

# SUBNATIONAL GOVERNMENTS AROUND THE WORLD STRUCTURE AND FINANCE

A first contribution to the Global Observatory  
on Local Finances

PRELIMINARY VERSION





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



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Valuable comments and input on the report and country profiles was received from Luiz de Mello, Joaquim Oliveira Martins, Dorothée Allain-Dupré, Isidora Zapata, Karen Maguire, Claire Charbit, Antoine Comps, Oscar Huerta Melchor, Guillaume Lecaros de Cossio from the OECD Secretariat. UCLG also received valuable suggestions from Jeremie Daussin Charpantier, Marie Bjornson, Léonie Claeyman from the AFD, Edgardo Bilsky and Elisabeth Silva from UCLG and Renske Steenbergen from VNG International.

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# 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.





PART I

# SYNTHESIS ANALYSIS

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# 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**

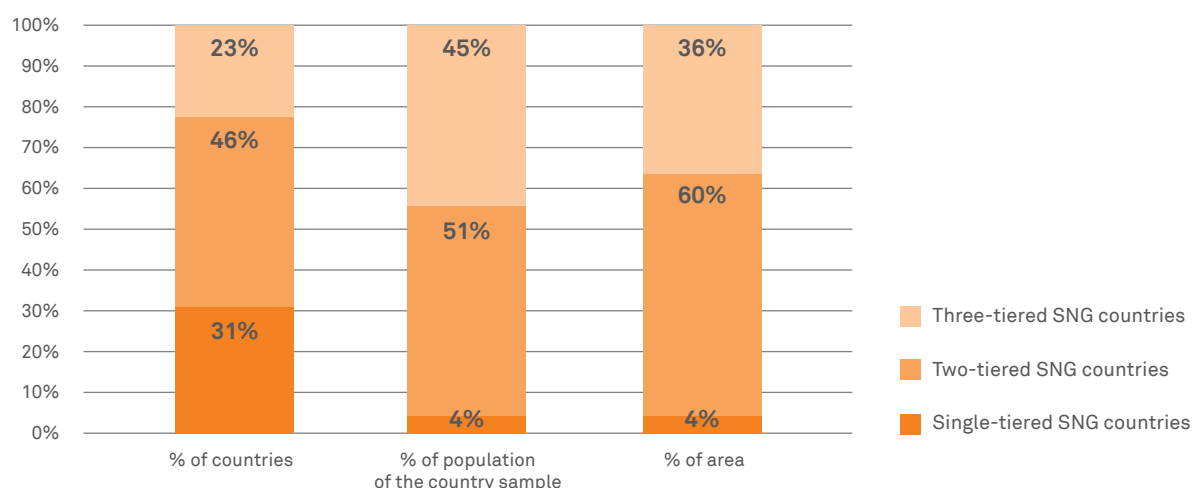
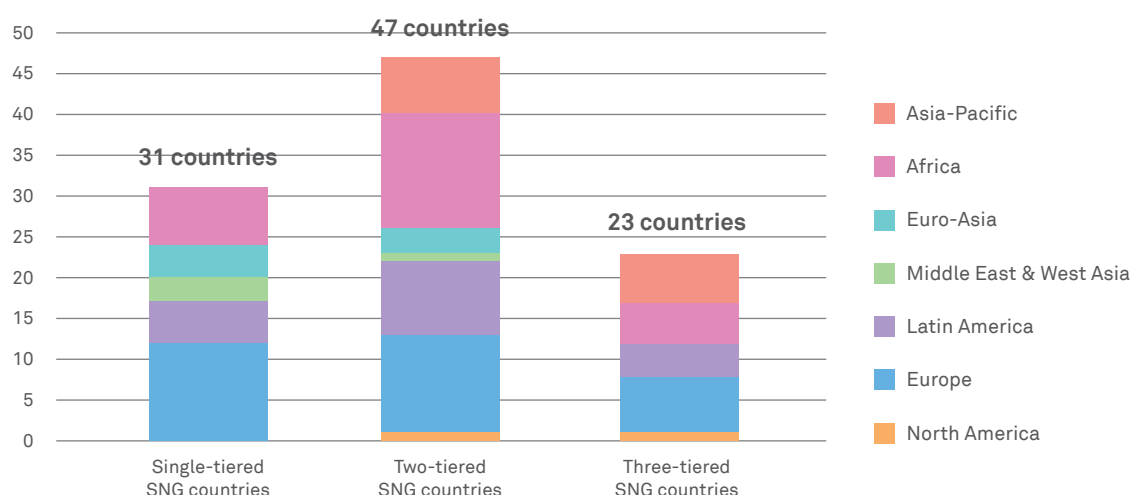


Figure 2. **Breakdown of countries by geographical area\* and their number of SNG tiers**



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.

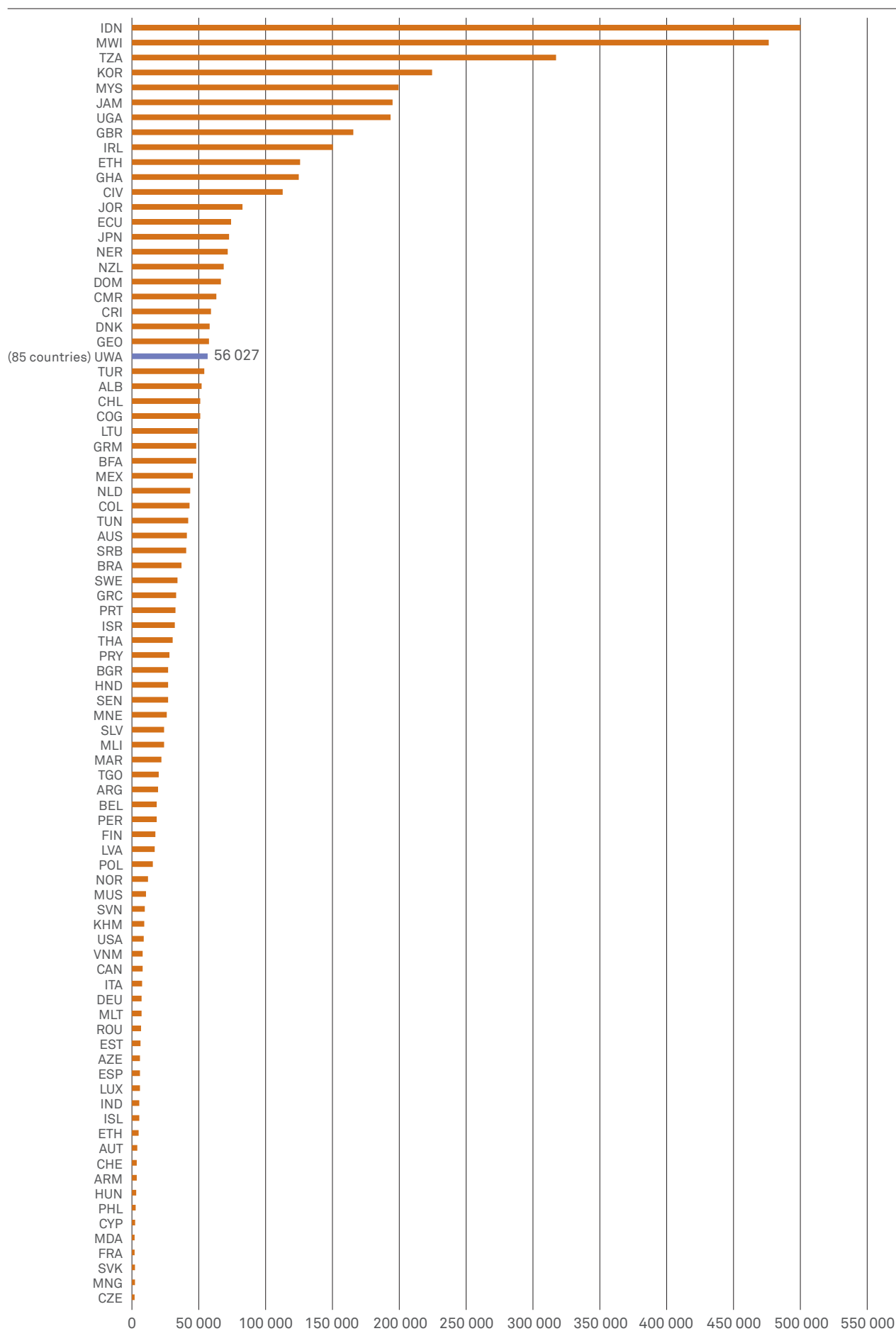
## 1.3 THE MUNICIPAL LANDSCAPE IS VERY DIVERSE

