenditure (2013)



At the country level, the breakdown of SNG expenditure by economic function in total SNG expenditure provides a complementary perspective to the previous findings (Figures 15, and A11 to A18 in Annex 5).

**Figure 15. Breakdown of SNG expenditure by economic function as a % of total SNG expenditure by country (2013)**





It shows that education is the most important budget item for SNGs in Kyrgyzstan, the Republic of Moldova, Slovakia and Uganda (over 40% of their spending). Spending on education also exceeds 30% of subnational budgets in Lithuania, Israel, Slovenia and Latvia. In these countries, SNGs are responsible for the payment of teachers and administrative staff, in addition to the building and maintenance of educational infrastructure. In contrast, SNGs have no responsibilities in education, not even for primary schools, in countries such as Azerbaijan, Cyprus, Malta, New Zealand and Zimbabwe, education remaining a central government task.

Expenditure related to general public services represents a substantial proportion of SNG expenditure budget in Cyprus, El Salvador, Kenya, Malta and the Russian Federation.

Economic affairs and transportation are a significant budget line in China, India, New Zealand and Zimbabwe, but also in Ireland, Peru and Romania, where SNG invested a lot in transport infrastructure.

The share of social protection expenditure in SNG spending is particularly high in Denmark, as already underlined, but also in Albania, China Japan and the United Kingdom. In Cyprus, El Salvador, Malta, New Zealand and Uganda, SNGs play no role in the social sector.

Health is the primary SNG budget item in Italy, exceeding 45% of SNG expenditure, and even 60% of regional budgets (health services are organized within special-purpose autonomous bodies – *Azienda Sanitaria Locale* – funded by the regions). In Canada, health also represented a large share of SNG budget (more than 30%) as the provinces and territories administer and deliver most of Canada's health care services. In contrast, in numerous countries, SNGs are not involved – or very little – in the health sector which remains under the responsibility of central government or social security bodies.

In 2013, housing and community amenities represented a large portion of SNG expenditure in Azerbaijan but also in Cabo Verde and Turkey. In Cabo Verde, Cyprus, Iceland and Israel over 12% of SNG expenditure is dedicated to recreation, culture and religion, while environmental protection was a significant budget line for SNGs in Greece, Malta, Mauritius, New Zealand and Zimbabwe.

## In 2013, SNGs undertook 35.1% of all government personnel expenditure, accounting for 3.3% of GDP

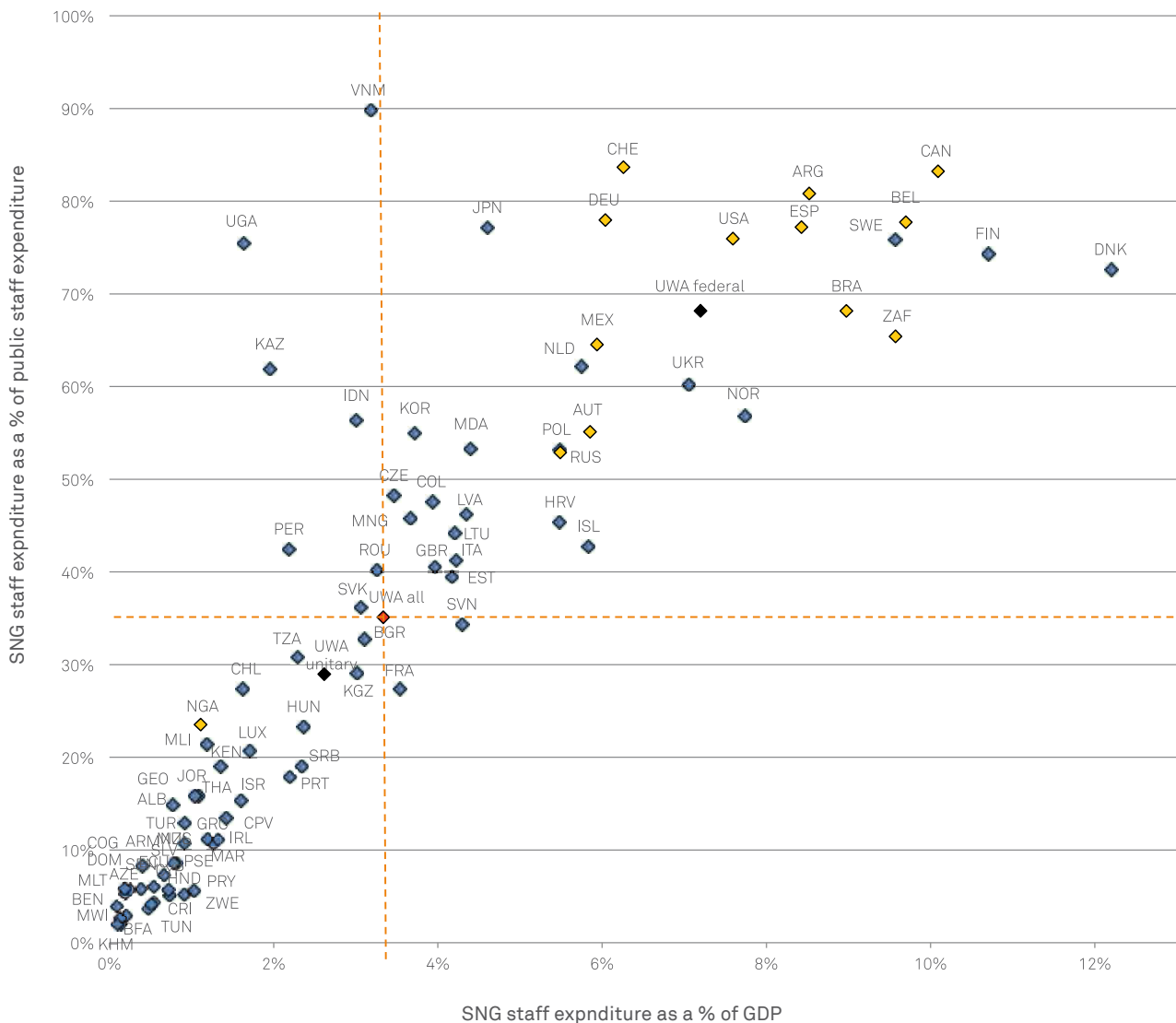
### 2.3 THE ROLE OF SNGS AS PUBLIC EMPLOYERS VARIES WIDELY ACROSS COUNTRIES

#### Staff expenditure in GDP and public expenditure

In 2013, SNGs undertook 35.1% of all government personnel expenditure, accounting for 3.3% of GDP on unweighted average (83 countries). But there are wide discrepancies between federal and unitary countries and within individual countries (Figures 16, A19 and A20 in Annex 5).

In a number of countries, the lion's share of public sector workers is employed at the subnational level. SNGs are key public employers, either directly or on behalf of the central government in sectors such as education, health, social services or public order (local police force). This is the case in most federal countries where SNG staff spending amounted to 68.2% of public staff expenditure on unweighted average corresponding to 7.2% of GDP. However, some federal countries such as Austria, the Russian Federation but especially Nigeria are well below both federal averages.

Figure 16. SNG staff expenditure as a % of public staff expenditure and GDP



In unitary countries, SNGs undertook 29.0% of all government personnel expenditure, accounting for 2.6% of GDP on unweighted average. Some unitary countries are well above both unitary country averages, in particular Japan, Netherlands, Ukraine, Poland, Vietnam, and most of Nordic countries. Among the latter, Denmark ranks first among all countries with a ratio of 12.2% of GDP. In these countries, SNGs employ a large share of public workers, chiefly in the social and health sector.

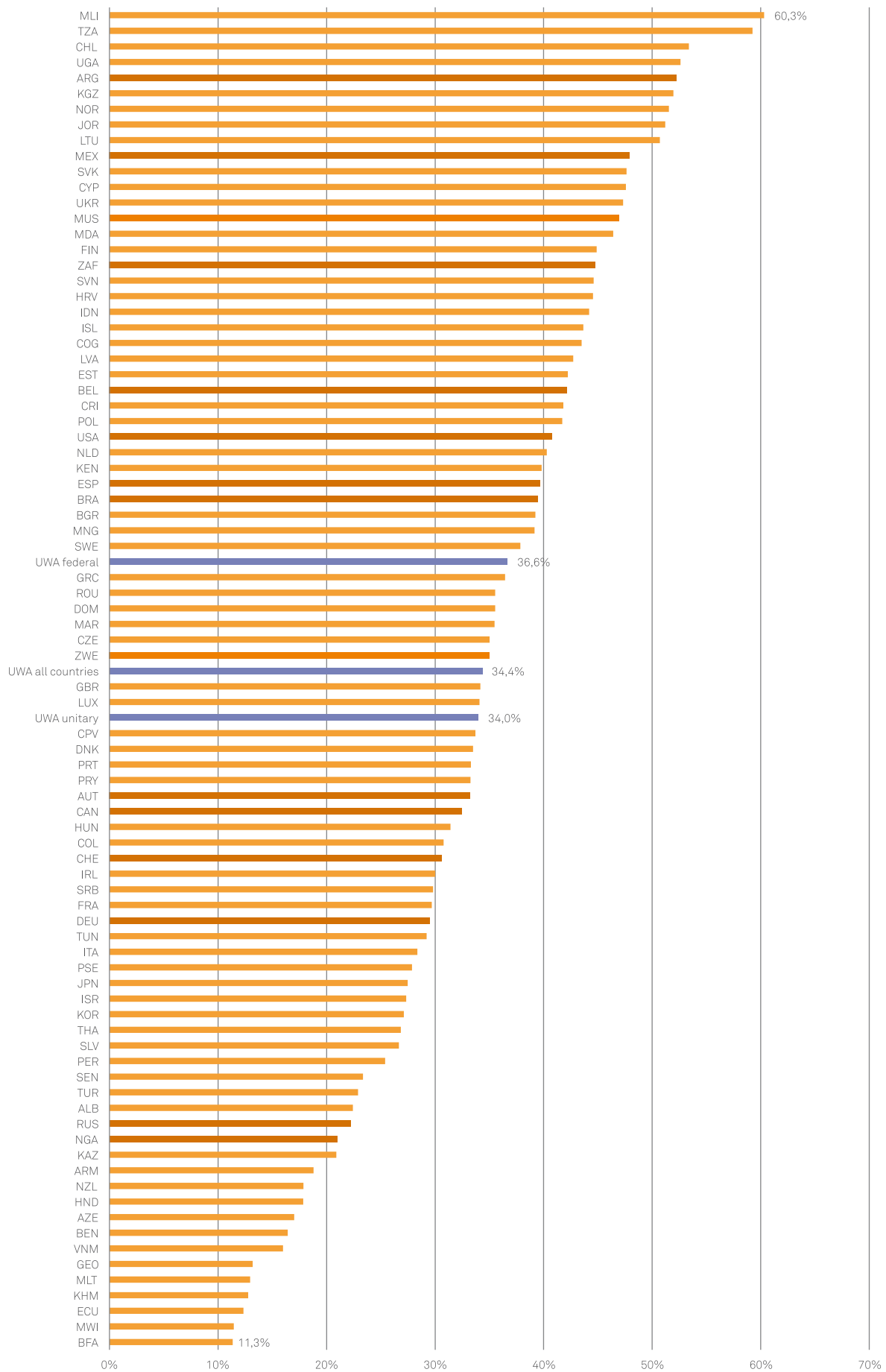
One can note the countries where staff spending is highly decentralised (or “deconcentrated/delegated” in some cases) but represent a smaller share of GDP such as Vietnam Japan, Uganda or Kazakhstan.

**The weight of SNG staff expenditure in total SNG spending**

Staff expenditure is usually the top SNG budget item, ahead of purchase of goods and services (intermediate consumption). In 2013, it represented 34.4% of total SNG expenditure in the country sample (Figure 17). It is interesting to note that the institutional nature of the country does not seem to have a great impact on the weight of staff spending in total spending, although the unweighted average for federal countries (36.6%) is slightly higher than those of unitary countries (34.0%). At the country level, variations are however much wider, ranging from 11.3% in Burkina Faso to 60.3% in Mali. There are some federal countries (Germany, Nigeria and Russian Federation) where the weight of staff expenditure in total SNG expenditure is less than 30%.



Figure 17. SNG staff expenditure in total SNG expenditure (% , 2013)

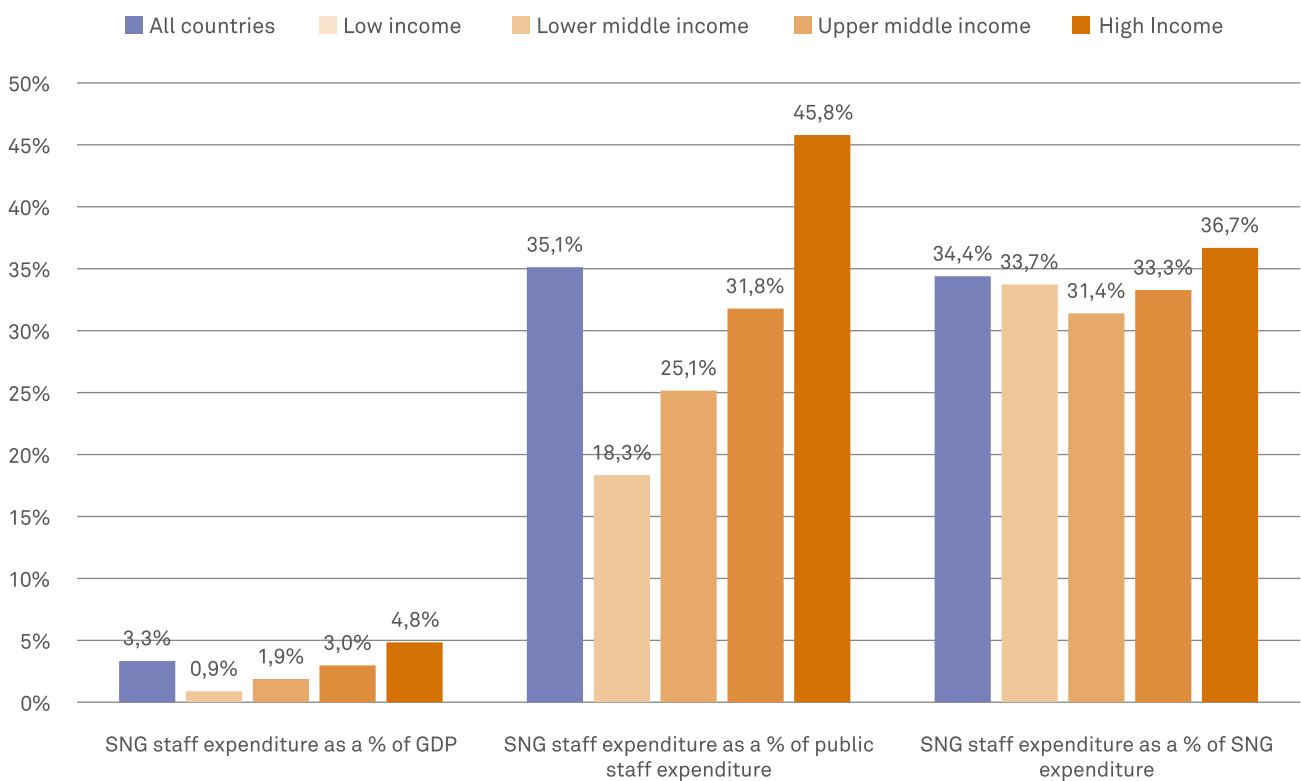


### SNG staff expenditure and levels of country income

The importance of SNG staff spending in a given country depends largely on its level of income (Figure 18). The weight of SNG staff spending in GDP varies greatly, ranging from 0.9% of GDP in low income countries on unweighted average to 4.8% in high income countries. The share of SNG staff expenditure in public staff expenditure also goes from 18.3% in low income

countries to almost 46% in high income countries. However, the share of staff expenditure in total SNG expenditure does not seem to be highly correlated to the level of income, at least on average. The weight of staff spending in SNG budget ranges from 31.4% for the lower middle income group, to 36.7% for the high income group. As already outlined above, there are, however, large discrepancies between countries.

Figure 18. The weight of staff expenditure in GDP, public staff expenditure and SNG expenditure according to the country income group (2013)



## 2.4 SNGS ARE KEY PUBLIC INVESTORS IN MANY COUNTRIES IN THE WORLD

SNGs are key public investors in many countries in the world but the diversity of national situations is also found when considering SNG public investment.

### SNG investment represented 1.5% of GDP worldwide in 2013

In 2013, SNG investment amounted to 1.5% of GDP on unweighted average in the country sample (90 countries). This average masks huge differences between countries, from almost no SNG investment in Malawi to 6.8% of GDP in China, which clearly stands out from other countries included the sample (Figures 19 and A21 in Annex 5).

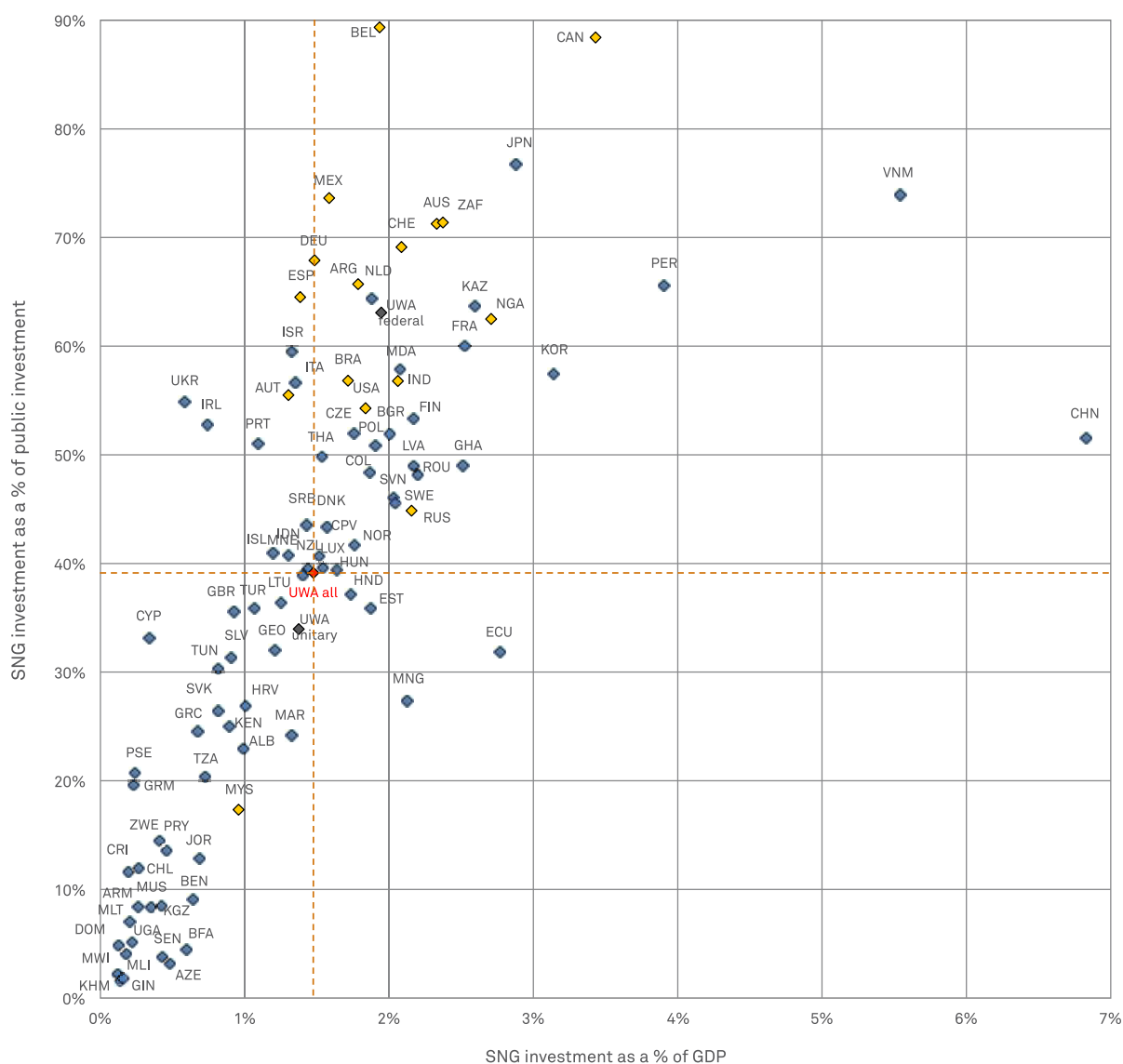
In federal countries, the level of SNG investment in GDP is higher (1.9%) than in unitary countries (1.4%). However, the gap is not so wide. Only three OECD federal countries (Australia, Canada and Switzerland) are above the federal average together with India, Nigeria, the Russian Federation and South Africa, i.e. only 7 federal countries out of 16. Some OECD federal countries such as Austria, Germany, Mexico and Spain (since the crisis) presented SNG investment-to-GDP ratios below 1.6% in 2013. In contrast, SNG investment in percentage of GDP reached high levels in several unitary countries, such as Japan (2.9%), Korea (3.1%), Peru (3.9%) and Vietnam (5.5%).

