

FRANCE

UNITARY COUNTRY

EUROPE

BASIC SOCIO-ECONOMIC INDICATORS

Income group - HIGH INCOME: OECD Local currency - Euro (EUR)

POPULATION AND GEOGRAPHY

AREA: **647 795** km²

POPULATION: **66.169** million inhabitants (2014), an increase of 0.37% per year (2010-14)

DENSITY: **102** inhabitants/km²

URBAN POPULATION: **79.3%** of national population

CAPITAL CITY: **Paris** (16.6% of national population)

Note: Population and area include the five outermost regions.

ECONOMIC DATA

GDP: **2 604.2** billion (current PPP international dollars) i.e. 39 357 dollars per inhabitant (2014)

REAL GDP GROWTH: **0.2%** (2014 vs 2013)

UNEMPLOYMENT RATE: **10.3%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **7 957** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **22%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.888** (very high), rank 22

Sources : OECD, Eurostat, World Bank, UNDP, ILO

TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|---|-----------------------------------|-------------------------|----------------------|
| 35 885 | 101 | 18 | 36 004 |
| MUNICIPALITIES (COMMUNES) | 101 DEPARTMENTS (DÉPARTEMENTS) | REGIONS (RÉGIONS) | |
| AVERAGE MUNICIPAL SIZE: 1 855 INHABITANTS | | | |

MAIN FEATURES OF TERRITORIAL ORGANISATION. French territorial structure has substantially changed following the law relative to the Delimitation of Regions of January 2015 introducing forced amalgamations for regions. Since 1st January 2016, France mainland now has 13 regions instead of 22. France also has 5 outermost regions (Guadeloupe, Guyane, La Réunion, Martinique and Mayotte). At the intermediate level, the suppression of the departments, mentioned at some point in the reform process, has been abandoned and discussions are reported to 2020. At the local level, France accounts for 27% of all municipalities in the OECD and 41% in the EU; 86% of municipalities have less than 2 000 inhabitants. In that context, France has strongly supported inter-municipal co-operation and today, the 2 145 inter-municipal co-operation structures form a quasi-fourth subnational level as they receive own sources tax revenues. In 2015, the status of "commune nouvelle" has been reactivated in order to promote municipal mergers while maintaining historical municipalities as "localities". The 2014 law for the Modernisation of Territorial Public Action and Metropolises has also introduced a new status for the largest municipalities, "the metropolis" (currently numbered at 15).

MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES. The Law "NOTRe" on the New Territorial Organisation of the Republic as of August 2015 has clarified the distribution of competences across levels of government established by the previous decentralisation reforms (1982-83 decentralisation laws, 2003-04 laws and 2010 territorial reform). The general clause of competence for the regions and the departments has been removed, while it remains for the municipalities. They now have specialised competences: regional economic development (aid schemes for SMEs, innovation, internationalisation), territorial planning, environmental protection, regional transport, high schools (*lycées*) and vocational training for the regions; social solidarity and territorial cohesion for the departments (social welfare for families, elderly, disabled, insertion, secondary schools, support to rural municipalities). Municipal competences include primary education, town planning, municipal roads, urban public transport, social support for families and youth, municipal police, housing, drinking water and sanitation, waste, culture, sport, etc.

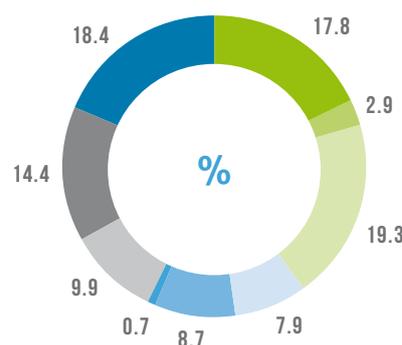
SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE | % GDP | % GENERAL GOVERNMENT (same expenditure category) | % SUBNATIONAL GOVERNMENT |
|--------------------------|--------------|---|--------------------------|
| TOTAL EXPENDITURE (2013) | 11.9% | 20.9% | 100% |
| CURRENT EXPENDITURE | 9.1% | - | 76.1% |
| STAFF EXPENDITURE | 3.5% | 27.4% | 29.7% |
| INVESTMENT | 2.5% | 60.0% | 21.2% |

France belongs to the group of OECD countries which are moderately decentralised. The share of SNG in GDP and public expenditure are below the OECD averages (16.6% of GDP and 40.2% of public expenditure). The share of SNG staff expenditure in public staff expenditure is also lower than in the OECD on average (63.2%), even if unitary countries only are taken into account (40%). However, investment is a key in public staff expenditure function of French SNGs. Municipalities and intermunicipal groupings represent 56% of SNG spending while the departments and the regions account respectively for 32% and 12%.