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 governments 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\*\*

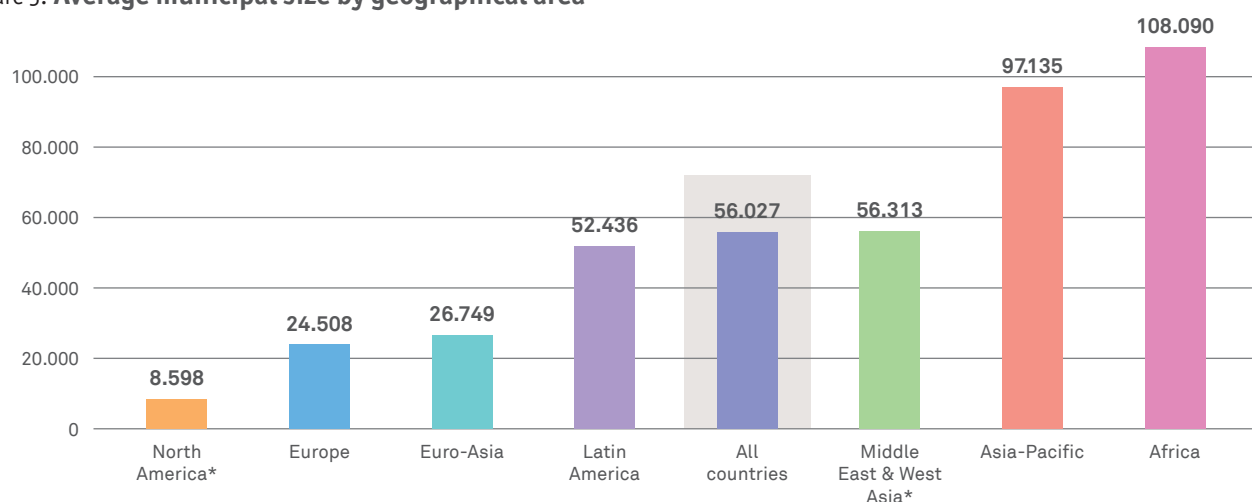
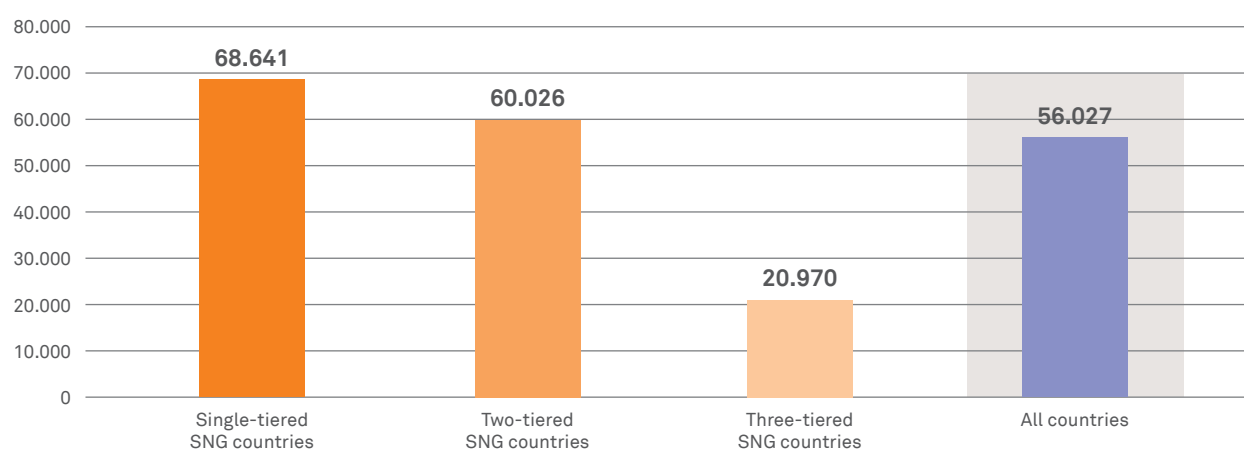


Figure 6. Average municipal size by SNG country system\*\*



\* 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

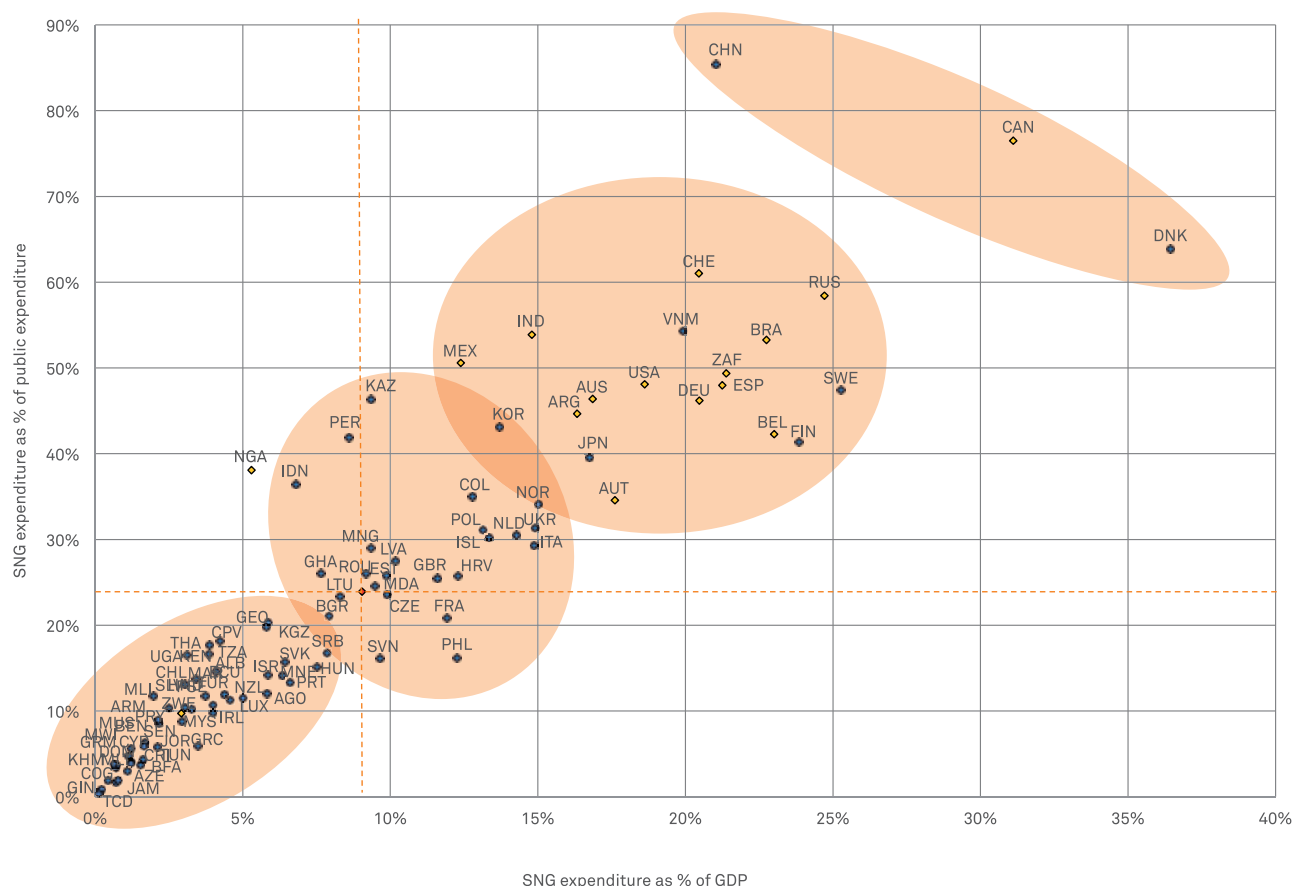
Spending ratios as an indication of spending autonomy should be interpreted with caution. In fact, a high level of subnational expenditure does not necessarily mean a high level of decentralisation, as in some cases these expenditures are delegated from the central government. The assignment of responsibilities 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).