### SNGs represented almost 40% of public investment worldwide in 2013

The role of SNGs in public investment also differs widely from one country to another, from having almost no role – or a very minor role to a key role (Figures 19 and A22 in Annex 5). **The share of SNG investment in public investment is quite significant, amounting to**

**39.1% in the country sample** (unweighted average). The majority of countries (55%) is above the average. In federal countries, the share of SNGs is greater, reaching 63.1%, while it was established at 33.9% in unitary countries. Nine federal countries are above the federal average, with Belgium and Canada close to 90%, combining investment from the states and local governments. SNGs are also a driving force of public investment in several unitary countries (France, Japan, Kazakhstan, the Netherlands, Peru and Vietnam), representing close to 60% or above of public investment in 2013. In 45 unitary countries (i.e. 61% of unitary countries), SNG investment exceeds 30% of public investment and in 31 countries, it exceeds 40%, even if in some countries, total amount dedicated to investment in infrastructure and large facilities remain low because of scarce resources for investing at national level or because other spending priorities (Figure 19). In some cases, the low investment rate may also correspond to countries with a high share of staff expenditure - and current expenditures more broadly.

Figure 19. SNG investment as a % of GDP and public investment (2013)



These figures show that public investment is a shared responsibility across levels of government (OECD 2013, OECD 2014a), making governance of public investment particularly complex (Box 3).

**BOX 3**

**GOVERNING PUBLIC INVESTMENT ACROSS LEVELS OF GOVERNMENT**

The Council of the OECD adopted in 2014 a **Recommendation on the Governance of Public Investment across levels of government**. When done well, public investment can be a powerful tool to boost growth and provide a solid infrastructure to leverage private investment. In contrast, poor investment choices or badly managed investment waste resources, erode public trust and may hamper growth opportunities (OECD 2014a).

**Three systematic challenges for managing public investment across levels of government limit efficiency and effectiveness:**

**1. Co-ordination challenges:** Cross-sector, cross-jurisdictional and intergovernmental co-ordination is necessary, but difficult in practice. Moreover, the constellation of actors involved in public investment is large and their interests may not be aligned.

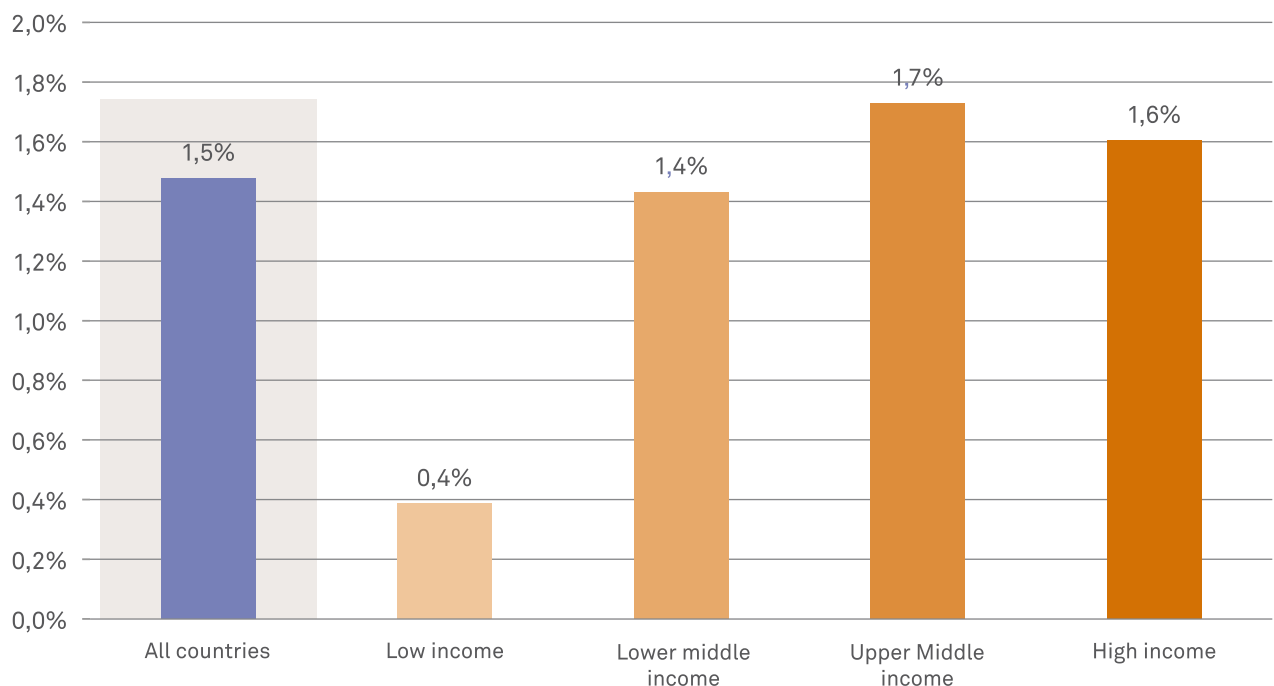
**2. Sub-national capacity challenges:** Where the capacities to design and implement investment strategies are weak, policies may fail to achieve their objectives. Evidence suggests that public investment and growth outcomes are correlated to the quality of government, notably at the subnational level.

**3. Challenges in framework conditions:** Good practices in budgeting, procurement and regulatory quality are integral to successful investment, but not always consistent across levels of government.

The purpose of these Principles is to help governments assess the strengths and weaknesses of their public investment capacity across levels of government and set priorities for improvement.

See: Implementation Toolkit : [www.oecd.org/effective-public-investment-toolkit/](http://www.oecd.org/effective-public-investment-toolkit/)

**Figure 20. SNG investment as a % of GDP by income groups (2013)**





The amount of SNG investment as a percentage of GDP seems to vary according to a country's income (Figure 20). However, it is interesting to note that the unweighted average level of SNG investment in GDP in upper middle income countries is slightly higher than in high-income countries. In fact, many upper middle income countries are investing heavily in public infrastructure which is considered as a key structural driver of growth. The same may apply for the lower middle income group as the difference in terms of SNG investment in GDP between this group and the two highest income groups is small (1.4% vs. 1.6% and 1.7%). Several countries in this group find themselves boosting their public investment to fill the infrastructure gaps. In contrast, SNGs of low-income economies seem to continue to invest very little (at least at subnational level), and the gap between them and other countries is huge.

Income levels also appear to have an impact on the role of SNGs in public investment. The higher the income level, the more involvement SNGs have in public investment (Figure 21). Differences between income groups are wide, ranging from a share of SNG investment in public investment of 7.3% for low income countries to a share of almost half of public investment for high income countries (unweighted average).

Figure 21. SNG investment as a share of public investment by income groups (2013)

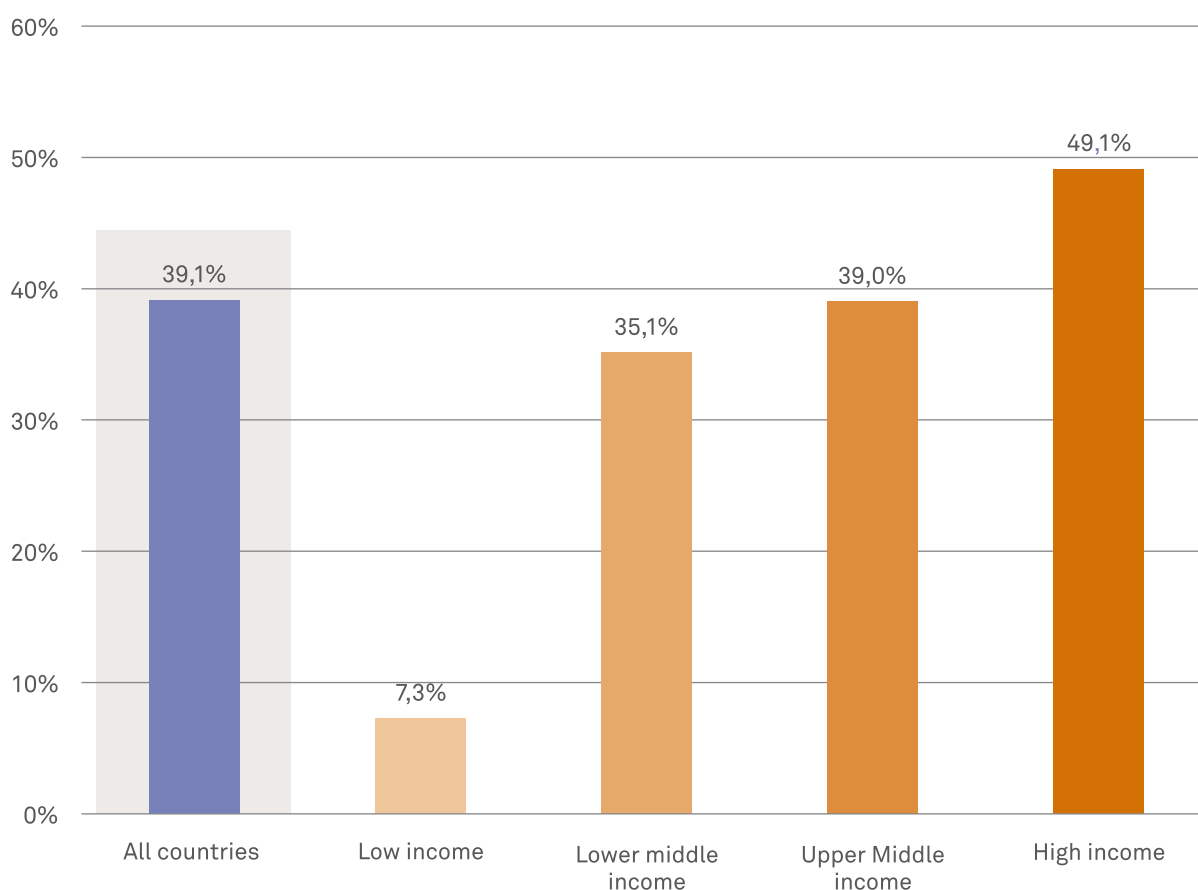
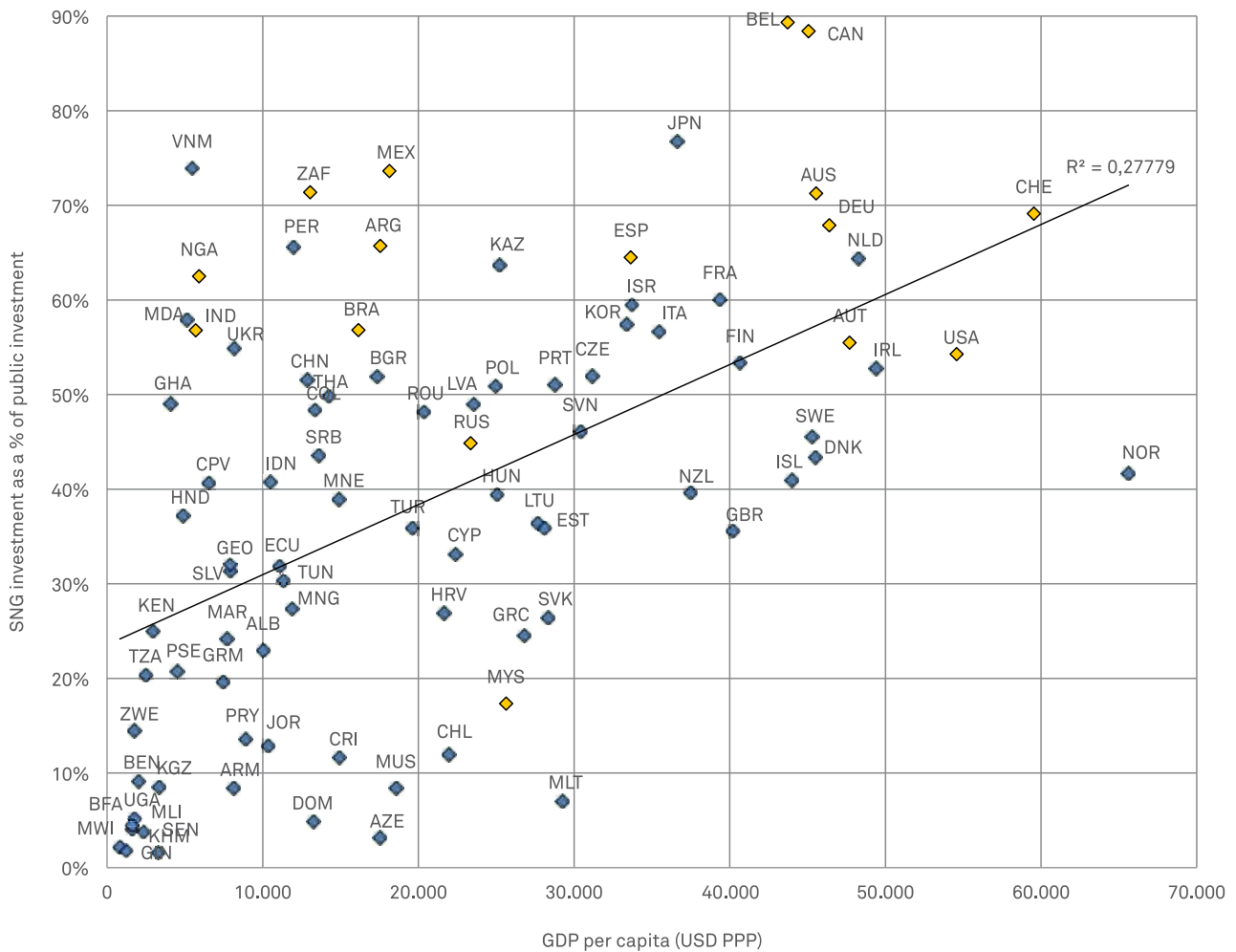


Figure 22. SNG investment as a share of public investment and GDP per capita (2013)



Note: Luxembourg is not represented on the graph as it is an extreme case due to its high GDP per capita (USD 98 163 PPP).

The same type of conclusion can be drawn when considering the correlation between the involvement of SNGs in public investment and GDP per capita (Figure 22). In countries with high GDP per capita, the level of SNG investment in public investment tends to be particularly high – with some exceptions however such as in Nordic countries (notably Norway), New Zealand and the United Kingdom. The reverse is also generally the case: in countries with low levels of GDP per capita, SNGs are weak public investors. But here again, there are some exceptions with countries such as Ghana, Moldova, Ukraine, or Vietnam.

### SNGs devote 22% of their expenditure to investment at a global level

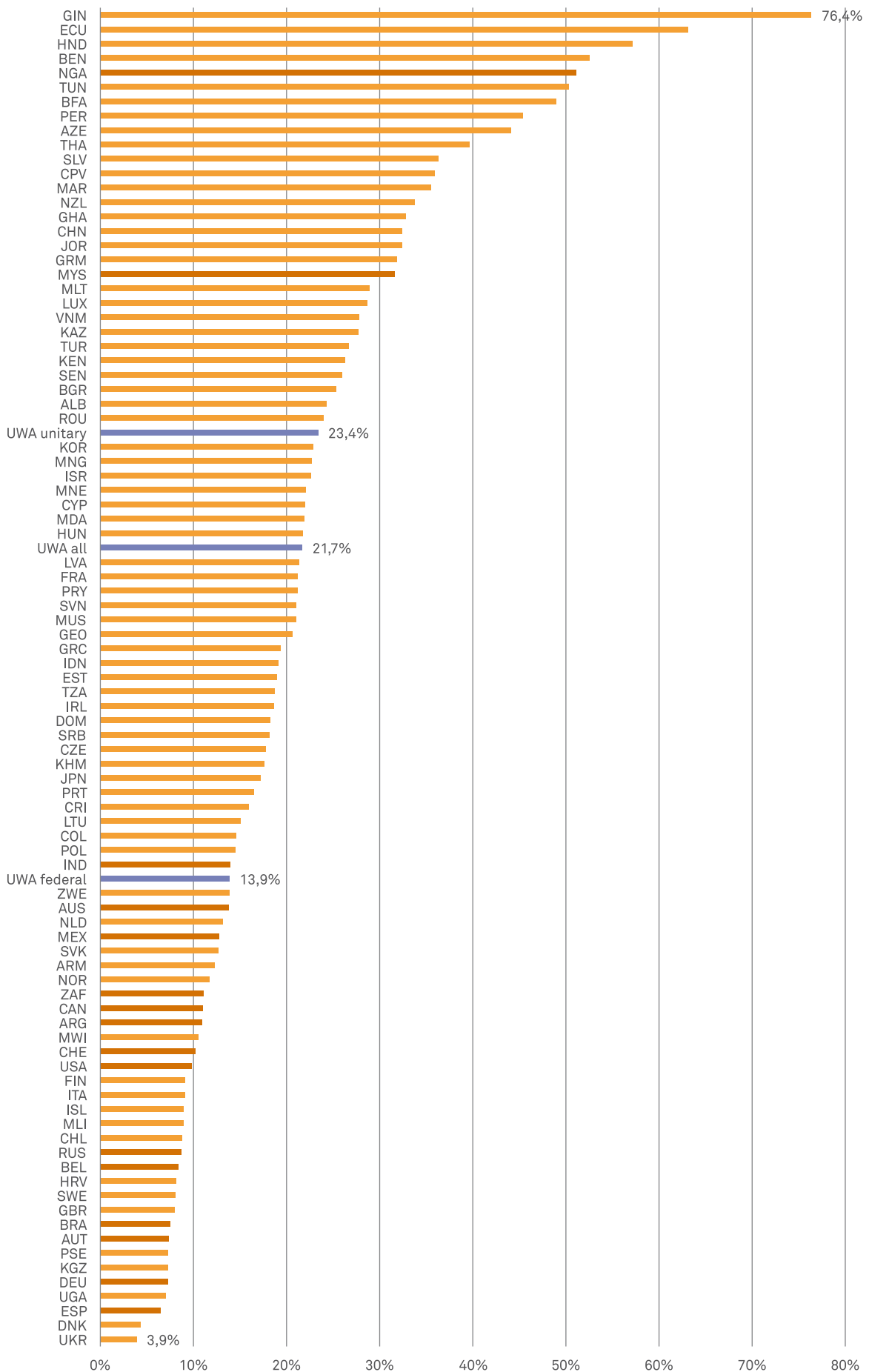
The share of investment in total SNG expenditure ranges from around 4% in Denmark and Ukraine to over three-quarters in Guinea, the unweighted average for the country sample being 21.7% (Figure 23).

The ratio tends to be high in more centralised countries where SNGs have few management responsibilities. They are mainly in charge of investing,

very often on behalf of the central government, being used more to channel public investment in territories than to invest on their own according to their local priorities.

In contrast, the share of investment in SNG expenditure is lower in federal countries (13.9%) than in unitary countries (23.4%). With a wide range of responsibilities in federal countries, SNG expenditure is mobilised not only for investment but also for current expenditure (salaries, social expenditure, purchase of goods and services, etc.), reducing, in relative terms, the share of investment. However, the ratio can also be low in unitary countries, in two radically opposed cases: in decentralised countries for the same reasons as in federal countries and in very centralised countries, where in any case, SNGs have a limited role, both in terms of investing and delivering local public services.