EXPENDITURE BY FUNCTION

% SUBNATIONAL GOVERNMENT EXPENDITURE



The main categories of SNG spending are economic affairs and transport (all SNGs), social protection (mainly the municipalities and the departments) and general public services and education (all SNGs).

| REVENUE BY TYPE | % GDP | % GENERAL GOVERNMENT (same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 11.5% | 21.7% | 100% |
| TAX REVENUE | 5.5% | 19.1% | 47.9% |
| GRANTS AND SUBSIDIES | 4.0% | - | 35.0% |
| OTHER REVENUES | 2.0% | - | 17.1% |

The main source of SNG revenue comes from taxation which is slightly above the OECD average (44%) while grants and subsidies represent 35% of SNG revenue (37% in the OECD).

TAX REVENUE. Most tax revenue come from own-source taxes, although shared taxes has grown since the 2003-04 decentralisation laws and especially the 2010 local tax reform which abolished the local business tax and broadly reshuffled the local tax system. The reform has also resulted in a tax “specialisation” between SNG tiers as well as in a decrease in departmental and regional taxing powers. Municipal tax revenues include property tax (on buildings and land), the local residence tax and the “territorial economic contribution” (itself comprising a business/real estate tax-CFE and a tax on business added value-CVAE) and various other taxes. Department tax revenue includes a property tax (on buildings), the CVAE, a tax on network companies (IFER) and a tax on property transactions. Regional tax revenues include the CVAE and IFER. Regions and departments also receive fractions of indirect taxes such as tax on petroleum products or tax on insurance contracts, etc.

GRANTS AND SUBSIDIES. Transfers from the central government have three purposes: compensation (stabilising local budgets) equalisation (reducing income disparities) and “orientation” (developing sectoral policies). Operating grants are dominant, the most important one by far being the general purpose operating grant (*Dotation Globale de Fonctionnement*) which benefits all SNGs, and comprises several sub-grants. The main capital expenditure grant is the VAT compensation fund which reimburses SNGs for the VAT paid on their investments. There are other various earmarked and general purpose grants as well as several equalisation grants (vertical and horizontal). Transfers to local governments were frozen over 2011-13, and have been decreased since 2014, in line with budgetary consolidation policies. Since 2010, a reform of the DGF and of the equalisation system is under preparation but it has been postponed to 2017.

OTHER REVENUES. Other revenues come mainly from local public services i.e. tariffs and fees (15.7% of SNG revenue). Income from property (sales and rental of land, buildings, etc.) represent a small share of SNG revenue.

| OUTSTANDING DEBT | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 10.4% | 9.4% |

SNGs are able to borrow without approval from the central government but long-term borrowing is restricted to finance investment. The borrowing framework has been strengthened since the crisis by the 2013 banking Law on the separation and regulation of banking activities (e.g. foreign-currency borrowings, regulation of floating-rate borrowings, use of swaps, etc.) in order to reduce financial risks. The law has also authorised the creation of the Agence France Locale, a new entity fully-owned by the French local authorities themselves and dedicated to their funding, distributing loans to their members by raising funds in the capital markets (pooled financing). Bond financing is still limited (4.9% of total outstanding debt in 2013 while loans amounted to 79%).

A joint- study of:



Sources: OECD (2015) Subnational Governments in OECD Countries : Key data • OECD national accounts • Portail de l'Etat au service des collectivités locales, www.collectivites-locales.gouv.fr/ • Délégation sénatoriale aux collectivités territoriales et à la décentralisation www.senat.fr/commission/decentralisation/index.html - Chatry I. and Hulbert C., (2016) Multi-level governance reforms: overview of OECD country experiences, OECD publishing • Agence France Locale, www.agence-france-locale.fr - Dexia (2008) Subnational governments in the EU: organisation, responsibilities and finance.