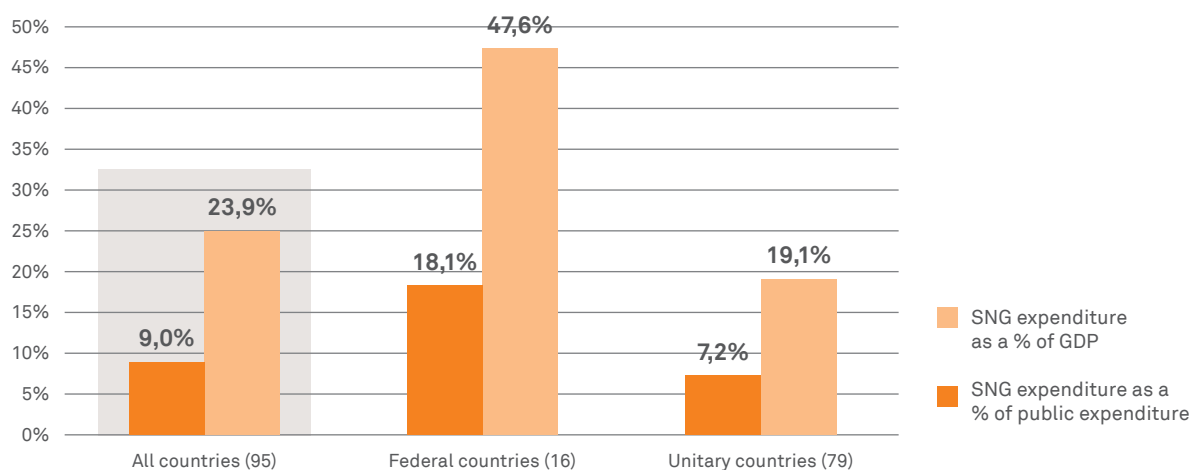
Overall, 58% of countries of the sample are below the average in terms of spending-to-GDP ratio as well as regarding the share of SNG in total public spending (Figures A1. and A2. in Annex 5).

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 relateness of the spending ratio. In several countries cited above, SNG spending is more "deconcentrated" 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)**