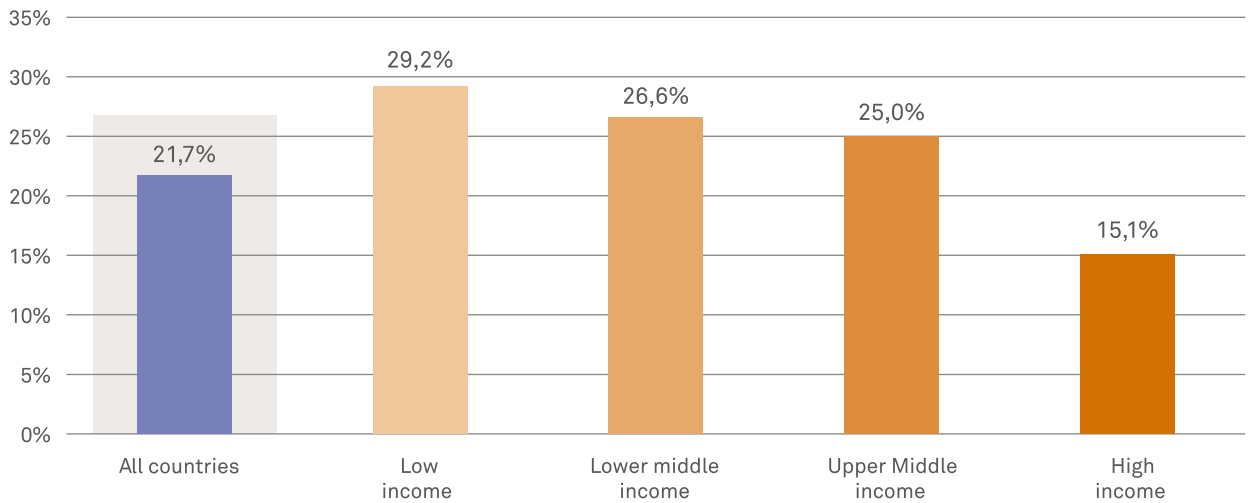
Figure 23. SNG investment in total SNG expenditure (2013)



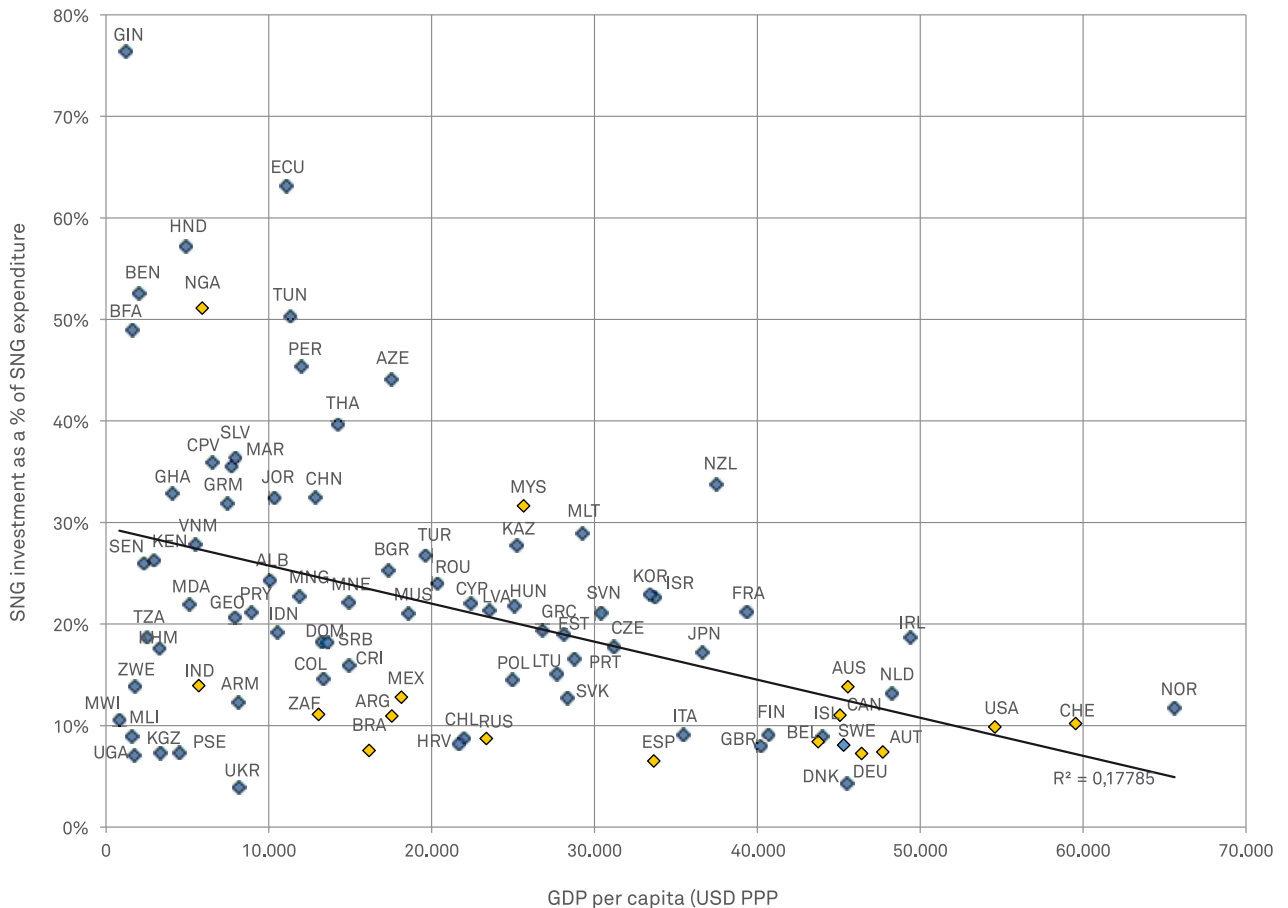
Income levels and GDP per capita can be also closely linked to the level of SNG investment in SNG expenditure. In general, it appears that the higher the income level, the lower the relative share of investment budgets is (Figure 24). The share of SNG investment in SNG expenditure in high income countries is 15.1% on average while it is 29.2% in low income countries.

The same negative correlation occurs in most cases when comparing the level of SNG investment in SNG expenditure and the GDP per capita of the different countries (Figure 25).

**Figure 24. SNG investment as a % of SNG expenditure and income levels (2013)**



**Figure 25. SNG investment as a % of SNG expenditure and GDP per capita (2013)**





# 3.

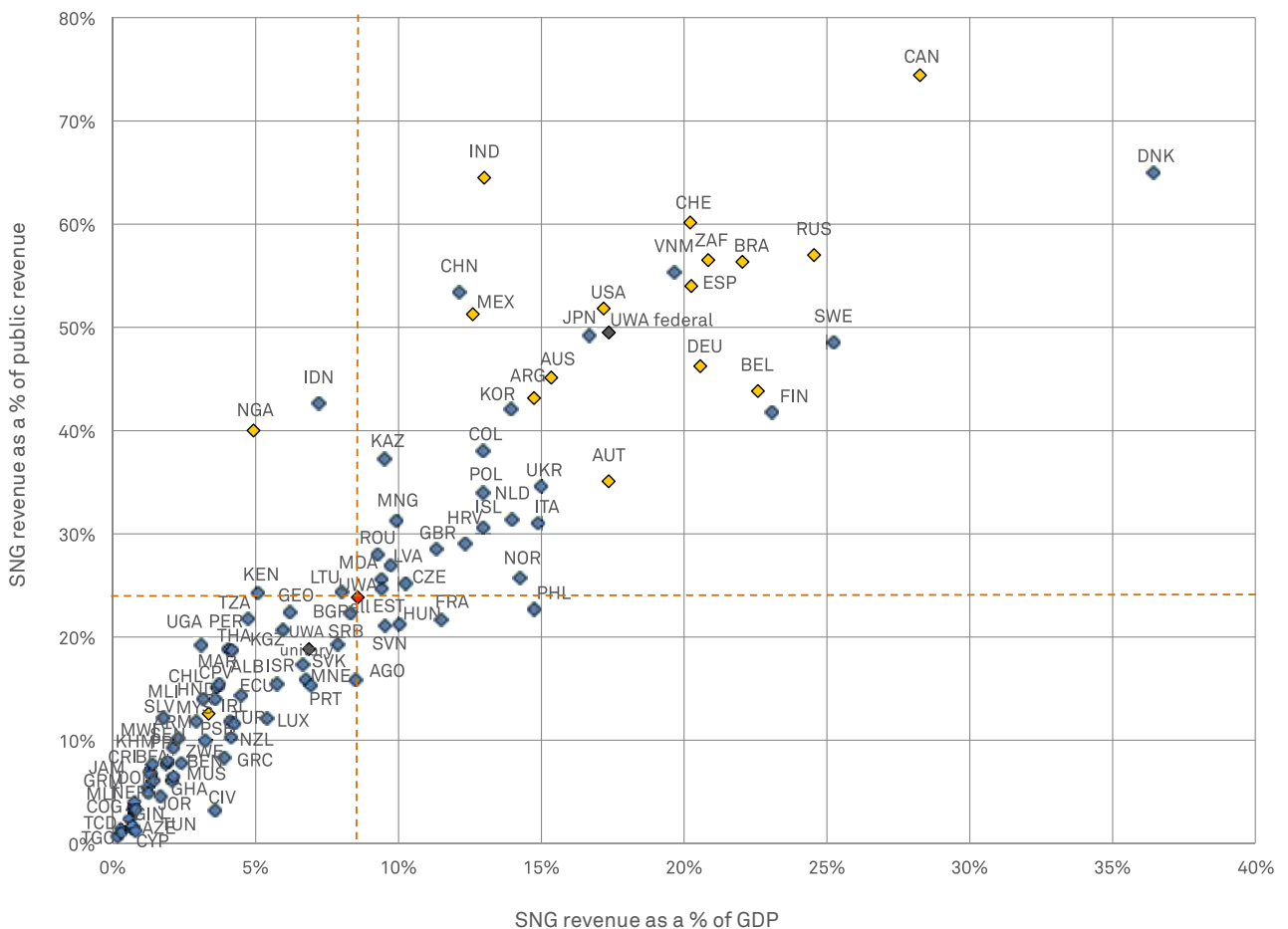
## SUBNATIONAL GOVERNMENT REVENUES VARY GREATLY

### 3.1 SNG REVENUE MIRROR SNG EXPENDITURE

SNG revenue represented 8.6% of GDP and 23.8% of total public revenue on unweighted average in the 98 countries included in the sample (Figure 26), mirroring

expenditure ratios (Figure 7). As for expenditure, there are large discrepancies between countries, linked in particular to their institutional nature, assignments of responsibilities and income level. Overall, 57% of countries are below average both in terms of SNG revenue-to-GDP ratio and the share of SNG in total public revenue (Figures A23 and A24 in Annex).

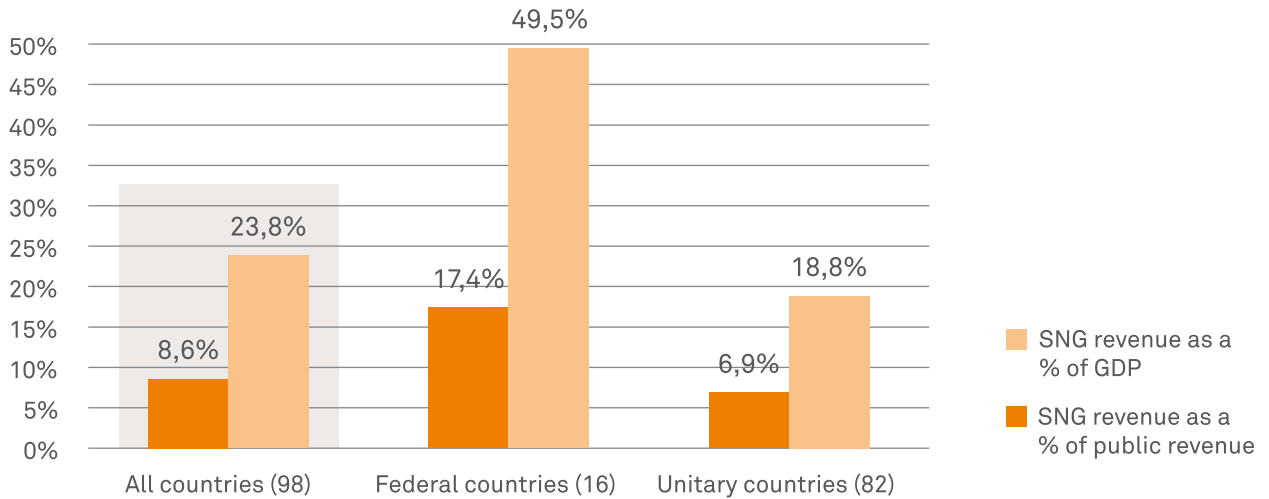
Figure 26. Subnational government revenue as a % of GDP and public revenue (2013)



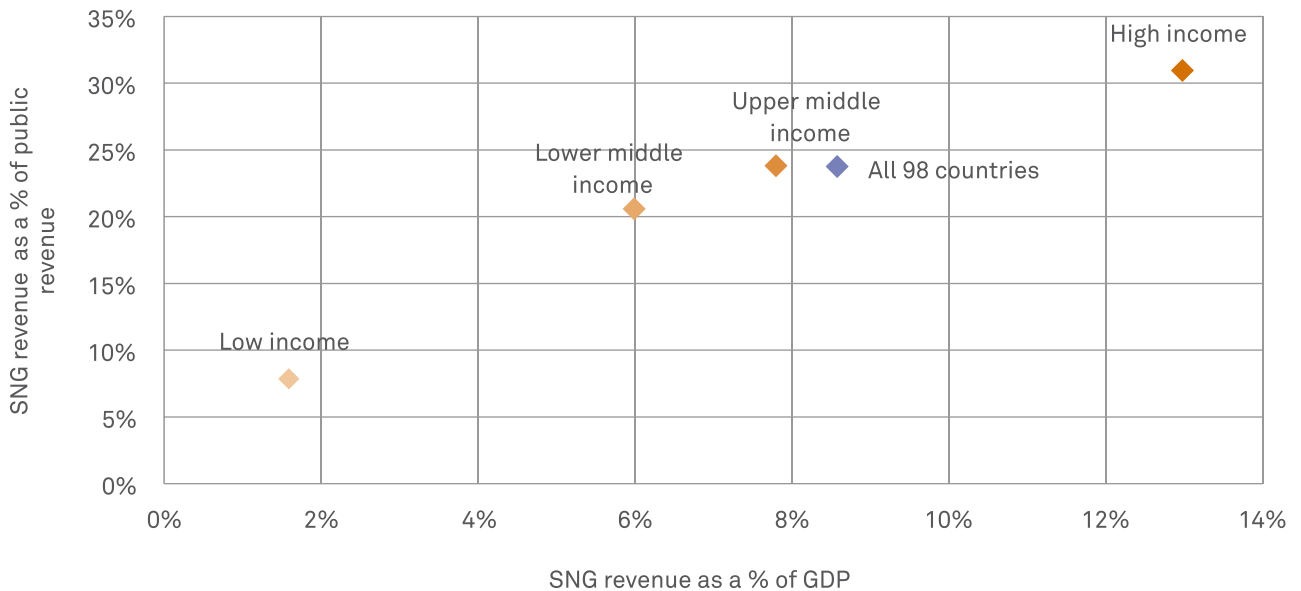
The share of revenue in GDP and public revenue is significantly higher in federal countries than in unitary countries. The unweighted average of federal countries is twice the average of all countries for both ratios (Figure 27). In fact, most federal countries, except Malaysia and Nigeria, are well above the average for all countries concerning SNG revenue ratio-to-GDP. Regarding the

share of SNG revenue in public revenue, only Malaysia is below the global average while Canada stands out with a share of SNG revenue of almost 75% of public revenue. In some unitary countries, such as Denmark, Finland, Japan, Sweden and Vietnam, both ratios are also very high, reaching, or even exceeding, the level of federal countries.

**Figure 27. SNG revenue as a % of GDP and public revenue in federal and unitary countries (2013)**



**Figure 28. SNG revenue and income country groups (2013)**



SNG revenue	Low income	Lower middle income	Upper middle income	High income	All 98 countries
% of GDP	1,6%	6,0%	7,8%	13,0%	8,6%
% of public revenue	7,8%	20,9%	23,8%	30,9%	23,8%

As for expenditure, significant disparities in terms of decentralisation revenue can be explained by the level of income. The graph showing the level of SNG revenue in GDP and public revenue of the different countries grouped according to their level of income (Figure 28) is very similar to the one on expenditure (Figure 9). It confirms that in terms of total revenue, most decentralised countries belong, for the majority, to the high-income group, while the least decentralised belong to the low-income group. The same conclusions could be drawn using the GDP per capita ratio.

## 3.2 THE BREAKDOWN OF SNG REVENUE BY CATEGORY

Even more interesting is the analysis of revenue by category which permits to better assess, although not entirely, the degree of decentralisation revenue, in particular the level of dependence of SNGs on central government funding and their real capacity to effectively cope with their responsibilities.

### Three main categories of revenues have been distinguished

To simplify and facilitate data collection and international comparisons, revenues have been classified in three categories: tax revenue, grants and subsidies and other revenues.

Tax revenue category comprises both own-source and shared taxes (Box 4). National accounts, however, do not make the distinction between these two categories. Therefore, the tax revenue indicator only partially reflects the real level of tax autonomy of SNGs.

Grants and subsidies category includes transfers to SNGs from the central government (representing the great majority) but also from higher levels of government (state or regional governments) and from international organisations (e.g. European Union structural funds, international aid, etc.). They comprise current and capital expenditure transfers as well as special funds – for equalisation for example. A distinction can also be made between unconditional and non-earmarked transfers, or earmarked (assigned conditional) transfers. Other distinctions exist (conditional grants designed to achieve specific objectives, matching grants, incentives grants, balancing grants for local governments in financial distress, exceptional grants, etc.) but as with the general/earmarked grants, they are not recorded as such in the national accounts. Finally, allocation mechanisms (discretionary, formula-based, etc.) greatly vary between and within countries, especially according to the types of grants and subsidies.

The third category includes three sub-categories: social contributions, tariffs/user charges and fees for providing local public services (water, sanitation, electricity, waste collection and treatment, cultural services, sports facilities, school canteens, car parks,

nursing homes, public transport, etc.) and property income (sale and operation of physical and financial assets such as interest, dividends from local companies, rents on subsoil assets e.g. royalties). The frontier between fees (charging the user) and taxes (charging the taxpayer) can also be unclear. Depending on the country, the same type of revenue can be considered as a local tax or a fee.

### The share of each category of revenue in total SNG revenue differs greatly from one country to another

The share of each source of revenue varies from one country to another, reflecting each national inter-governmental fiscal framework and the diversity of fiscal arrangements as well as the level of fiscal decentralisation. Grants and subsidies represent the primary source of SNG revenue in 90 countries of the sample. This category accounted for 52.6% of total SNG revenue on unweighted average while tax revenue accounted for 31.7% and other revenues, 15.7% (Figure 29).

#### BOX 4

#### THE TAX REVENUE INDICATOR ONLY PARTIALLY REFLECTS THE LEVEL OF SNG TAX AUTONOMY

Tax revenue comprises both own-source and shared taxes.

Own-source taxes are taxes on which SNGs have a certain leeway over rates and bases, although this ability may be regulated and restricted, reducing SNG taxing power (imposition of caps, exemptions, etc.). One typical “autonomous” tax is the property tax, but not only, as we can find a great diversity of direct and indirect local taxes in some countries such as the local business tax, the motor vehicle tax, gambling tax, tourist and hotel taxes, environmental tax, etc. In some countries, there is also a local personal income tax.

Tax sharing means that national taxes (personal income tax, company income tax, VAT, etc.) are shared between the central government and SNGs and redistributed to the latter as tax revenues and not as grants. SNGs receive a part of national taxes according to specific redistribution mechanisms, decided at the central level but also sometimes negotiated with SNGs (annually or for a period of several years). Redistribution can be based, or not, on the localisation of the proceeds, including or not equalisation mechanisms. Various different arrangements exist around the world and are detailed in the country profiles.