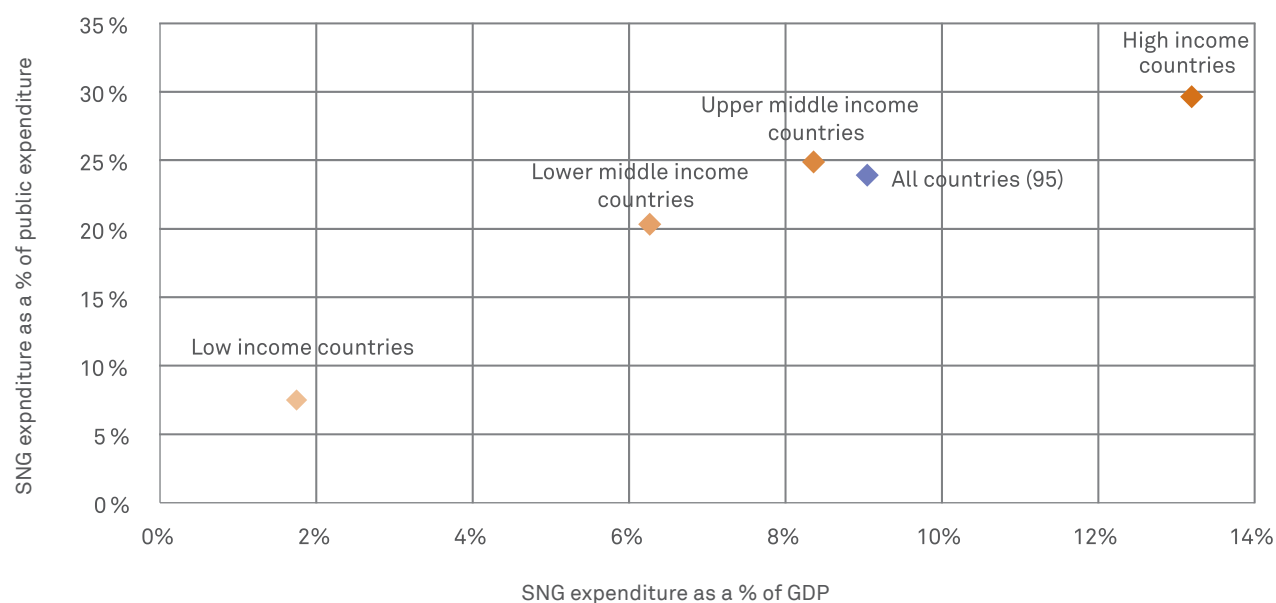


Table 2. **SNG expenditure and income country groups (2013)**

| 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%            |

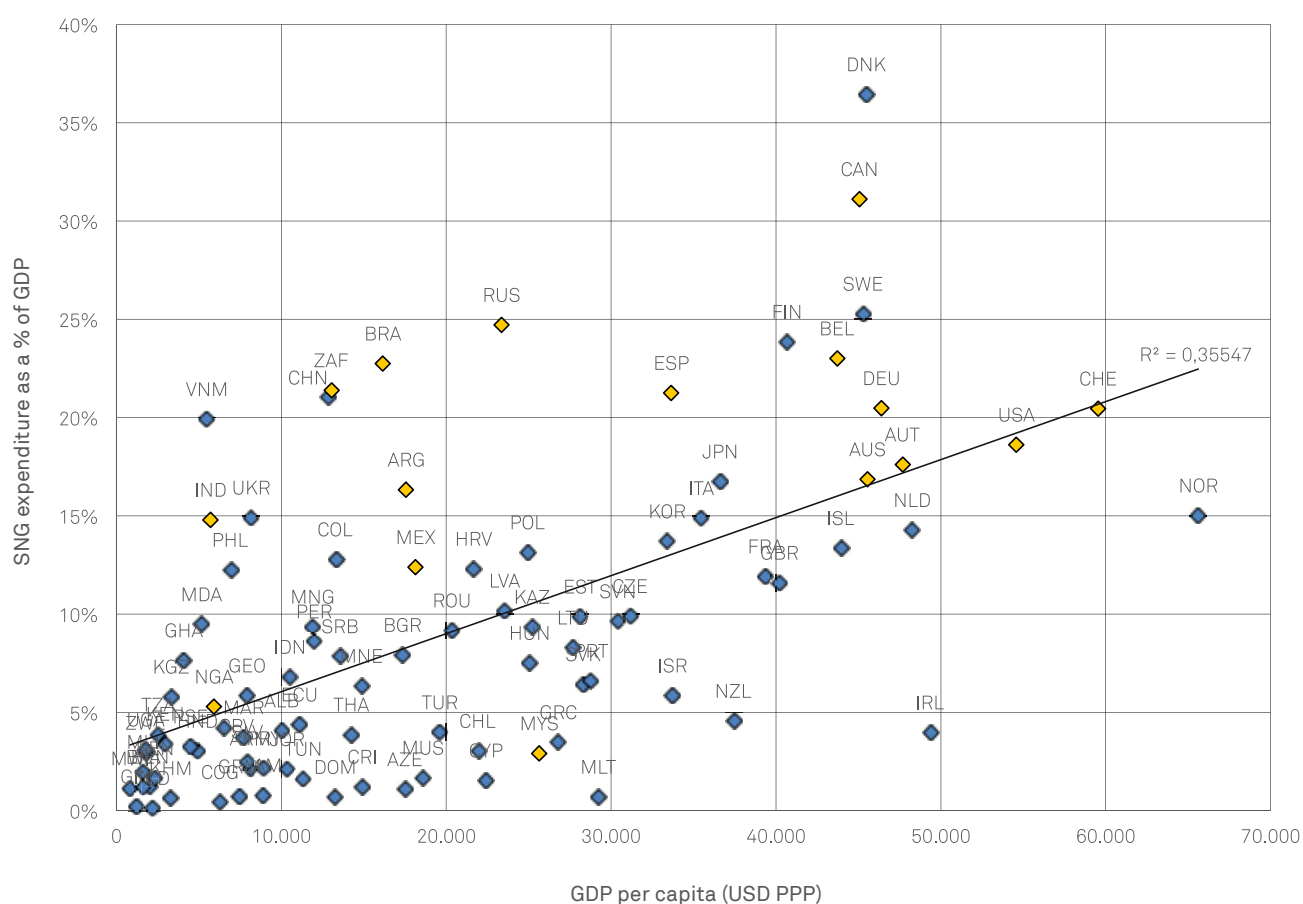
If we compare the level of spending decentralisation, measured by the share in GDP or in public spending, with the GDP per capita, there seems to be a positive correlation (Figures 10 and 11). It means that most decentralised countries seem to have the highest GDP per capita while the most centralised 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)



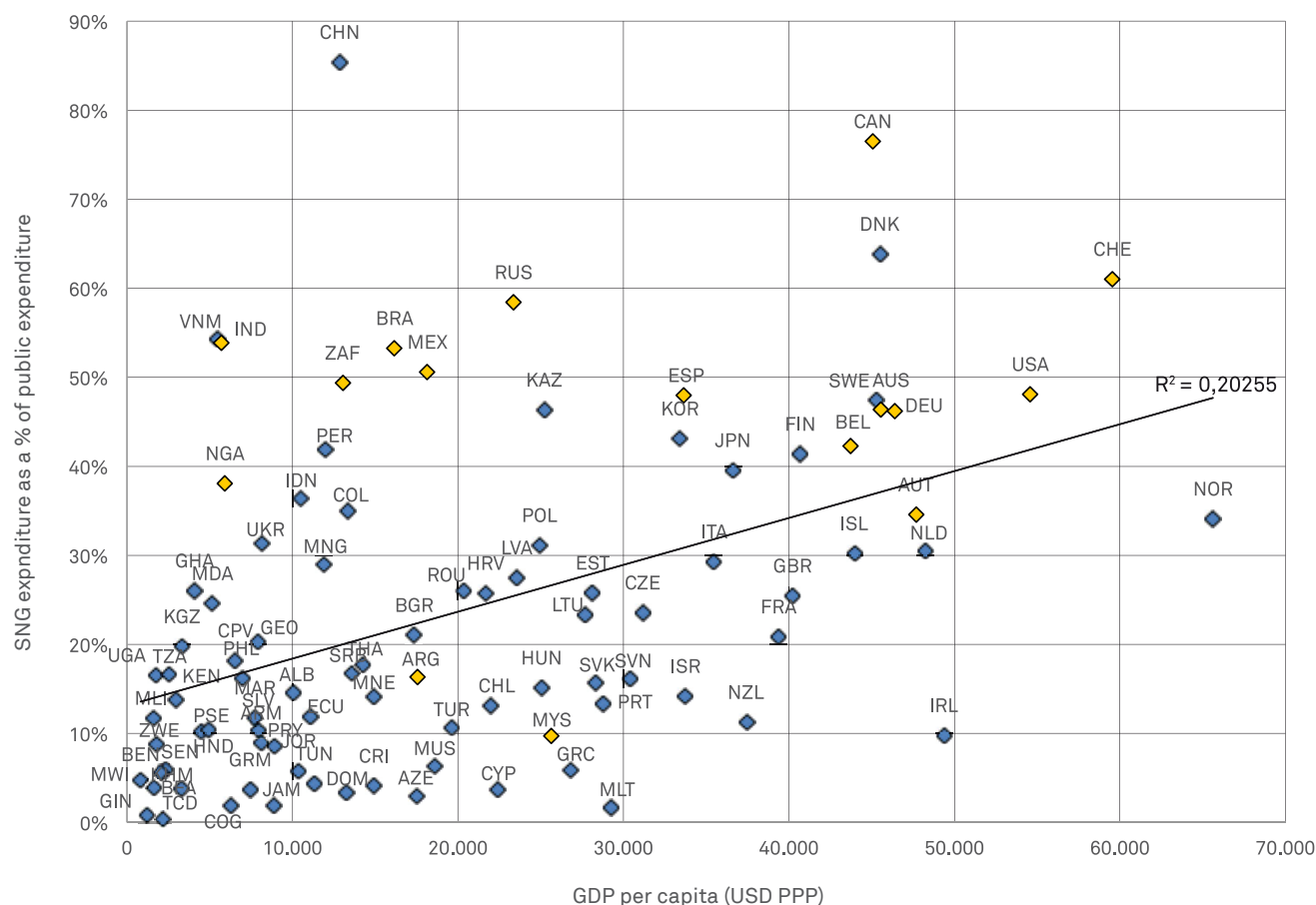
Note: Luxembourg is not represented on the graph as it is an extreme case due to its high GDP per capita (USD 98 163 PPP).

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.