It should be noted that the distinction between these two broad categories of taxes is not always clear (as well as those between shared taxes and grants made up of national tax sharing). Sometimes, the same tax can be a combination of both arrangements, benefitting SNGs both as shared tax (e.g. a share of PIT receipts) and an own-source tax (e.g. ability to raise a surtax on PIT, in addition to the PIT share). In addition, some taxes can be entirely devoted to SNGs and then considered as “local taxes” while their rates and bases are decided by the central government. The national accounts however do not make the distinction between these two categories. Therefore, the indicator which is presented in the data includes both types of taxation and reflects only partially the real level of tax autonomy of SNGs.

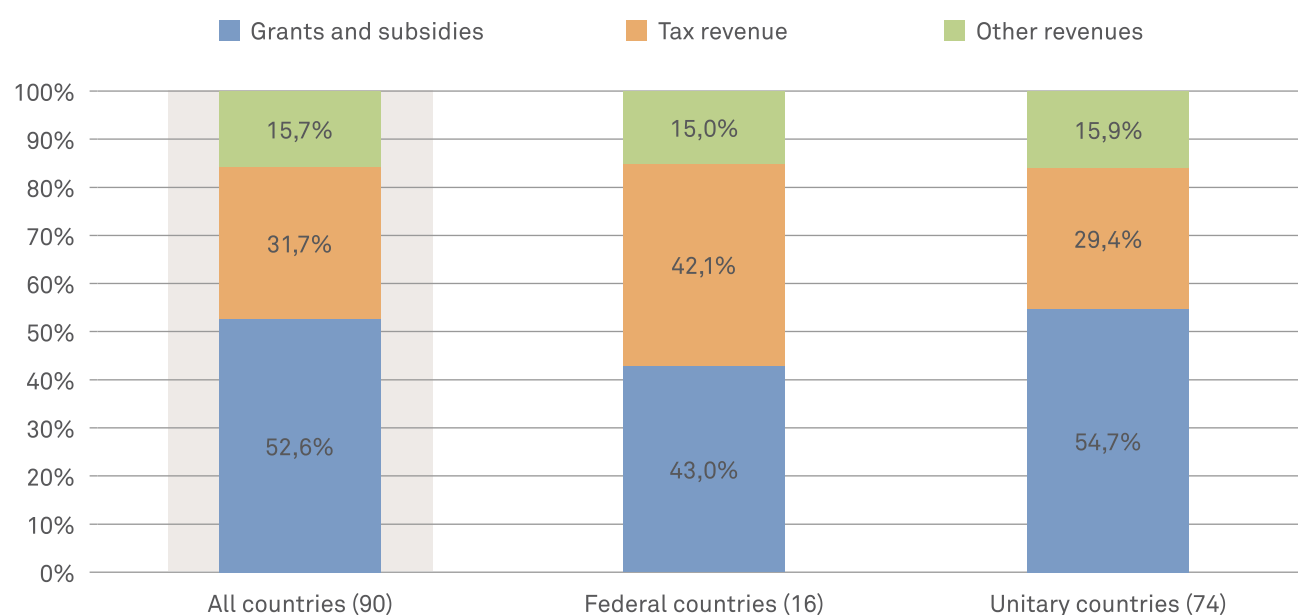
In federal countries, the share of grants and subsidies in SNG revenue is lower (43.0%) while it is slightly higher in unitary countries. Conversely, tax revenue represents a higher share of SNG revenue in federal countries (42.1%) and a lower one in unitary countries (29.4%).

Income levels seem to have an impact on the breakdown of SNG by category. In low income economies, SNGs are highly dependent on central government transfers and subsidies (which represented 63.1% of their revenue in 2013), compared with 49.8% in high income countries (Figure 30). Similarly, the share of tax

revenue but also of other revenues (which can constitute as substitute to taxes in some countries) are lower, accounting for respectively 24% and 13% vs. 35% and 16% in high income economies.

By country, the breakdown of SNG revenue by category shows considerable variations from one country to another (Figure 31). In countries such as Lithuania, Malta, Mexico, Tanzania or Uganda, SNGs are almost exclusively funded through grants and subsidies. In contrast, in Argentina, China or Iceland, tax revenue is the primary source of income. In Jordan, Palestine or Senegal, the share of other revenues is particularly high.

**Figure 29. Breakdown of SNG revenue by category and institutional setting (2013, % of SNG revenue)**



**Figure 30. Breakdown of SNG revenue by category and income level (2013, % of SNG revenue)**

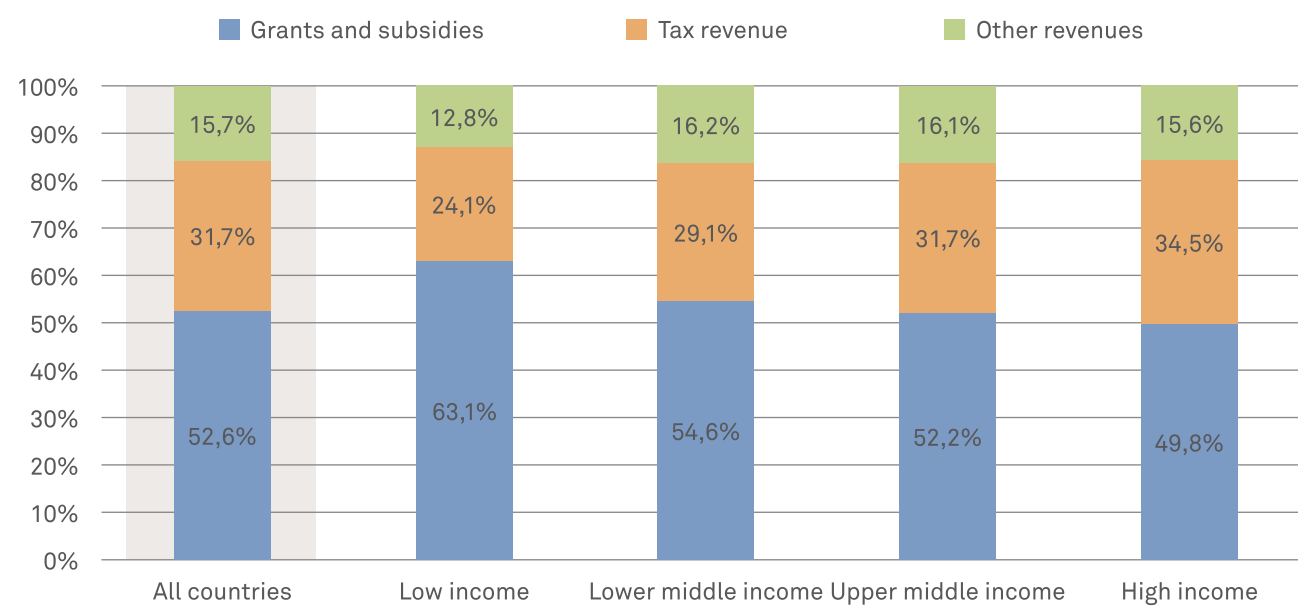
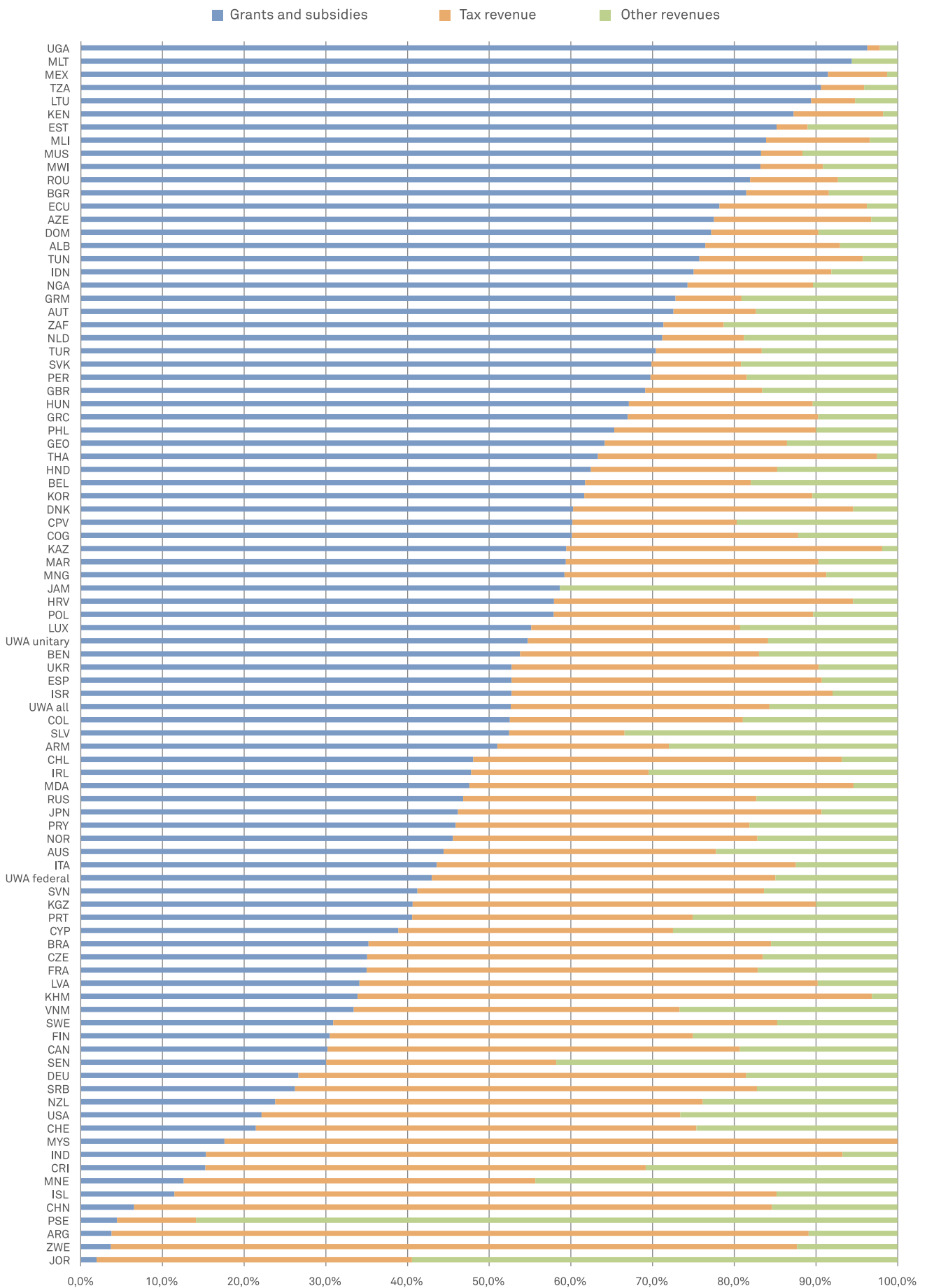


Figure 31. Breakdown of SNG revenue by category (2013, % of SNG revenue)



### The weight of each source of SNG revenue in GDP

In 2013, grants and subsidies represented 4.4% of GDP, tax revenue 3.3% and other revenues 1.4% in the sample of 90 countries (Figure 32). In federal countries, grants and tax revenue shares are quite balanced on average, accounting for around 7% of GDP each. In unitary countries, the distribution is more unbalanced: grants represented 3.8% of GDP while tax revenue amounted to 2.5%.

There is a wide diversity of SNG funding models in the world, showing the weight in GDP of each source of funding in total revenue (Figure 33). Detailed graphs of each revenue source by country are provided in Annex 5.

Figure 32. Breakdown of SNG revenue sources as a % of GDP in federal and unitary countries (2013)

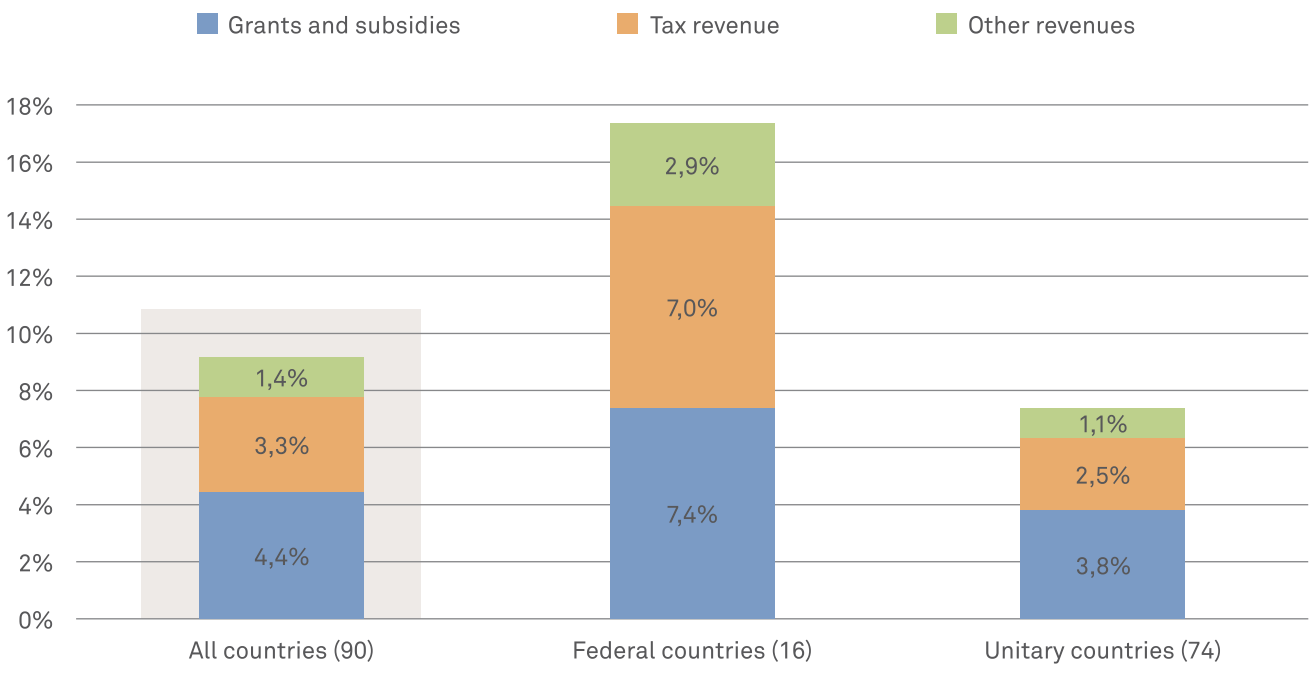
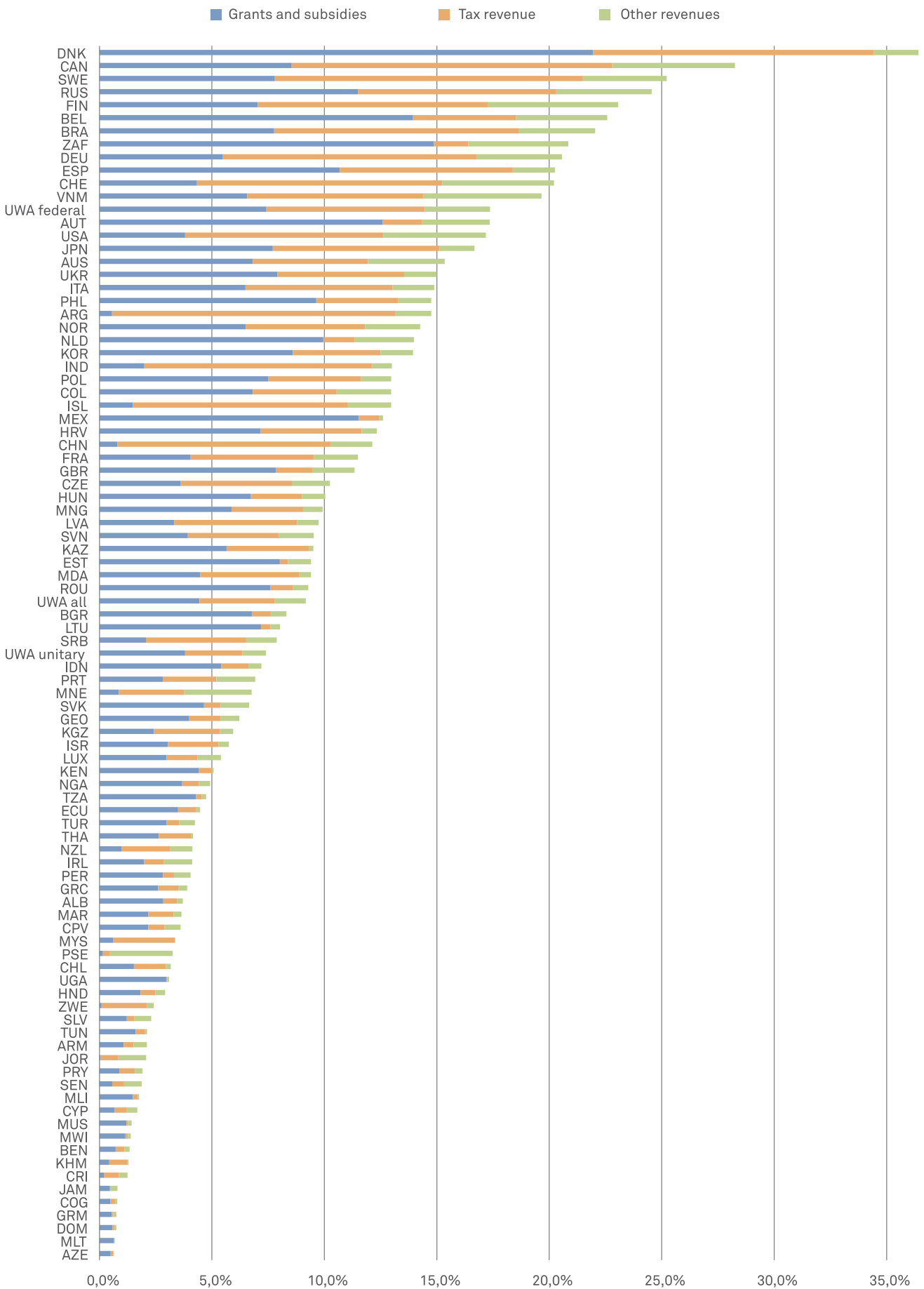


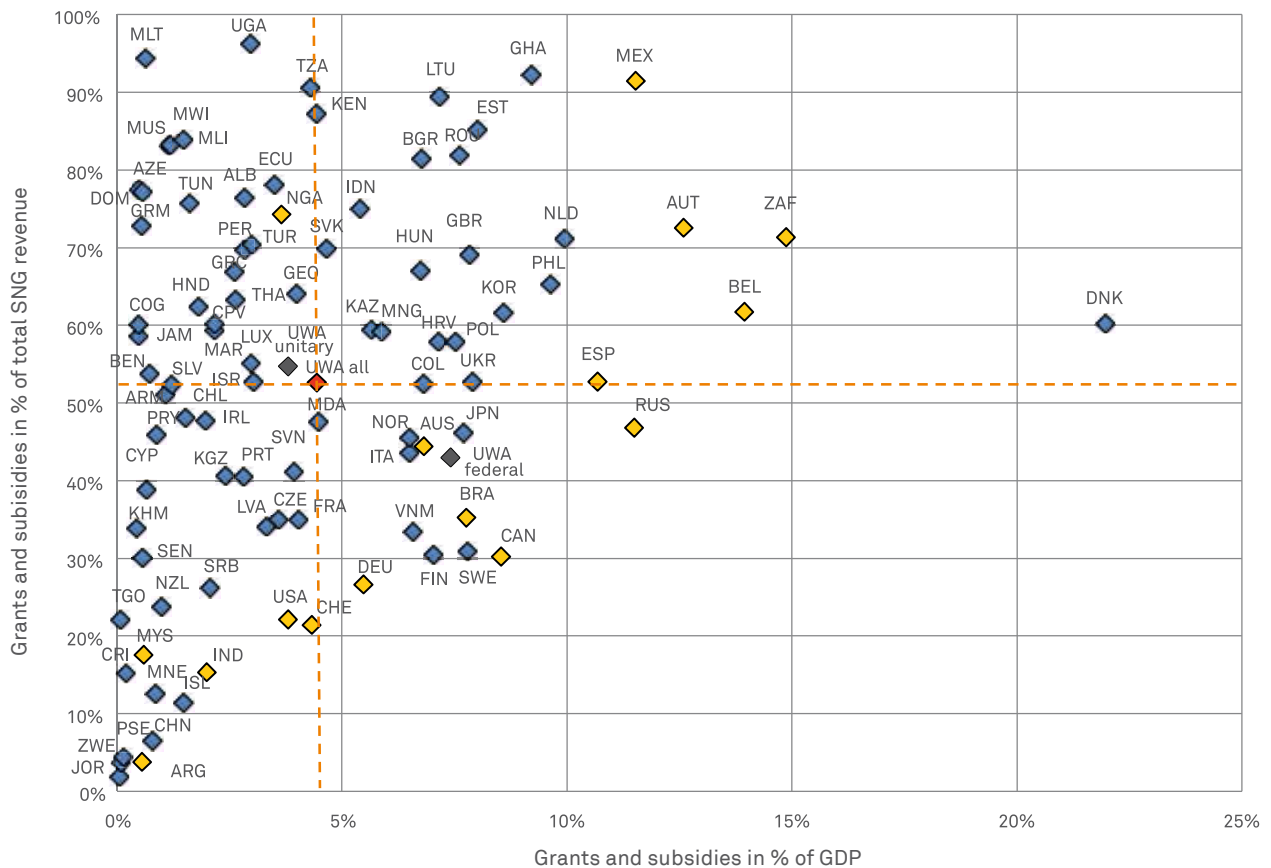
Figure 33. Breakdown of SNG revenue sources as a % of GDP by country (2013)



### 3.3 FOCUS ON GRANTS AND SUBSIDIES

As indicated above, grants and subsidies accounted for around 53% of SNG revenue and 4.4% of GDP on unweighted average. Comparative analysis of both indicators shows interesting results (Figure 34). Situated at the top left of the graph are countries where SNGs are mostly funded through grants but which represent small amounts. The bottom left shows grants that represent a small share of SNG revenue as well as a low weight in GDP (Argentina, China, Iceland, Malaysia, New Zealand, etc.). At the top right, the funding model seems to be based on grants, representing both a high share of revenue and GDP (Austria, Belgium, Denmark, Mexico and South Africa). Detailed graphs by country of both indicators are provided in Annex 5 (Figures A25 and A26). At the top left of the graph are countries where SNGs are mostly funded through grants but which represent small amounts

Figure 34. Grants and subsidies as a % of total SNG revenue and GDP (2013)



### 3.4 FOCUS ON "OTHER REVENUES"

The "other revenues" category (tariffs and fees, property income and social contributions) accounted for 15.7% of SNG revenue and 1.4% of GDP on unweighted average (Figure 35).