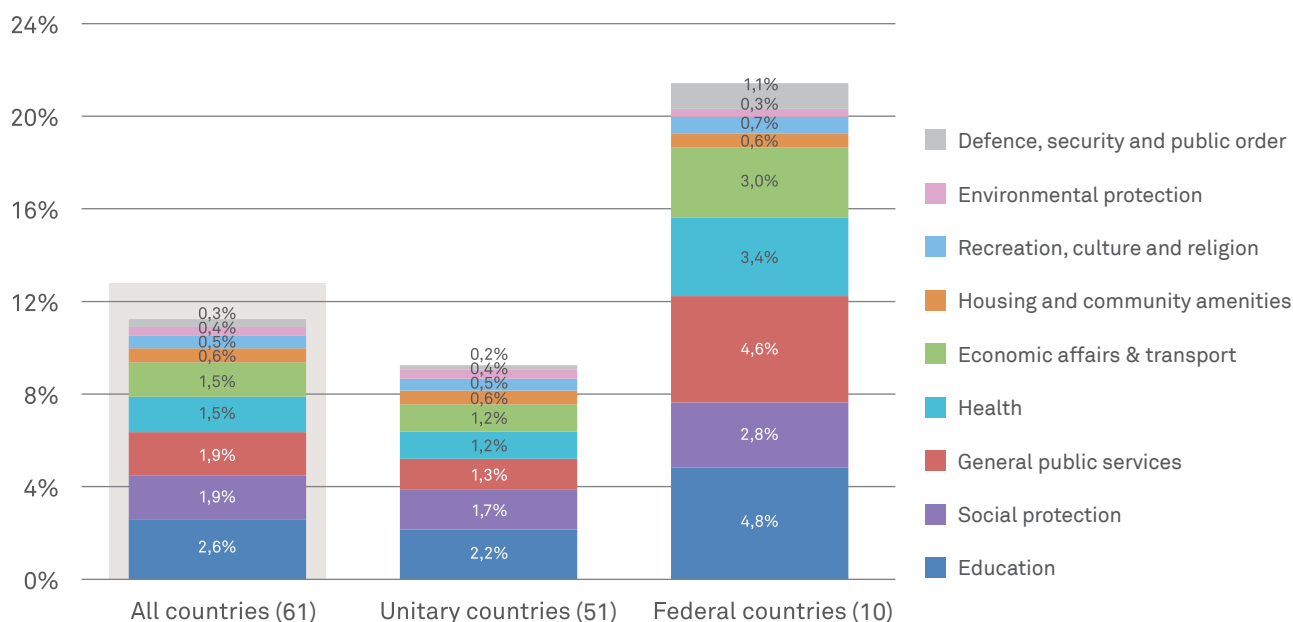
<sup>5</sup> See Part II "Methodology and country sample" and Annex 4 "Detailed structure of the Classifications of the Functions of Government (COFOG)".



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).

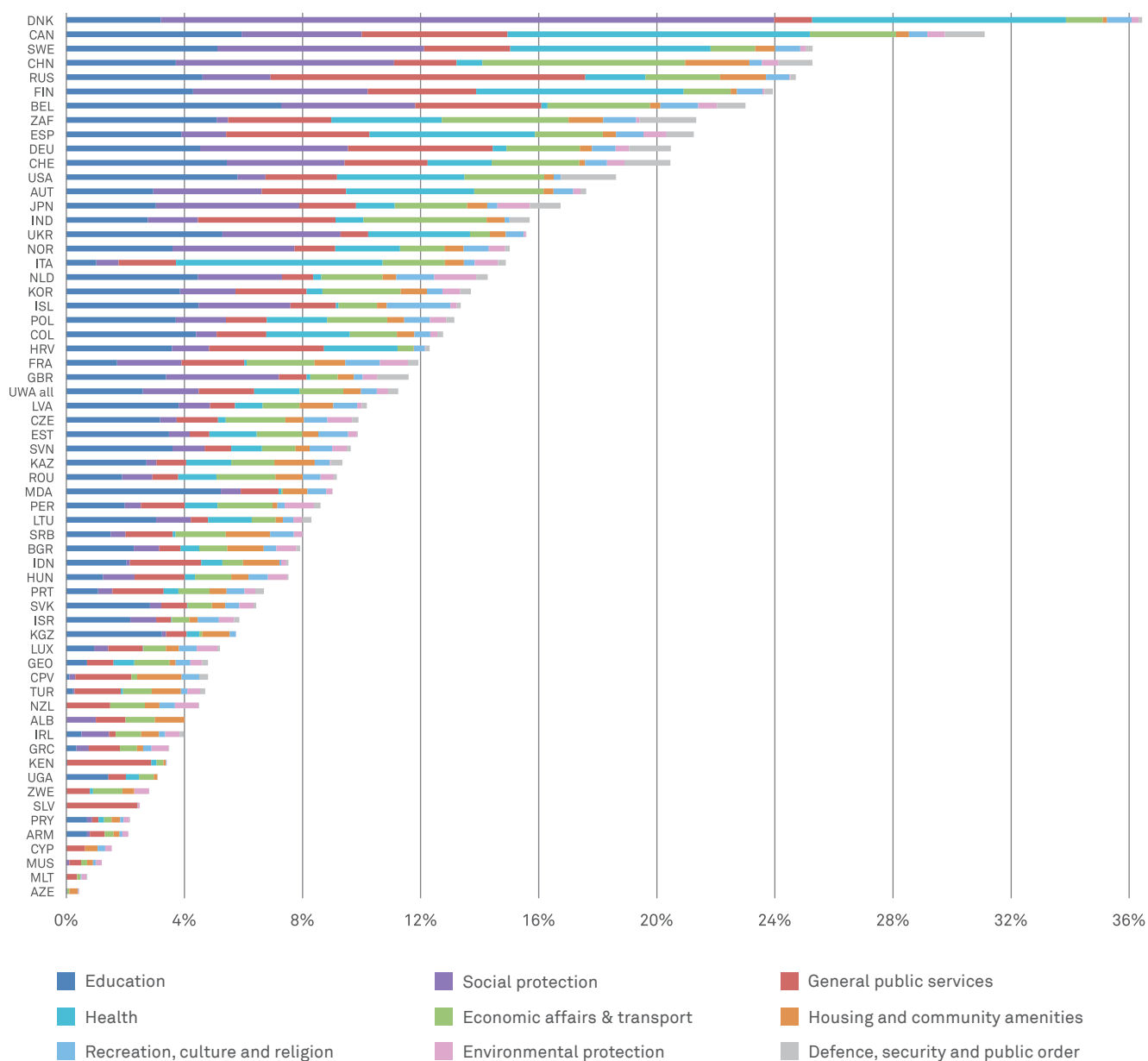
In Denmark, over 20% of GDP is spent by SNGs in the social sector, largely due to the fact that municipalities administer a number of social security transfers (OECD 2016a). In China, Finland and Sweden SNG social spending represented more than 5% of GDP (Figure A4).

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).

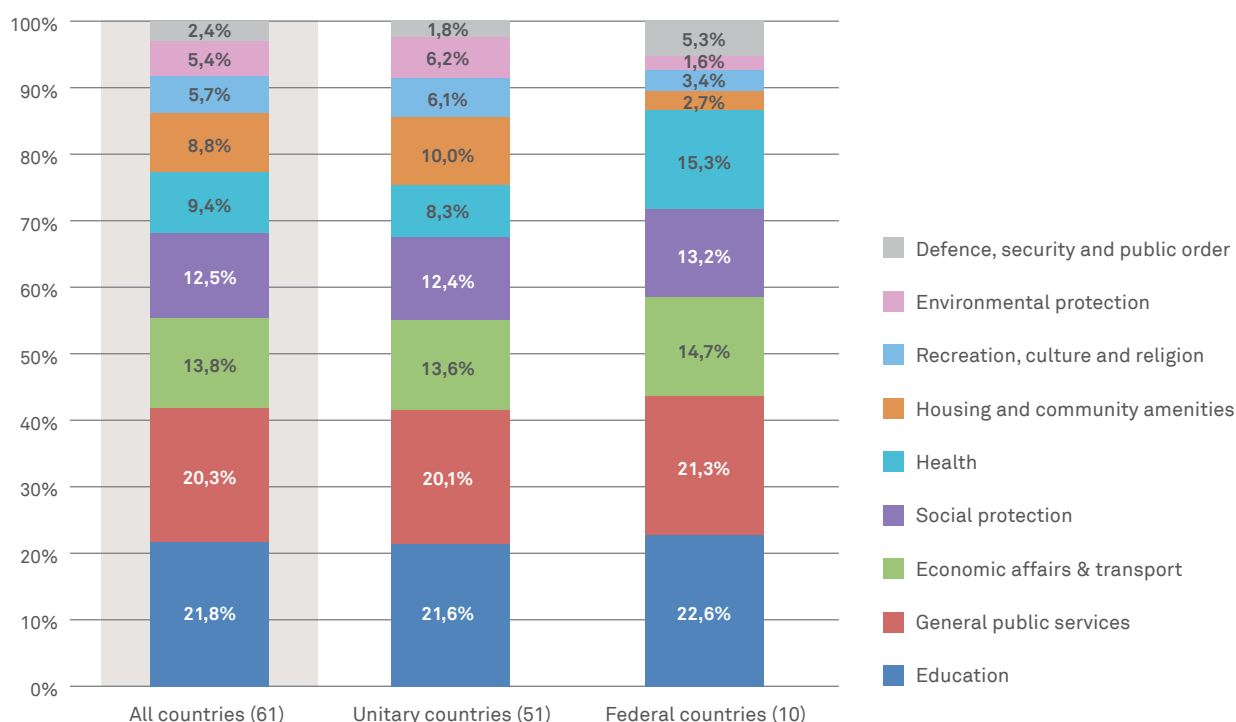
Iceland stands out for its high level of SNG spending dedicated to recreation and culture (2.2% of GDP), culture being considered as a driving force for economic and social development at the national and regional level in this country. In Belgium, France, the Netherlands and South Africa, SNG involvement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

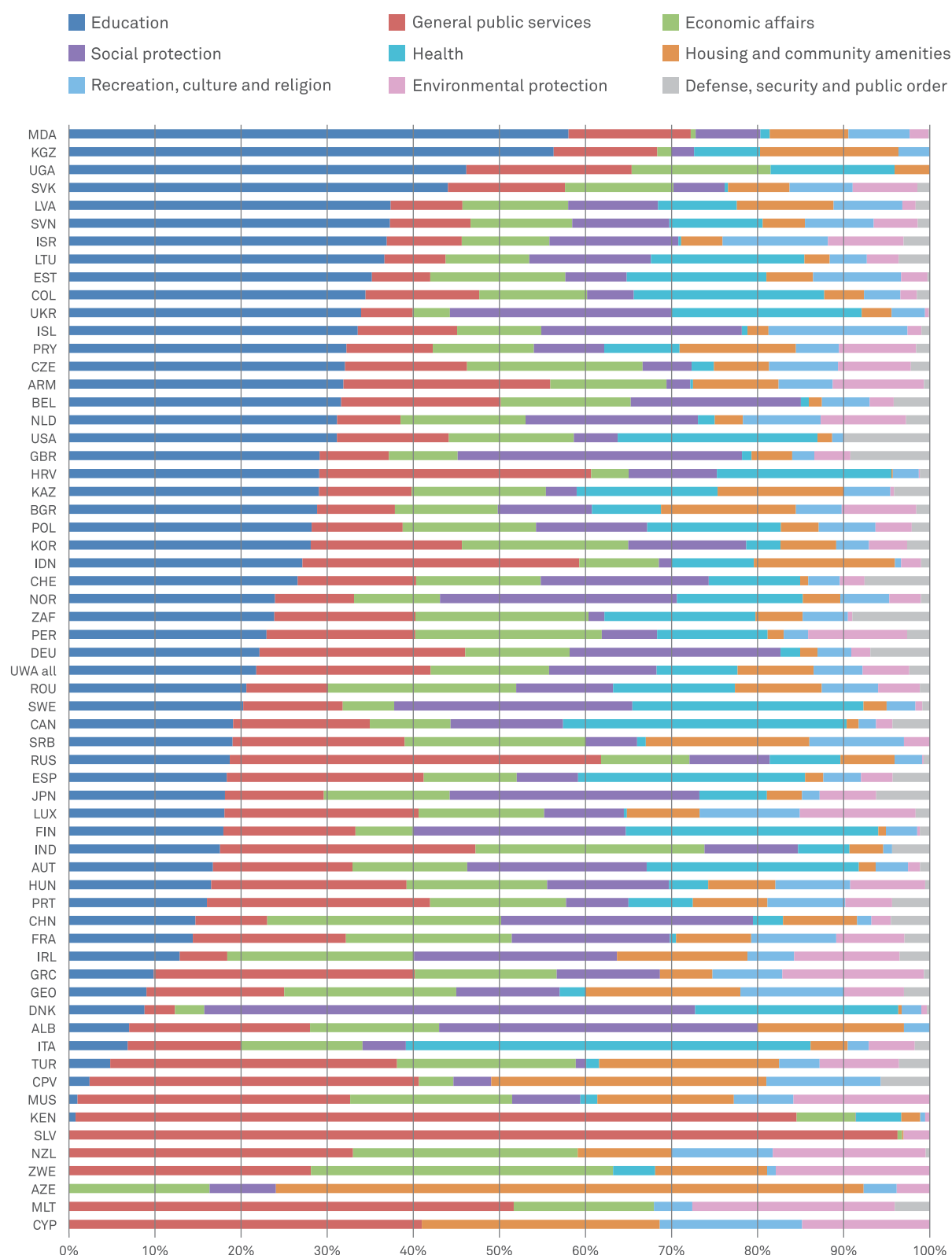
Figure 14. Breakdown of SNG expenditure by economic function as a % of total SNG expenditure (2013)