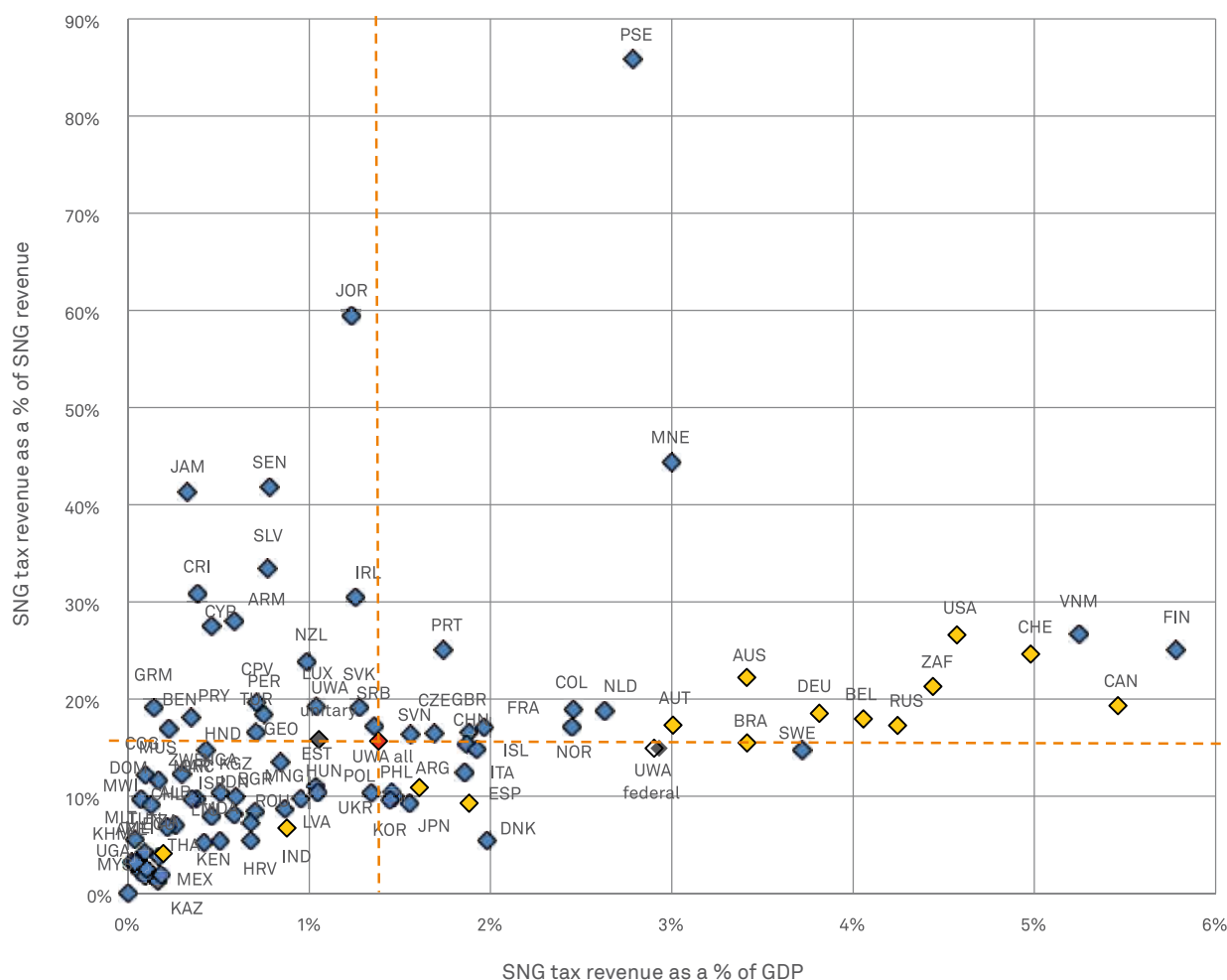
Ten federal countries have a high level of "other revenues" both in terms of GDP and share in total revenue, reflecting the importance of local public services which are charged (Switzerland) but also for some of them, the importance of property income, based on dividends and royalties (Australia, Brazil, Canada).



Property income is also high in unitary countries such as Colombia (royalties), Netherlands and Norway (power companies), as well as Finland and Sweden (local public service charges). In countries such as Costa Rica, Ireland, Jamaica, Jordan, Senegal, or Slovenia “other revenues” are a substantial source of revenue for SNGs but they remain low in terms of GDP.

Detailed graphs by country of both indicators are provided in the Annex 5 (Figures A27 and A28).

Figure 35. Other revenues as a % of total SNG revenue and GDP (2013)



### 3.5 FOCUS ON TAX REVENUE

#### SNG tax revenue in GDP, SNG revenue and public tax revenue

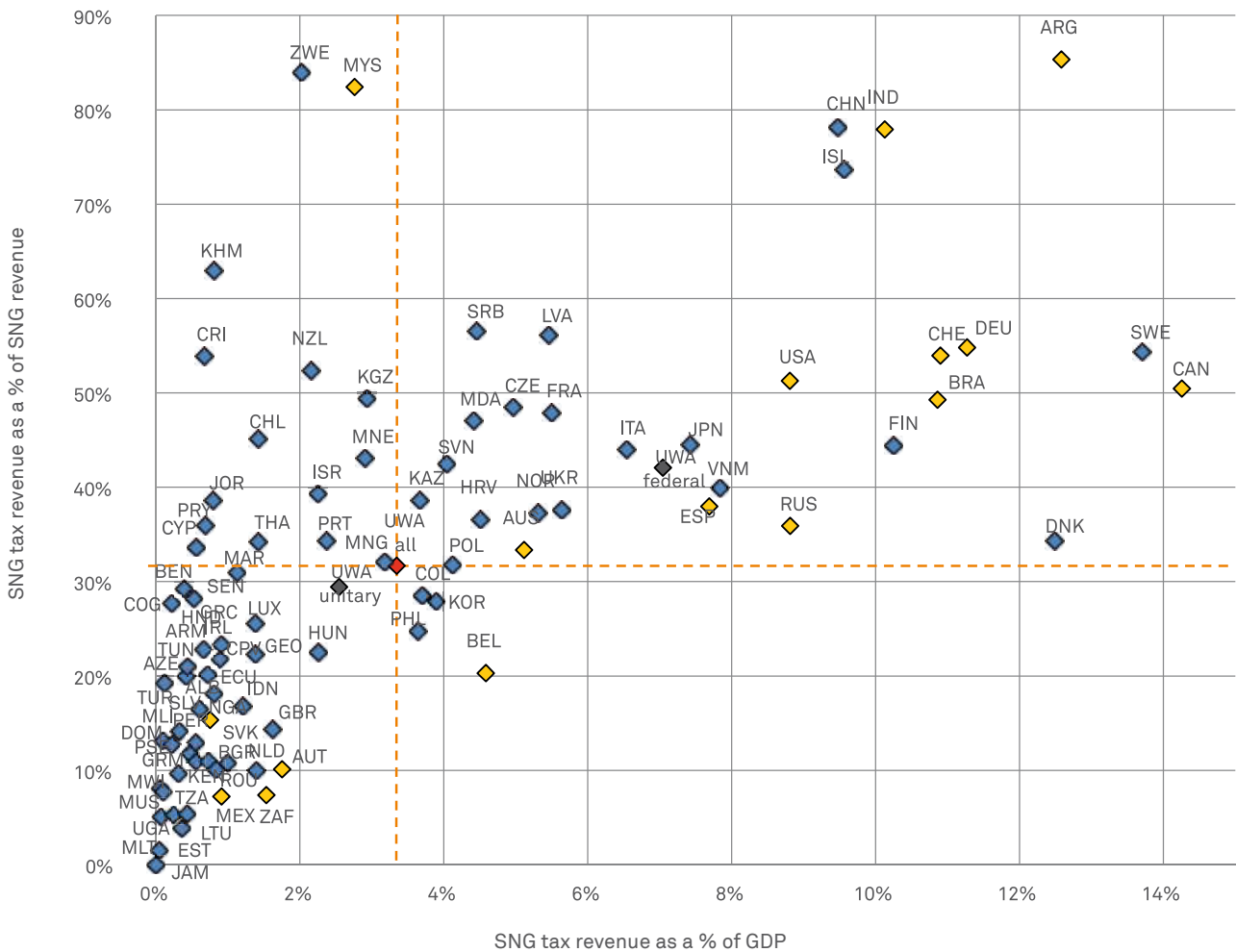
In 2013, taxes (shared and own-source) represented 31.7% of SNG revenue and 3.3% of GDP on unweighted average in the country sample (Figure 36 and Figures A29 and A30 in Annex 5).

The comparison between both ratios reveals interesting findings. The funding model is based

essentially on taxation in several federal countries (Argentina, Brazil, Canada, Germany, India, Russian Federation, Spain, Switzerland, United States) and some unitary countries such as Nordic countries (Finland, Iceland, Sweden) but also China, Italy, Japan, and Vietnam. In these countries, tax revenue represents over 45% of their revenue and more than 6% of GDP. However, it must be remembered that tax revenues comprise both own-source and shared taxes. In several federal countries, as well as in China and Vietnam, the majority of tax receipts come from tax-sharing arrangements with the federal government, while in Nordic countries, most tax revenue comes from local income tax, and in Japan the primary subnational by far tax is the resident tax.

In contrast, in other federations such as Austria, Belgium, Mexico, Nigeria and South Africa, tax revenue provided less than 20% of revenue in 2013 which in addition represented less than 2% of GDP. Finally, tax revenue can represent a high share of SNG revenue but remain a low source of revenue such as in Cambodia, Chile, Costa Rica, Israel, New Zealand or Portugal, reflecting the low level of tax decentralisation.

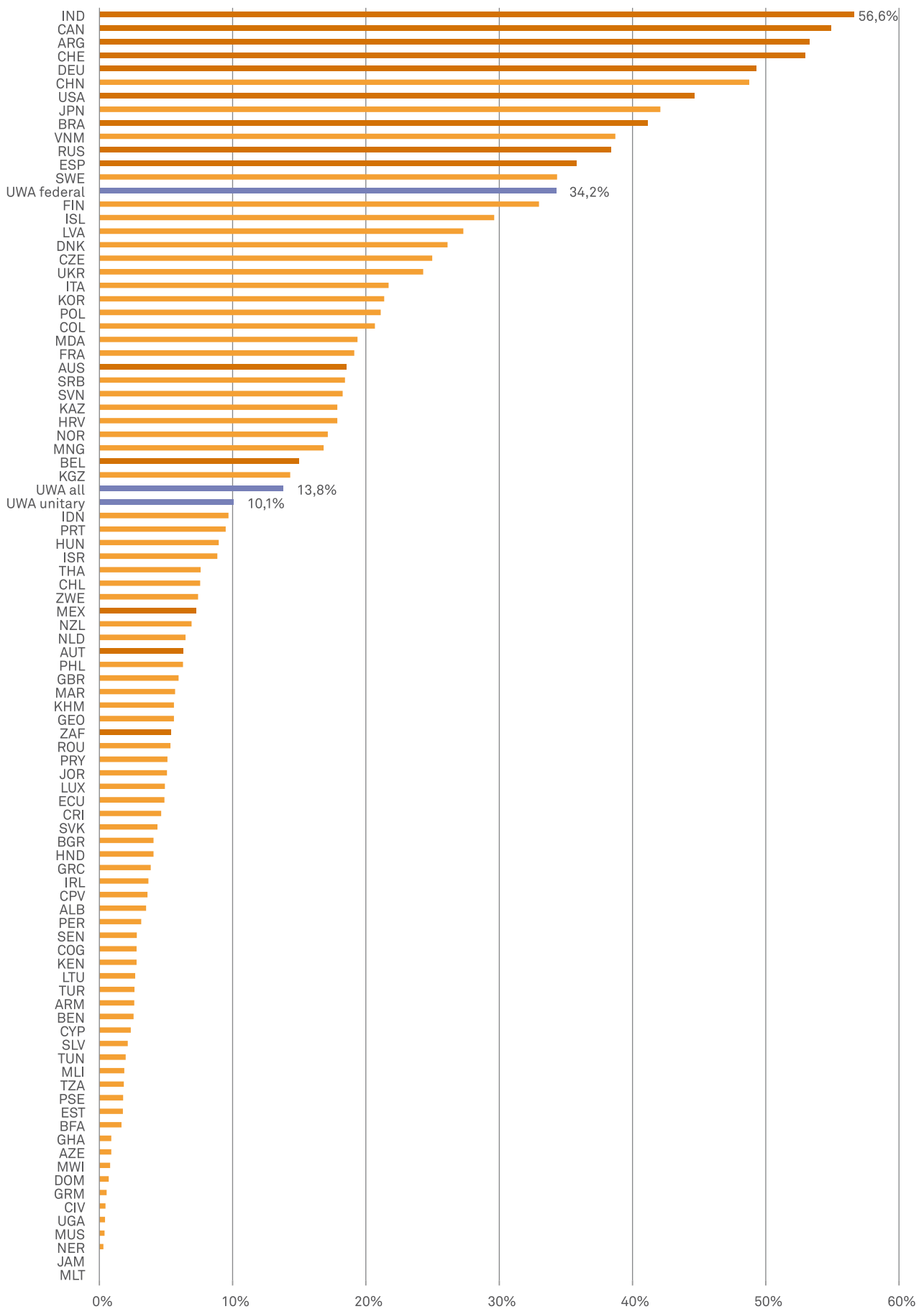
Figure 36. Tax revenue as a % of total SNG revenue and GDP (2013)



The share of SNG tax revenue in public tax revenue complements this overview, also reflecting the degree of tax decentralisation, keeping in mind however the fact that tax revenue is not made up only of own-source taxes, but includes also shared taxes (Figure 37). On average, SNG tax revenue represents 13.8% of public tax revenue. In Argentina, Canada, India and Switzerland SNGs receive over 50% of public tax revenue while in 57 countries (61% of the country sample), they receive less than 10%, and even less than 5% in 37 countries (41% of the country sample).

Overall, SNG tax revenue represented 42.1% of SNG revenue, 7.0% of GDP and 34.2% of public tax revenue in federal countries, while in unitary countries the share of tax revenue was significantly lower: 29.4% of SNG revenue, 2.5% of GDP and 10.1% of public tax revenue. This confirms that federal countries allocate a higher tax share and/or taxing power to SNGs than unitary countries.

Figure 37. SNG tax revenue as a % of public tax revenue (2013)



### SNG tax revenue and country income levels

The level of SNG tax revenue also depends on the level of income of the country (Figure 38). In low income economies, SNG tax revenue accounted for 0.4% of GDP on average to be compared to 4.9% in high income economies i.e. 11 times less. SNG tax revenue

represented 2.2% of public tax revenue vs. 19.2% in high income economies, showing that the sharing of national tax revenue as well as own-source taxes do not benefit SNGs in low income countries. This situation is less pronounced in lower and upper middle countries.