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

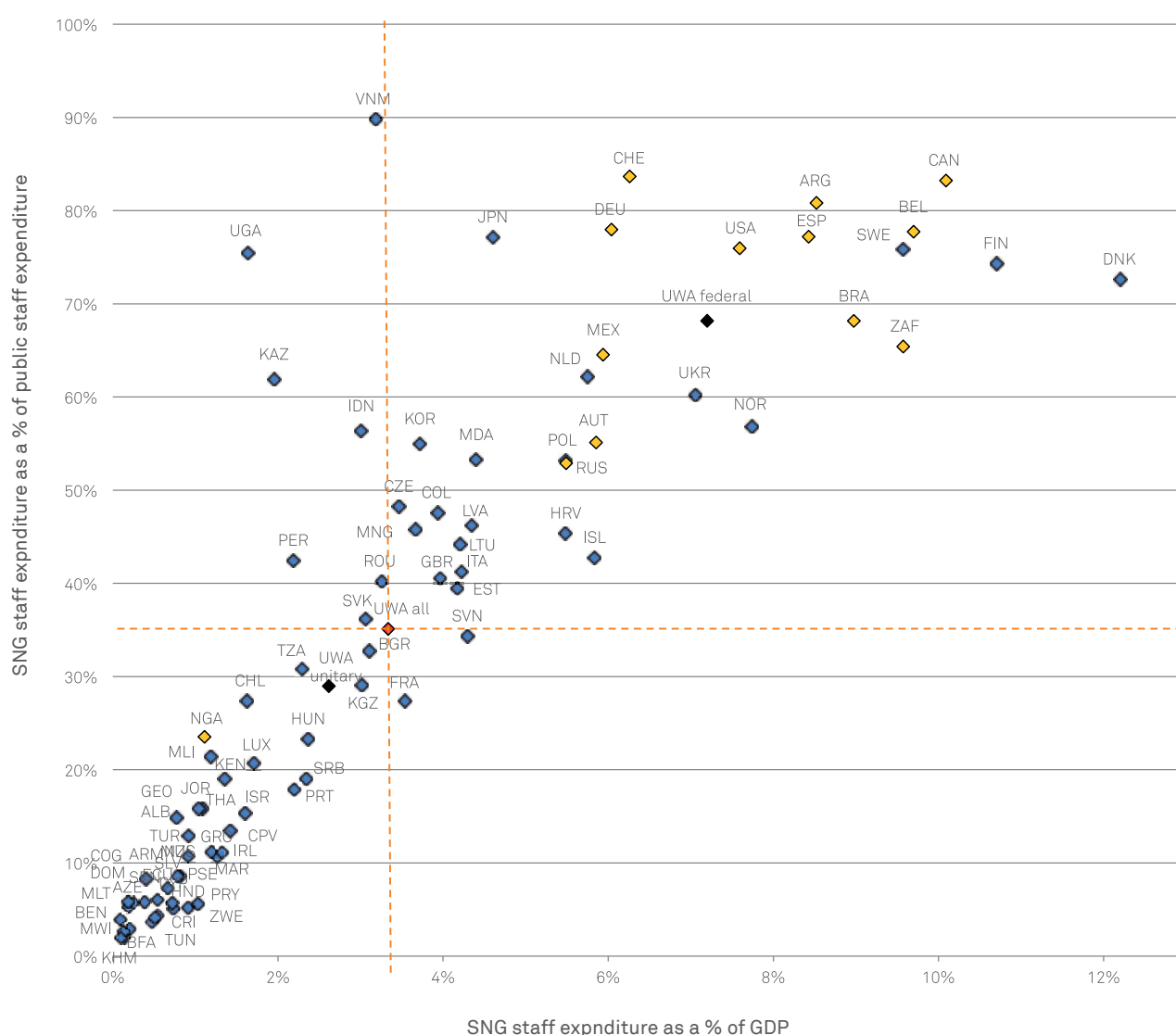
#### Staff expenditure in GDP and public expenditure

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.

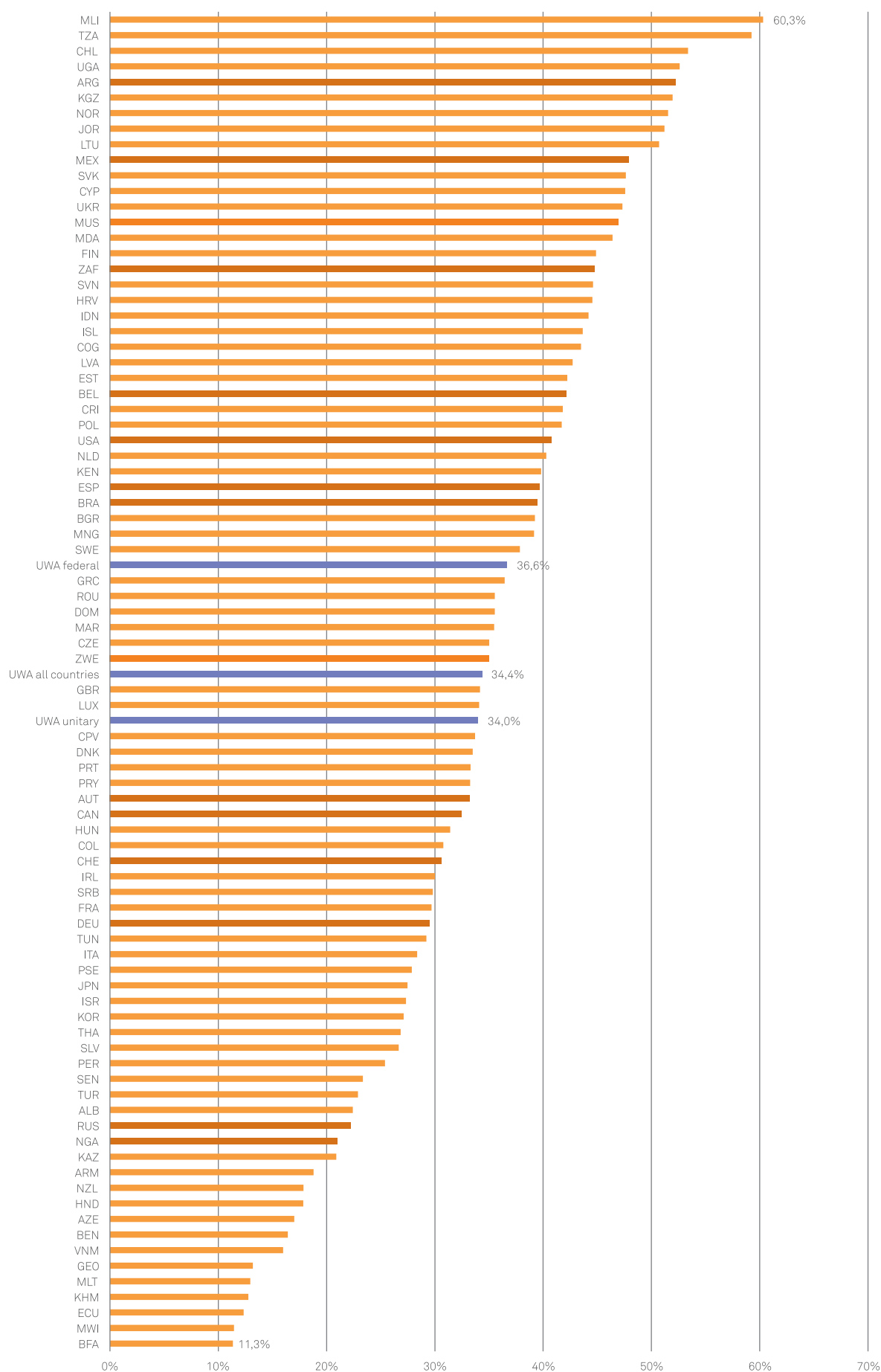
One can note the countries where staff spending is highly decentralised (or “deconcentrated/delegated” in some cases) but represent a smaller share of GDP such as Vietnam, Japan, Uganda or Kazakhstan.