Figure 38. SNG revenue as a % of GDP, public tax revenue and SNG revenue and income groups

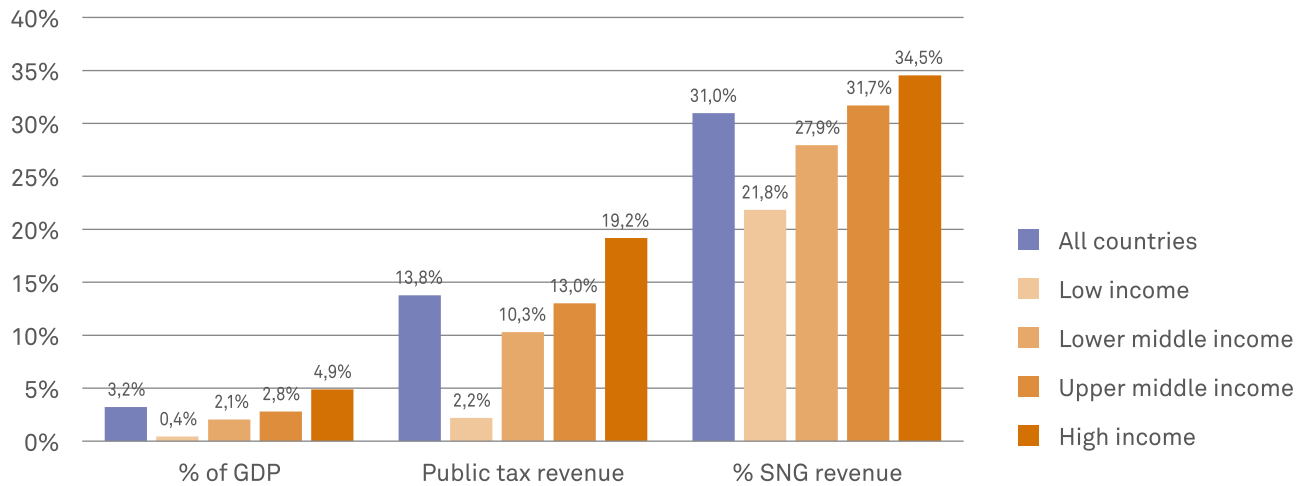
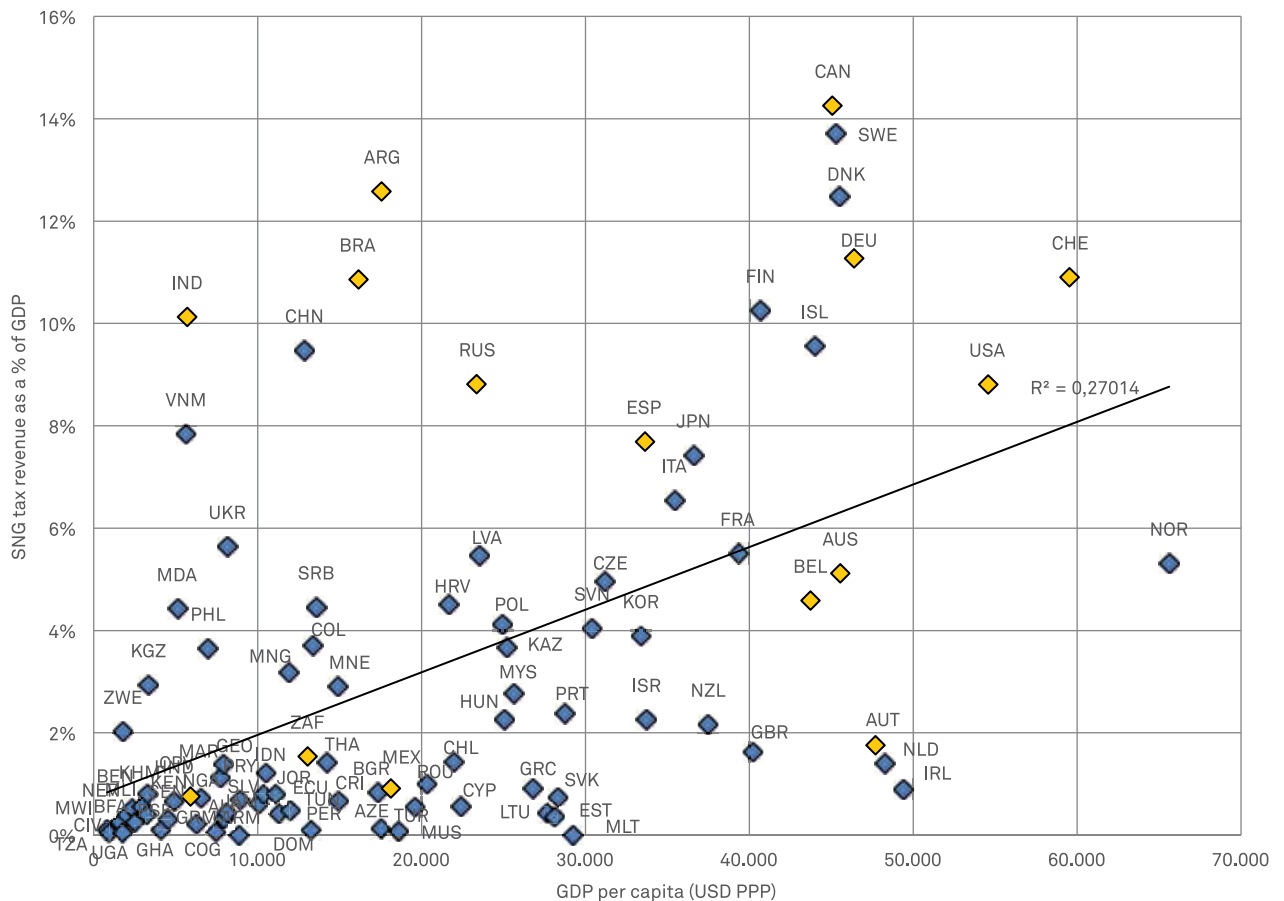


Figure 39. SNG revenue as a % of GDP and GDP per capita (2013)



Note: Luxembourg is not represented on the graph as it is an extreme case due to its high GDP per capita (USD 98 163 PPP).



Finally, the importance of tax revenue in SNG revenue according to the country income level is more homogenous, ranging from 21.8% in low income countries to 34.5% in high income countries, those belonging to upper middle group being close to the high income group.

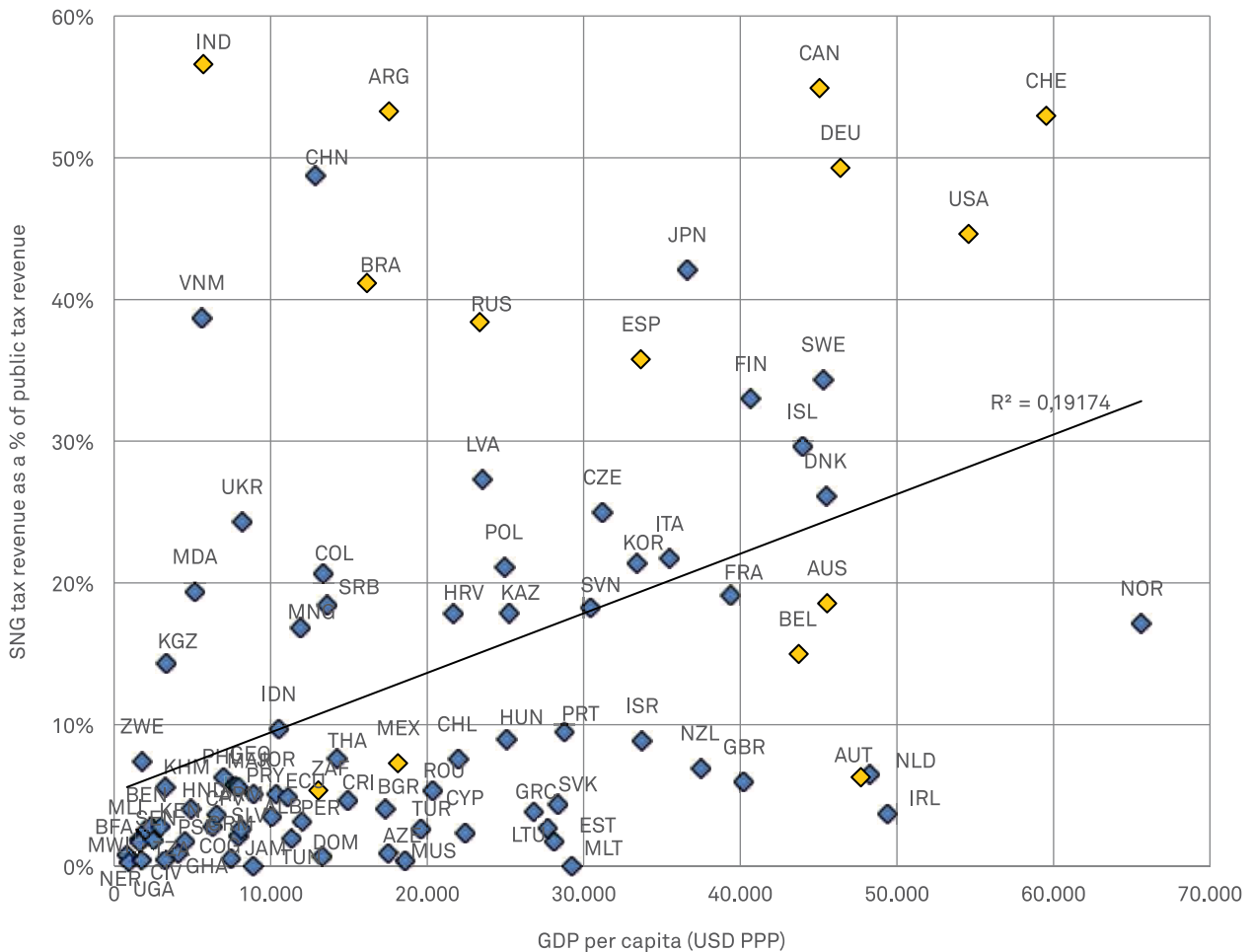
However, the fact remains that the funding model relies more on tax revenue (shared and own) in high income countries than in other groups, especially with low income countries.

These disparities are confirmed when looking at SNG tax revenue and GDP per capita (Figures 39 and 40). However, cross-analysing SNG tax revenue ratios (percentage of GDP and percentage of public tax revenue) with GDP per capita at the country level shows a much more diverse situation of SNG funding

systems. Several countries with high GDP per capita seem to favour a funding system based on taxation (Canada, Italy, Spain, Switzerland, United States Nordic countries) while others prefer a funding system based on grants and subsidies (Austria, Ireland, Netherlands, New Zealand, United Kingdom). Similarly, countries with lower GDP per capita have chosen to finance SNGs more through taxation than grants (Brazil, China, India, Moldova, Ukraine, Vietnam, etc.) and conversely a majority of African countries including South Africa and Cambodia, Ecuador, Kirghizstan, Nigeria, Peru, etc.

It confirms that there is no single model of SNG financing but several, depending on the mix of criteria, including the form of the state, the degree and the type of decentralisation spending as well economical, historical and cultural factors.

Figure 40. SNG tax revenue as a % of public tax revenue and GDP per capita (2013)



Note: Luxembourg is not represented on the graph as it is an extreme case due to its high GDP per capita (USD 98 163 PPP).

### Fiscal imbalances between expenditure and tax revenue

There are great imbalances across countries between the level of SNG expenditure as a share in public expenditure and the level of SNG tax revenue in public revenue, reflecting – however imperfectly as already underlined – the level of tax decentralisation (Figure 41). The bottom right corner of the graph shows countries where SNGs undertake a high share of public spending but their share in public tax revenue is lower (e.g. Australia, Belgium, China, Denmark, Kazakhstan, Korea, Mexico, Peru, South Africa, etc.).

Figure 41. Expenditure as a % of public expenditure and SNG tax revenue as a % of public tax



# 4.

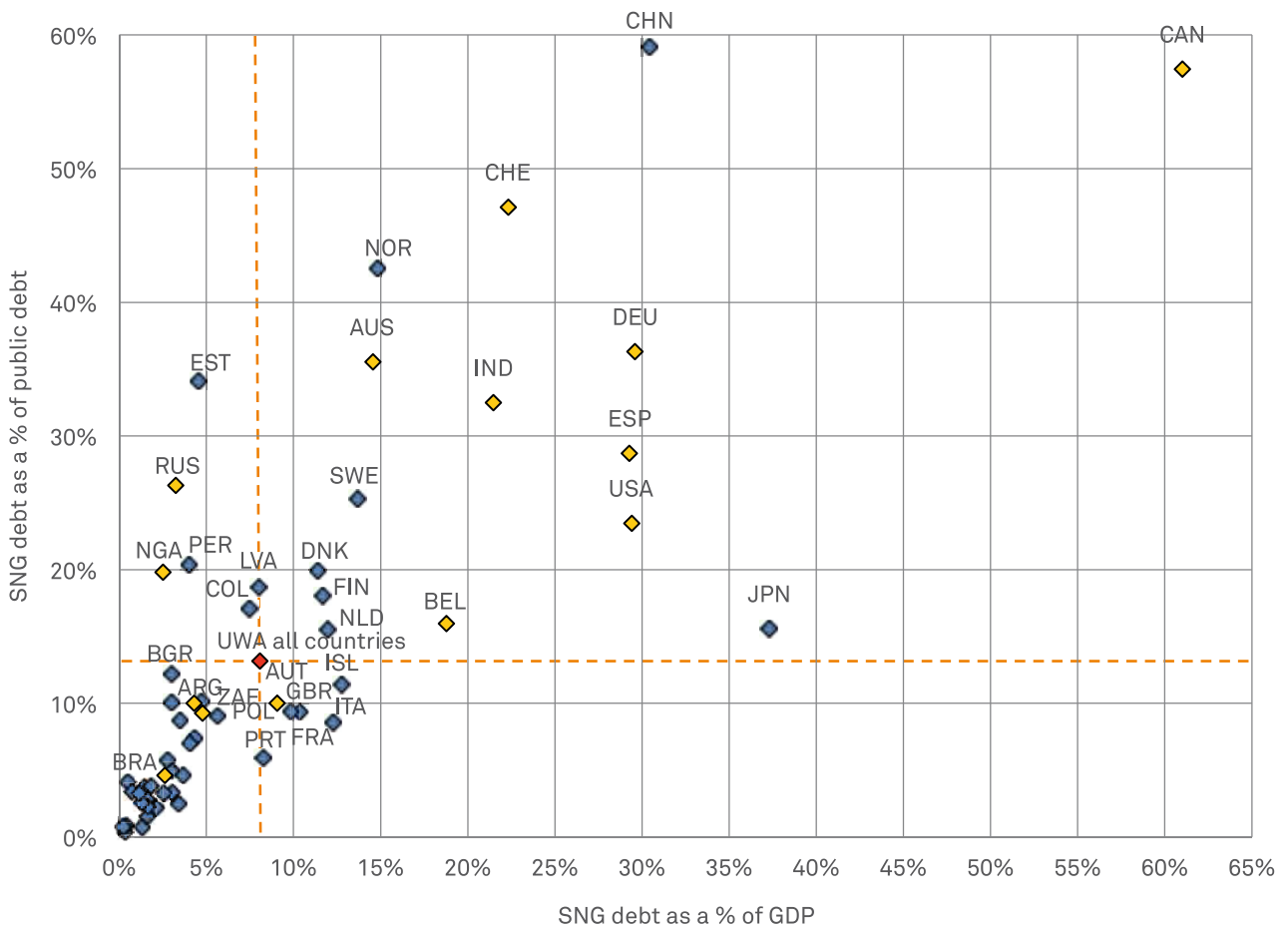
## SUBNATIONAL GOVERNMENT DEBT

### 4.1 SNG DEBT IS VERY UNEVEN AMONG COUNTRIES

At the end of 2013, SNG outstanding gross debt accounted for 9.0% of GDP and 14.0% of total public debt in the country sample (unweighted average based on 59 countries). It is very unevenly distributed among

countries, ranging from almost no debt to debt reaching 61% of GDP and 57% of public debt as it is the case in Canada (Figure 42). Overall, 66% of countries are below the average of 9.0% of GDP and 63% below those of 14% of public debt. Detailed graphs by country are provided in Annex 5 (Figures A31 and A32).

Figure 42. SNG debt as a % of GDP and public debt



## 4.2 SNG DEBT IS SIGNIFICANTLY HIGHER IN FEDERAL COUNTRIES THAN IN UNITARY COUNTRIES

In federal countries, SNG debt amounted to 18.1% of GDP and 25.5% of public debt in 2013 on unweighted average (Figure 43). Among federal countries, SNG debt is higher in OECD countries than in non-OECD countries. In Argentina, Brazil, India, Nigeria, Russian Federation and South Africa in 2013, SNG debt represented 6.5% of GDP and 17.1% of total public debt on unweighted average for these six countries while the unweighted average for OECD federal countries amounted to 26.7% of GDP and 31.8% of public debt (and even and much as 30.1% and 27.2% (respectively) if the weighted average is considered). The same scenario applies to country income levels (see below).

In general, federated state debt represents the bulk of SNG debt, particularly in Belgium, Canada, Germany and Spain, but also for other countries for which disaggregated data by subnational level are not available such as Australia, India and United States (Figure 44). South Africa is a singular case as provinces are not allowed to incur debt - or only in small amounts. Only municipalities are empowered by the Constitution to borrow, a power which is regulated by the 2003 Municipal Finance Management Act. The level of federated state debt in federal countries is often high as states are not subject to the "golden rule" which restricts borrowing to finance long-term investment in infrastructures and

large equipment, thus limiting the level of indebtedness. Moreover, outstanding debt includes, for some countries, a significant share of insurance pension and standardised guarantees such as in Australia and the United States, which may also explain a high level of debt.

SNG debt is lower in unitary countries, accounting for 6.2% of GDP and 10.3% of total public debt in 2013. It is particularly low in countries where SNGs have few spending responsibilities but also where local borrowing is restricted by the "golden rule" (which is the case in a majority of countries) and governed by strict prudential rules defined by central or state governments. Overall, local debt is below 2% of GDP in 14 unitary countries, and less than 1% in Indonesia, Kazakhstan, Kyrgyzstan, Malta, the Republic of Moldova and Thailand.

Some unitary countries have, however, a high level of SNG debt. China, Japan and Norway stand out for their high level of local government debt: 14.8% of GDP and 42.5% of public debt for Norway, 37.3% of GDP and 15.6% for Japan and especially China whose SNG debt is the highest of unitary countries in the world (30.4% of GDP and 59.1% of public debt<sup>6</sup>).

Figure 43. SNG debt as a % of GDP and public debt in federal and unitary countries (2013)

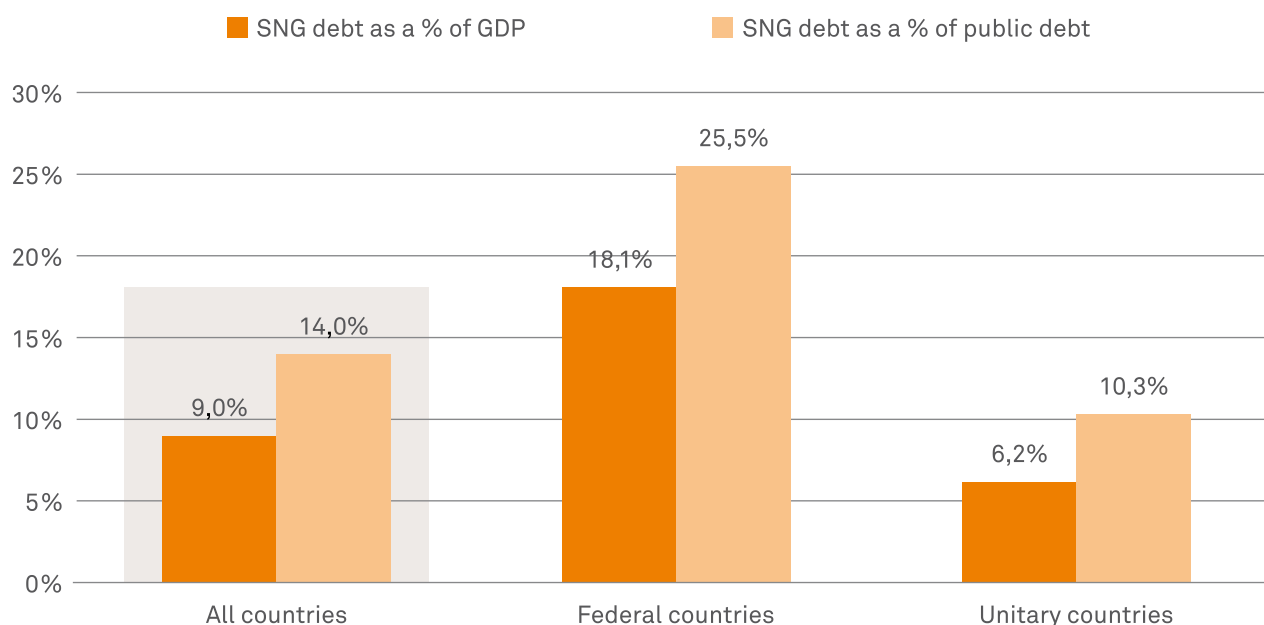
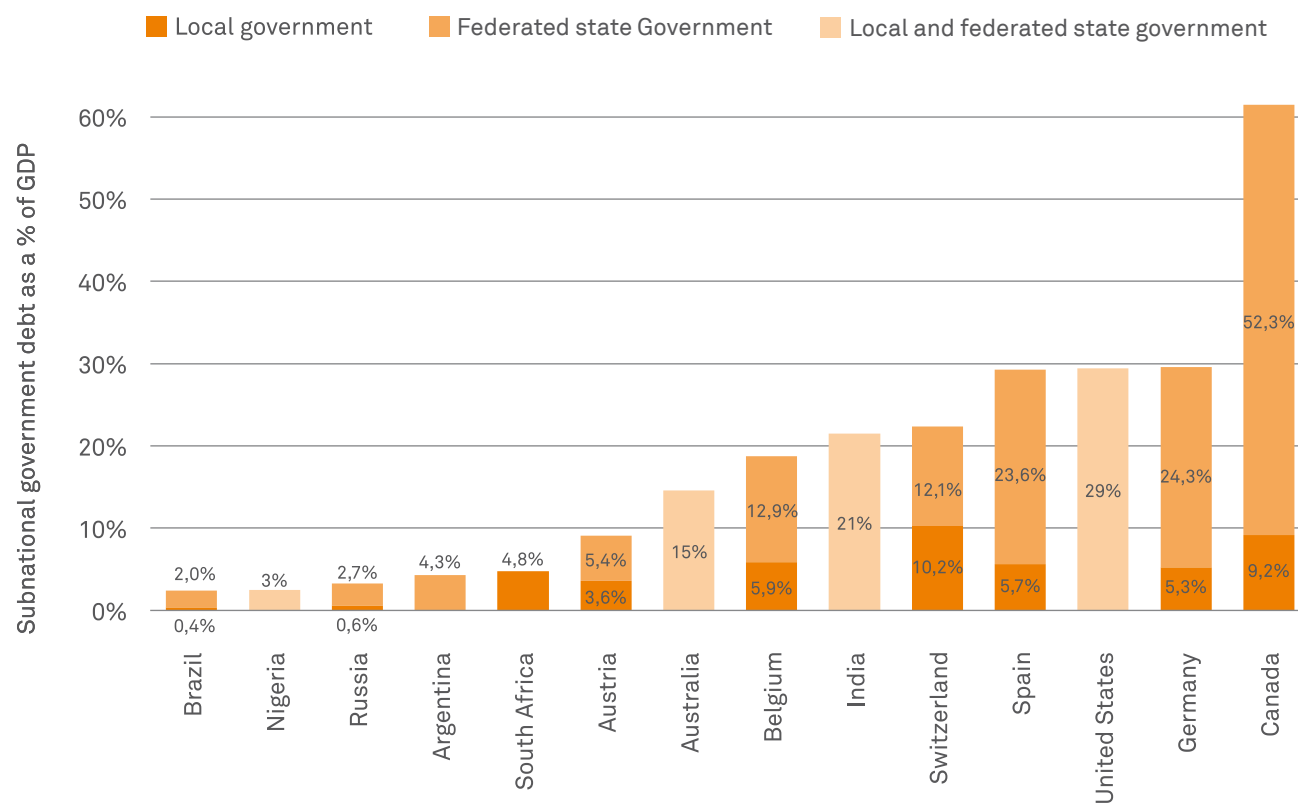






Figure 44. Breakdown of SNG debt by levels of SNGs in federal countries (2013, % of GDP)



Note: debt data vary according to sources for Brazil because of different methodology. According to IMF, debt amounted to 11.3% of GDP at state level and 1.9% for the municipal level in 2013. Data used in the study are those of the Central Bank of Brazil.

### 4.3 SNG DEBT IS GREATER IN HIGH INCOME COUNTRIES THAN IN LOWER INCOME COUNTRIES

As for expenditure and revenue, **the income level of the different countries, measured through GDP per capita, is correlated with the level of SNG debt**, both as a percentage of GDP and as a percentage of public debt (Figures 45 and 46). This reflects the degree of decentralisation in terms of spending responsibilities, in particular for investment but also SNG access to national and international credit markets which can be easier in high income economies.

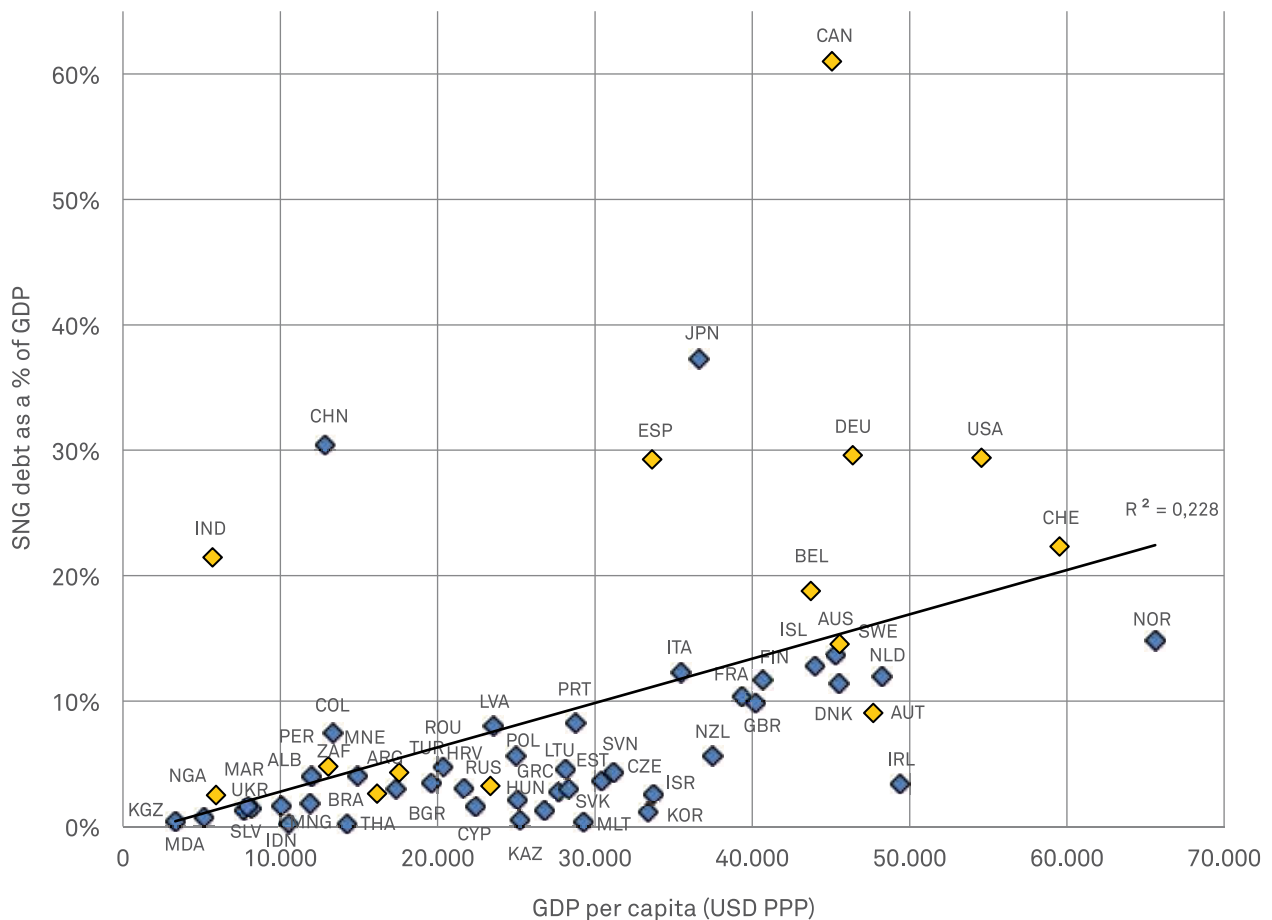
<sup>6</sup> However, figures concerning the China SNG debt should be considered with caution as SNG debt is not recorded in government accounts. The total amount differs according to sources and is not released on a regular basis. The current estimation comes from the National Audit Office and includes debt with direct repayment obligation, guaranteed debt and other implicit or contingent debt, part of which may involve a repayment obligation for the state. Financing platforms and government entities are the biggest debtors (OECD 2015b and OECD 2015c).

However, there are other factors impacting SNG debt, in particular the fiscal framework which can include rules governing the recourse to borrowing. As already underlined, recourse to borrowing by SNGs is regulated in the majority of countries, in particular at the local government level. In a number of countries, borrowing is subject to prior approval from a supervisory authority, which allows the central (or state) government to regulate and control the level of debt. One powerful and widespread rule is the “golden rule” (see above). However, it does not prevent the accumulation of short-term debt or “commercial debt” with suppliers, which can be a concern in some cases.

been strengthened to include the setting up or increase of caps on debt service (interest and capital reimbursement), outstanding debt and new annual borrowing, prohibitions or restrictions concerning bonds issuing, loans with foreign institutions or the use of foreign-currency borrowings, regulation of floating-rate borrowings and the use of swaps, etc. These new regulations also reinforced debt monitoring and regular reporting on key fiscal indicators. Several countries have also adopted fiscal responsibility laws and created independent authorities for fiscal responsibility to monitor and report on compliance of all levels of government to fiscal rules.

Borrowing rules have been reinforced over the last 15 years, following several crises of over-indebtedness (e.g. in Latin America) and more recently, after the 2008 economic crisis in the context of public finance consolidation policies. Borrowing frameworks have

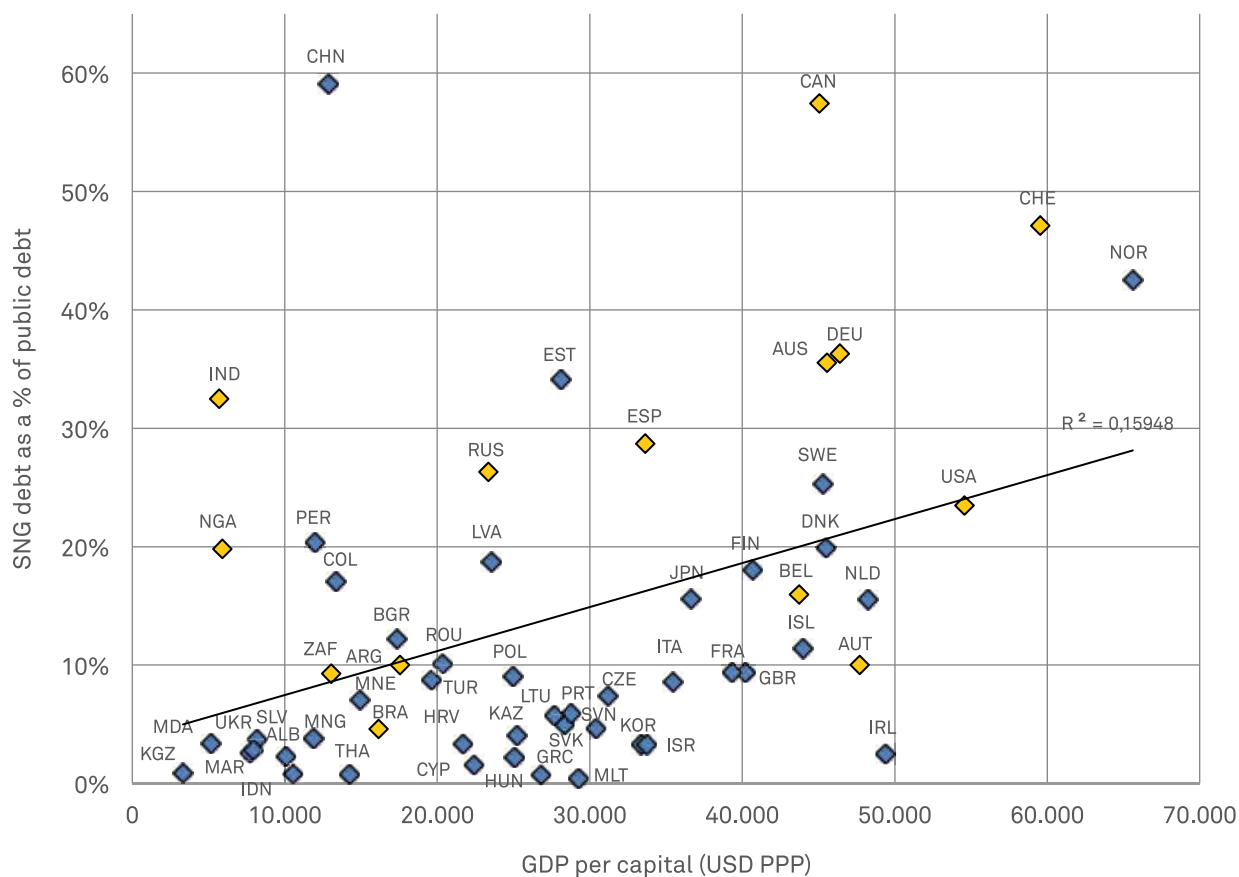
**Figure 45. SNG debt as a % of GDP and GDP per capita (2013)**



Note: Luxembourg is not represented on the graph as it is an extreme case due to its high GDP per capita (USD 98 163 PPP).



Figure 46. SNG debt as a % of public debt and GDP per capita (2013)



Note: Luxembourg is not represented on the graph as it is an extreme case due to its high GDP per capita (USD 98 163 PPP).

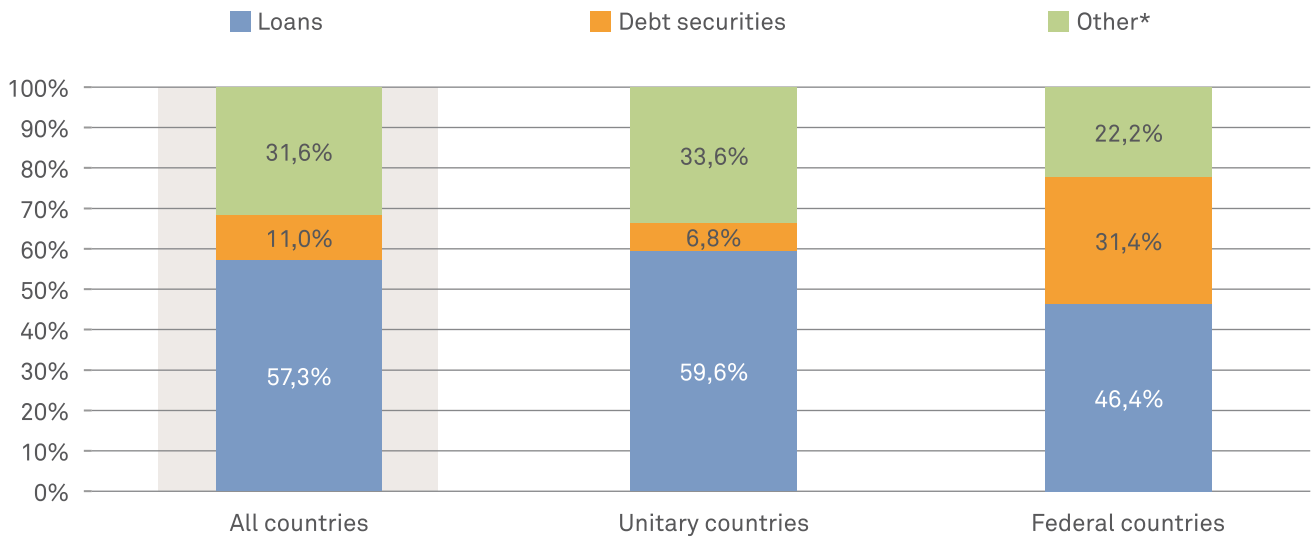
## 4.4 LOANS CONTINUE TO BE THE FIRST SOURCE OF EXTERNAL FUNDING

SNG debt stock is made up of “financial debt” (mainly loans and debt securities resulting from borrowing) and “non-financial debt” i.e. the sum of other accounts payable (arrears, suppliers debt, etc.) and pension liabilities (insurance pensions and standardised guarantees)

Non-financial debt represented 31.6% of debt stock of the country sample on unweighted average (52 countries), but slightly more in unitary countries than in federal countries (Figure 47). It can be considerable in some countries such as Albania, Bulgaria, Colombia, Indonesia, Korea or Peru (Figure 48).

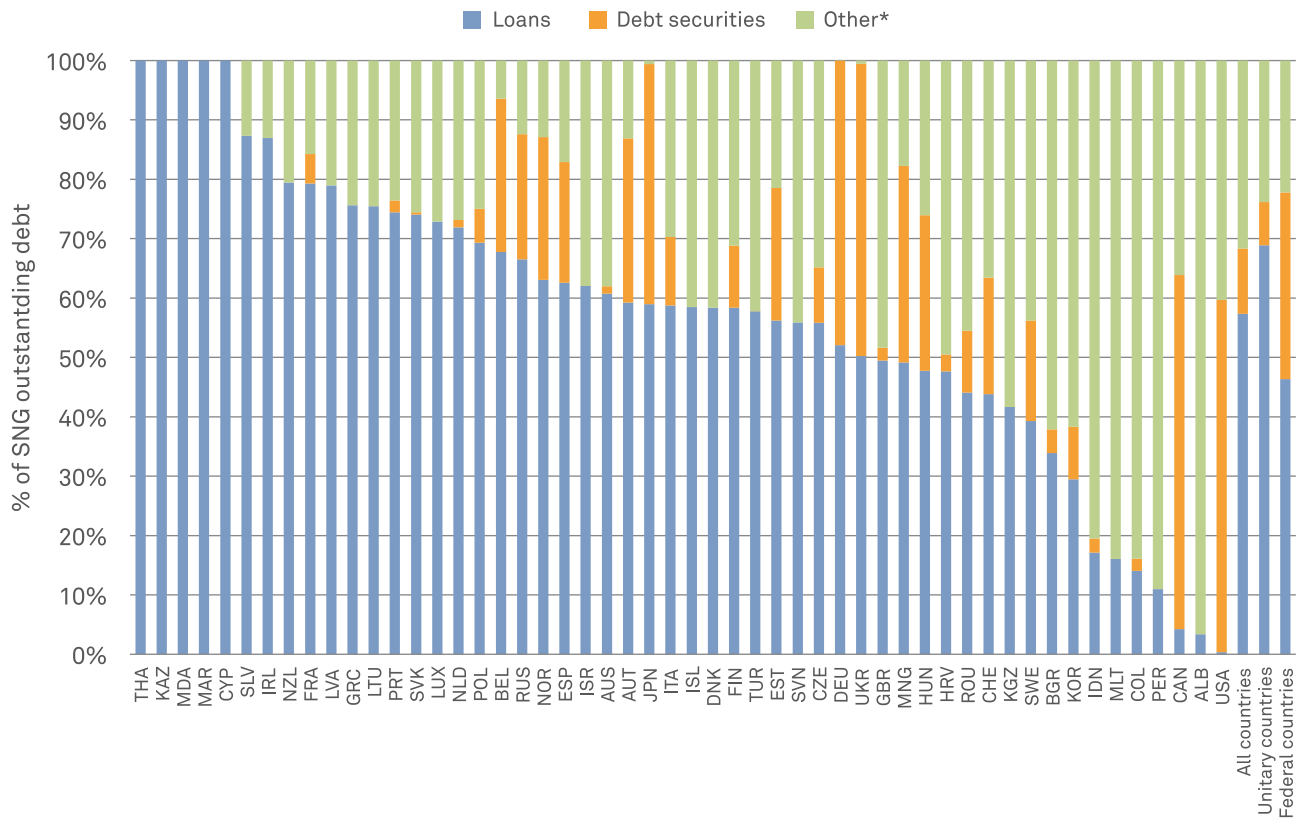
Financial debt of the country sample was made up of loans for the major part as loans represented 57.3% of debt stock on unweighted average. Debt securities are more restricted, accounting for 11.0% of debt stock. In fact, in many countries, bond financing by SNGs is not allowed - or at least not used widespread. It is more developed in federal countries, but in that case, it is often reserved for state governments. As a result, bonds accounted for 31.4% of debt stock in 2013 in federal countries to be compared to 6.8% in unitary countries. Traditional loans with the central government (National Treasury, Ministries, special public bodies), international and national public banks, commercial banks or local government funding agencies (LGFA), are more widespread in unitary countries, accounting for 59.6% of debt stock and as high as 70% in 16 countries.

**Figure 47. Debt composition in federal and unitary countries (2013)**

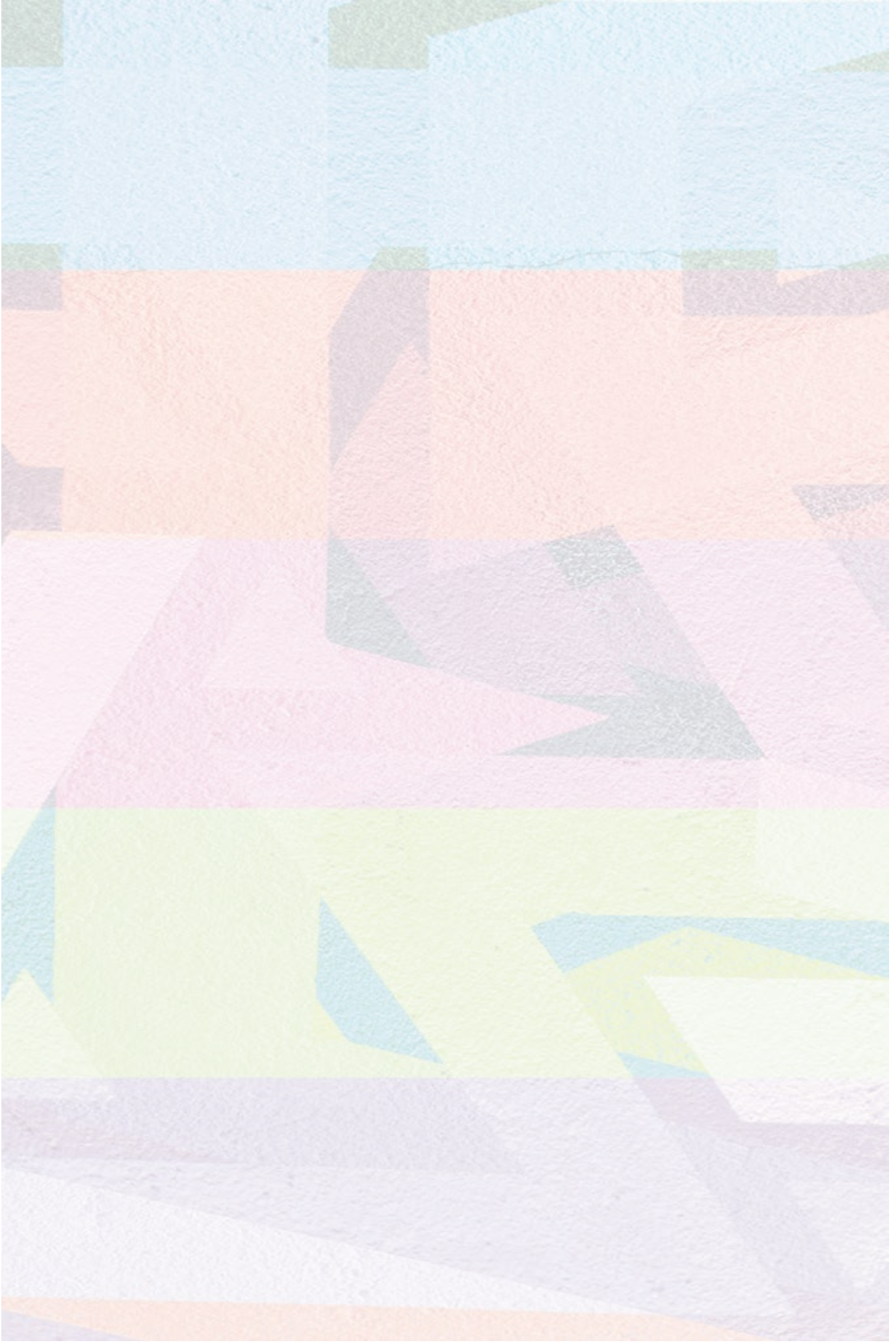


\*Other: other accounts payable, insurance pensions and standardised guarantees, currency and deposits.

**Figure 48. Debt composition by country (% of total SNG debt, 2013)**



\*Other: other accounts payable, insurance pensions and standardised guarantees, currency and deposits.



The background is a complex, abstract geometric composition. It features a variety of colors including shades of blue, orange, pink, green, purple, and grey. The shapes are angular and layered, creating a sense of depth and movement. The overall effect is a vibrant, textured collage.

**PART II**

# **METHODOLOGY AND COUNTRY SAMPLE**

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# 1.

# GENERAL METHODOLOGY AND INFORMATION SOURCES

## 1.1 SOURCES OF DATA AND INFORMATION

### Socio-economic data

Data used in the country profiles and statistical analyses are the following: local currency, income group, geographical area, population, population growth, density, urban population, name of the capital and population, GDP (current GDP in local currency, current PPP international dollars, annual growth rate in real terms) and GDP per capita, unemployment rate, foreign direct investment, net inflows (FDI), gross fixed capital formation (public and private) and Human Development Index.

Sources of socio-economic data are the OECD, Eurostat, World Bank data bank (world development indicators), United Nations Population Division (World urbanisation prospects), United Nations Development programme (Human Development Report), International Labour Organisation and national sources.

Socio-economic data are as of 2014, unless otherwise specified (Annex 2).

### Public finance data

Priority has been given to data coming from the general government's accounts (or government statistics) which are part of National Accounts, harmonized accordingly to the United Nations System of National Accounts from 1993 (SNA 1993) or 2008 (SNA 2008 or 2010 within the European Union). They are from 2013, unless otherwise specified.

Public finance data have been collected from several sources:

- International sources: International Monetary Fund (government statistics), OECD (national accounts, general government accounts, regional database) and Eurostat (government statistics).
- National sources: national statistics institute, which is theoretically the prime provider of data from national accounts, but also Ministry of Finance/Treasury and/or the central bank (for the latter, regarding in particular data on public debt).

If national accounts were not available, data from budgetary accounts have been used in priority (central, states and local governments' accounts) coming from governmental sources: the Ministry of Finance but also the Ministry in charge of local governments (in most cases, the Ministry of the Interior).

Other useful international and national sources have been used in some cases such as banking institutions specialised in local government financing, or national associations of local governments.

Statistical sources are indicated at the bottom of each country profile.

### Other data and qualitative information

Numerous national and international sources have been used by the OECD and UCLG to prepare the country profiles and are listed in each profile. Aside from UCLG material including from its regional sections and OECD databases and reviews (OECD 2016a, 2016b, 2016c, 2014b, etc.), main international sources were the Council of Europe, the Committee of the Regions of the European Union, the Commonwealth Local Government Forum and UN reports (UN-Habitat, World Bank, etc.).

## 1.2 SCOPE OF PUBLIC ADMINISTRATION

The data which have been collected refer to the scope of “public administration” i.e. the “general government” sector as a whole which comprises four sub-sectors:

- “central government” i.e. including all administrative departments of the central government and other central agencies whose competence normally extends over the whole economic territory.
- “state government” i.e. federated regions in federal and quasi-federal countries (such as Spain or South Africa) and related public entities (e.g. special-purpose state bodies, state public institutions and various satellite institutions attached to state governments).
- “local government” which comprises municipalities, provinces/counties, regions (in unitary countries) and all related local public entities (e.g. special-purpose local bodies, inter-municipal co-operation structures, local public institutions and various satellite institutions attached to local governments).
- “social security” funds and related entities.

The term “subnational” refers to the two sub-sectors, state government (in federal/quasi-federal countries) and local governments in federal/quasi-federal and unitary countries (Annex 3).

Data with the general government and within each four sub-sectors are consolidated. Data with subnational government sector are not consolidated when it is the sum of state and local government sub-sectors.

In some countries (e.g. Australia, United States), state and local government data are provided only in an aggregated and consolidated manner, without distinction between the two.

The term of “public” expenditure (or revenue or debt) has been used for “general government” expenditure (or revenue or debt).

## 1.3 SCOPE OF COLLECTED DATA

Different ratios have been used to measure subnational finance: in % of GDP, % of general government and in % of subnational total expenditure, revenue or debt.

All averages in the analysis and graphs are unweighted averages as of 2013, unless otherwise specified.

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

Data which have been used in the survey are the following (Table 3):





Table 3. Main financial indicators

	General government & subnational government (state government and/or local government)
<b>Expenditure</b>	<ul style="list-style-type: none"> <li>• <b>Total expenditure:</b> current expenditure + capital expenditure.</li> <li>• <b>Current expenditure:</b> staff expenditure + intermediate consumption (purchase of goods and services) + social expenditure (social benefits and transfers in kind purchased market production) + subsidies and other current transfers + taxes + financial charges (including interest) + adjustments for the change in net equity of households in pension funds. <ul style="list-style-type: none"> <li>- <b>Staff expenditure:</b> compensation of employees. It has two main components: wages and salaries payable in cash or in kind and social insurance contributions payable by employers.</li> </ul> </li> <li>• <b>Capital expenditure:</b> capital transfers + investment <ul style="list-style-type: none"> <li>- <b>Capital transfers:</b> investment grants and subsidies in cash or in kind made by government to other institutional units.</li> <li>- <b>Investment:</b> gross capital formation and acquisitions, less disposal of non-financial non-produced assets. Gross fixed capital formation (or fixed investment) is the main component of investment and has been used as a proxy for numerous countries. The SNA 2008 has introduced some changes: expenditures on research and development and weapons systems are now included in gross fixed capital formation and no longer as intermediate consumption.</li> </ul> </li> </ul>
<b>Expenditure by type of economic function</b>	<p><b>Expenditure by type of economic function</b> are defined according to the 10 sectors part of the classifications of the functions of government (COFOG): general public services; defence; public order and safety; economic affairs; environmental protection; housing and community amenities; health; recreation, culture and religion; education; and social protection (see Annex 4 for detailed composition).</p> <p>When COFOG was not available, classification used in the country has been used when available.</p>
<b>Revenue</b>	<ul style="list-style-type: none"> <li>• <b>Total revenue:</b> tax revenues + current grants and subsidies + capital grants and subsidies + user charges and fees + social contributions + property income.</li> <li>• <b>Tax revenues:</b> taxes on production and exports (GD2R / D2) + current taxes on income, wealth, etc. (GD5R / D5) + capital taxes (GD91R / D91). Tax revenue includes both own-source tax revenue (or “autonomous”) and tax revenue shared between central and subnational governments. <p>The SNA 2008 has introduced some changes concerning the classification of some shared tax revenues. In several countries, certain tax receipts have been recently reclassified as transfers and no longer as shared taxes.</p> </li> <li>• <b>Grants and subsidies:</b> current grants and subsidies + capital grants and subsidies.</li> <li>• <b>Other revenues:</b> user charges and fees + social contributions + property income: <ul style="list-style-type: none"> <li>- User charges and fees: market output, output for own final use and payments for non-market output.</li> <li>- Property income: interest, distributed income of corporations (e.g. dividends), rents on subsoil assets (e.g. royalties)</li> </ul> </li> </ul>
<b>Debt</b>	<p>Gross debt includes the following liabilities (SNA 2008):</p> <ul style="list-style-type: none"> <li>• Currency and deposits</li> <li>• Debt securities (bonds)</li> <li>• Loans</li> <li>• Insurance pension and standardised guarantees</li> <li>• Other accounts payable (commercial debt, arrears)</li> </ul> <p>In some countries, the outstanding debt includes only financial debt ie mainly resulting from borrowing (currency and deposits, debt securities and loans).</p>

# 2.

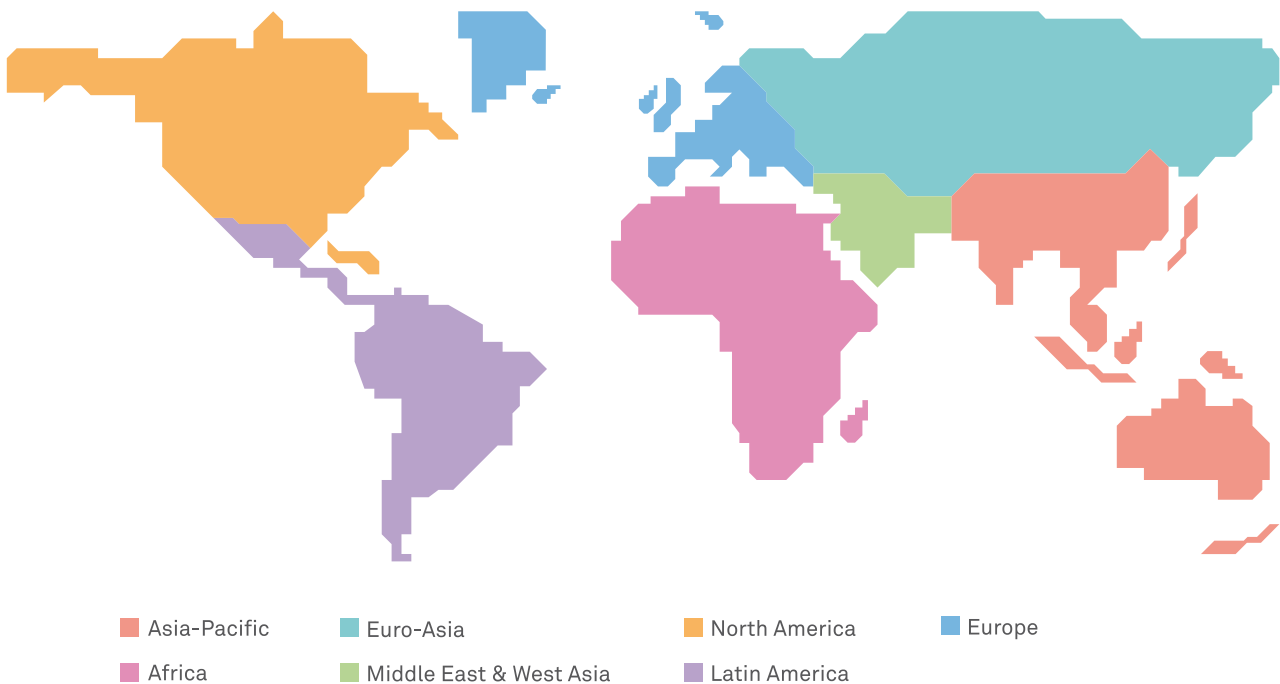
## A SAMPLE OF 101 COUNTRIES SPREAD OVER 7 MAIN REGIONS OF THE WORLD

### 2.1

#### SEVEN GEOGRAPHICAL AREAS

The definition of the seven geographical areas is the one used by United Cities and Local Government: Europe, Africa, North America, Asia-Pacific, Euro-Asia, Latin America and Middle East & West Asia (see detailed list of countries and ISO codes by area in Annex 1).

Figure 49. Seven geographical areas



## 2.2 THE COUNTRY SELECTION PROCESS

The selection of countries was made by the OECD and UCLG. The OECD was responsible for collecting data and preparing country profiles for 51 countries: 35 OECD member countries, 6 countries from the European Union (Bulgaria, Croatia, Cyprus, Lithuania, Malta and Romania) and 10 other partner countries (Brazil, Colombia, Costa Rica, Kazakhstan, Morocco, Peru, Russian Federation, South Africa, Tunisia, Ukraine). UCLG was responsible of collecting data and preparing country profiles for 50 other countries from Africa, Latin America, Asia-Pacific, Euro-Asia and Middle East and West Asia. The OECD and UCLG are each responsible for the data provided for their respective countries. The list of countries, including ISO codes (used for the graphs), is provided in Annex 1.

## 2.3 A SAMPLE OF 101 COUNTRIES INCLUDING 17 FEDERATIONS AND 84 UNITARY COUNTRIES

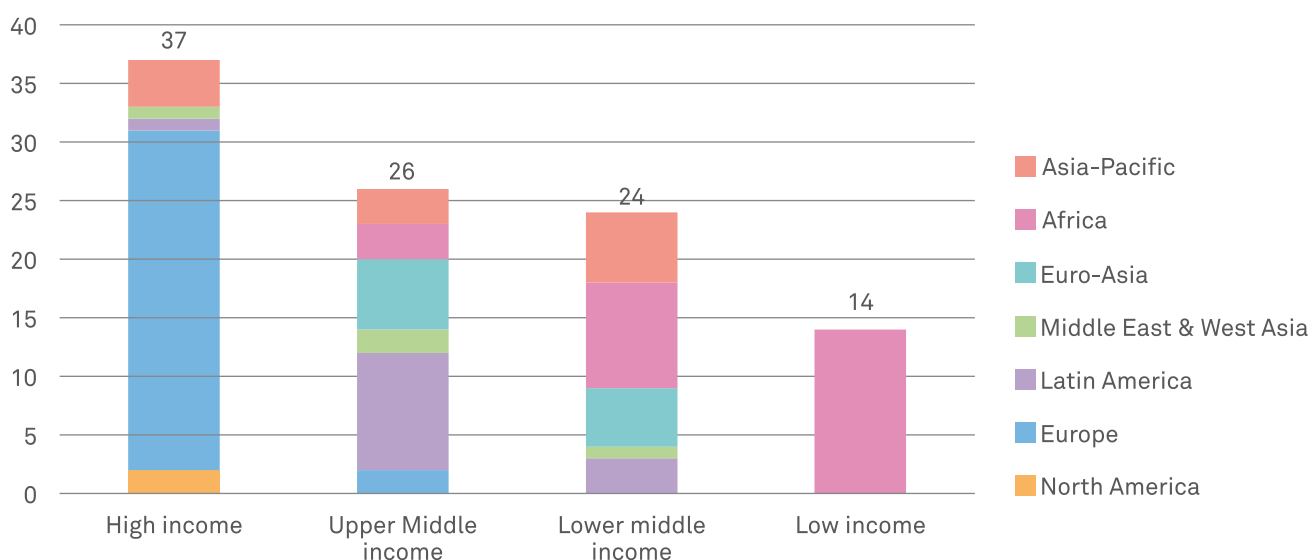
The 101 countries of the sample represent 5.965 billion inhabitants i.e. 82% of world population spread over the seven main regional areas in the world. The sample represents in total 87.5% of the world GDP.

Countries have been classified into income groups according to the World Bank list of economies (as of July 2016). The 37 “high income countries” include 33

OECD countries and 4 non-OECD countries (the latter are all EU member states: Croatia, Cyprus, Lithuania and Malta). The two other OECD countries are classified into the upper middle income category (Mexico and Turkey), which also includes a significant number of Latin America and Euro-Asia countries (26 countries in total). There are 24 countries in the lower middle income group, representing in particular Africa, Asia-Pacific and Euro-Asia. The low income group comprises only African countries (Figure 50).

The number of countries in each income group is relatively balanced, even if the high income group is marginally over-represented and low income countries are under-represented. This does not come as a surprise as subnational government finance data are more easily available and reliable in high-income countries than in low-income countries. A number of countries have been excluded from the sample simply through of lack of data. In several other countries, data accuracy needs improvement, but the data have been used anyway to provide at least some degree of measure. Finally, further countries were excluded from the analysis for specific sub-indicators. For example, SNG debt data is available for only 59 countries, which are in majority high and upper middle income countries. COFOG expenditure data are also rarely available for many countries.

Figure 50. The sample of countries by geographical area



The sample includes 17 federations (out of 24 in the world) and 84 unitary countries. Among the 17 federations, two countries, South Africa and Spain are “quasi-federations”, having several characteristics of federal countries while being formally unitary countries according to their constitution. It is worth noting that the dividing line between federal and unitary systems is sometimes unclear. In fact, some “real” federations are sometimes considered as quasi-federal systems: despite their constitution defining them as a federation, they function as a unitary country. In addition, some unitary countries also have a complex and “hybrid” institutional structure and, despite their unitary nature, comprise on part of their jurisdiction some autonomous governments which may have legislative powers (Azerbaijan, Finland, Georgia Italy, Mauritius, Portugal, United Kingdom, Tanzania, etc.).

The 17 federations together account for 2.697 billion inhabitants i.e. 37% of the population and GDP worldwide and 45% and 49% of the population and GDP of the country sample. Nine federal countries belong to the high income group and five to the upper middle income group. Only one (Ethiopia) is classified into the low income group while two (India and Nigeria) belong to the lower middle income group.

The 84 unitary countries account for the remaining, i.e. 3.268 billion inhabitants, 45% of the population and GDP worldwide and 55% of the population and 51% of the GDP of the countries represented in the sample.

Table 4. The 17 selected federations by regional area and income group

Regional area	Country	Income group
Europe	Austria	High income: OECD
	Belgium	High income: OECD
	Germany	High income: OECD
	Switzerland	High income: OECD
	Spain	High income: OECD
Latin America	Argentina	Upper middle income
	Brazil	Upper middle income
	Mexico	Upper middle income: OECD
Euro-Asia	Russian Federation	Upper middle income
Africa	Ethiopia	Low income
	Nigeria	Lower middle income
	South Africa	Upper middle income
Asia-Pacific	Australia	High income: OECD
	India	Lower middle income
	Malaysia	Upper middle income
North America	Canada	High income: OECD
	United States	High income: OECD



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