### 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)



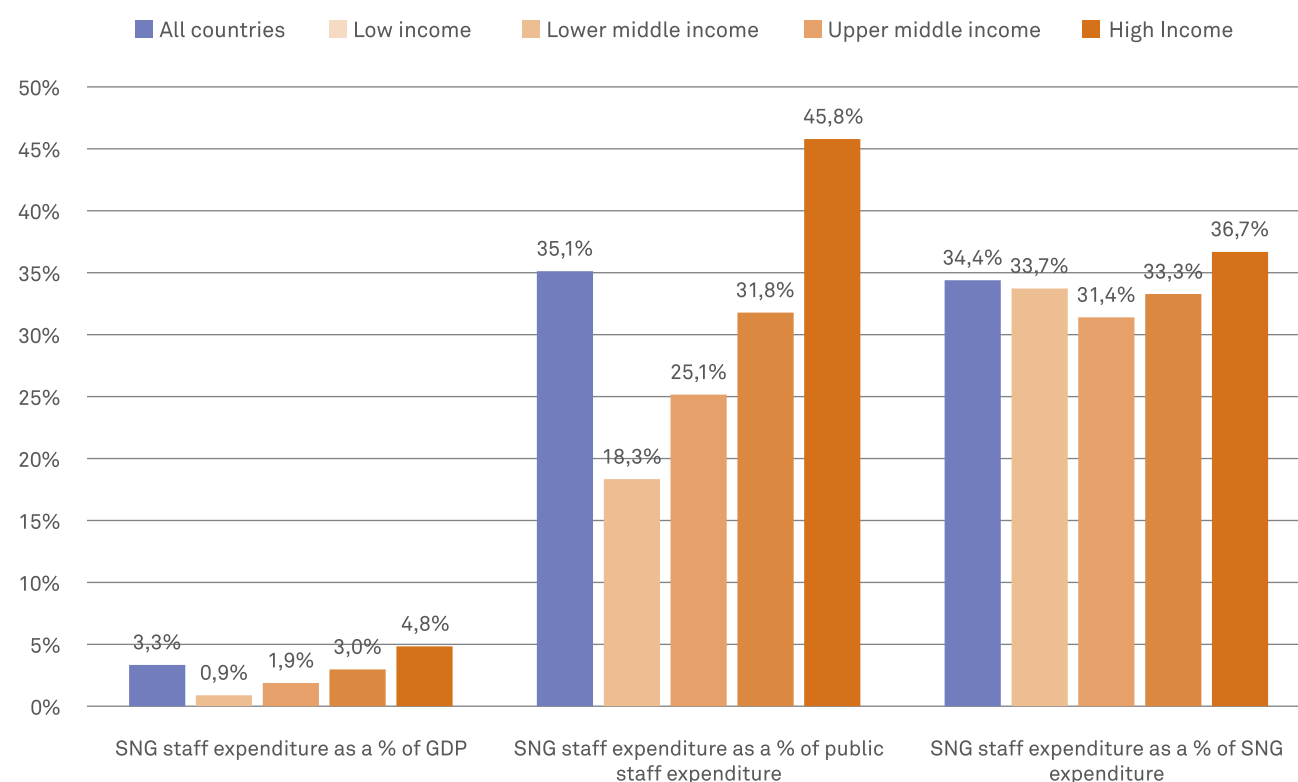


### SNG staff expenditure and levels of country income

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).



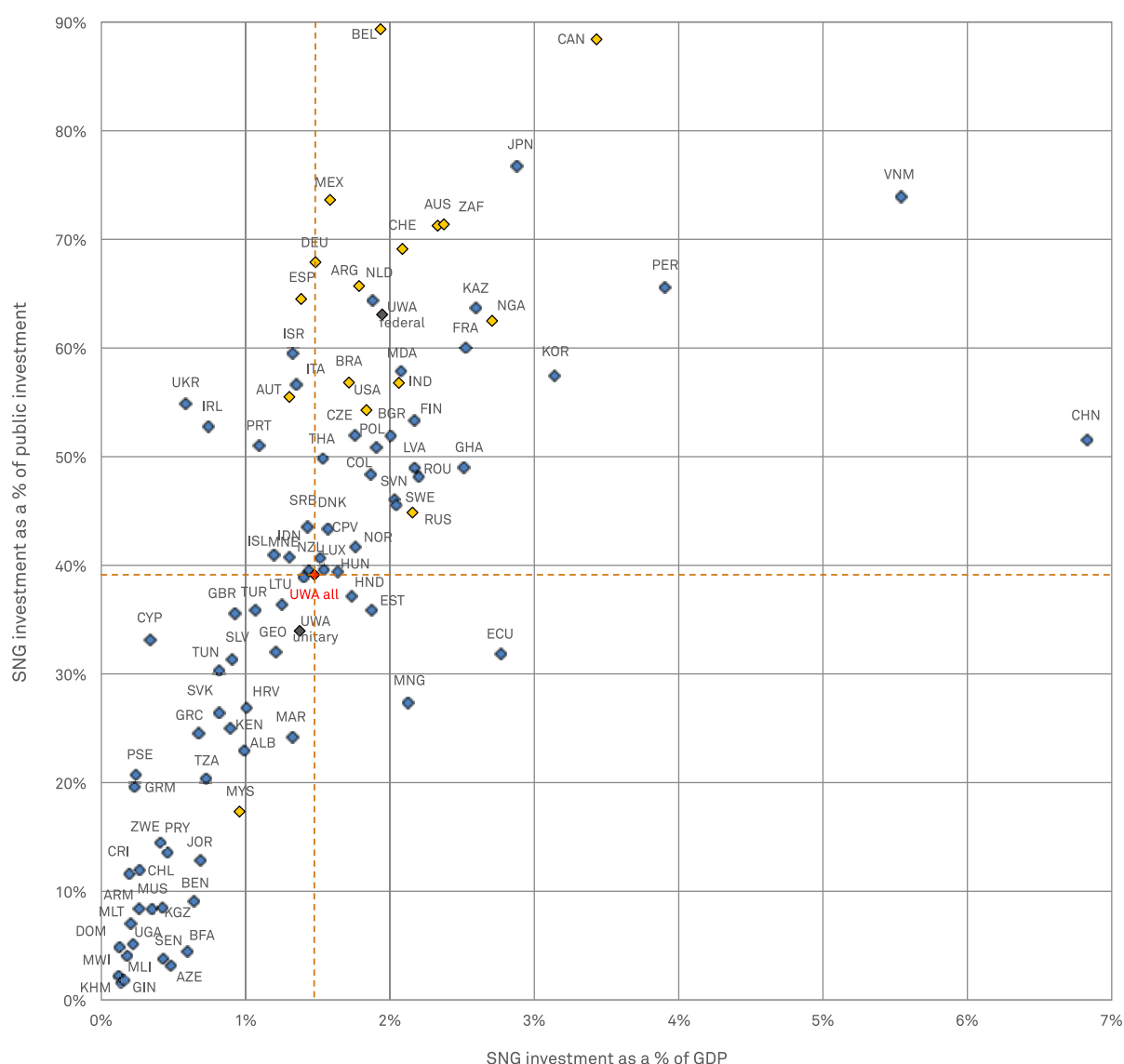
In federal countries, the level of SNG investment in GDP is higher (1.9%) than in unitary countries (1.4%). However, the gap is not so wide. Only three OECD federal countries (Australia, Canada and Switzerland) are above the federal average together with India, Nigeria, the Russian Federation and South 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.

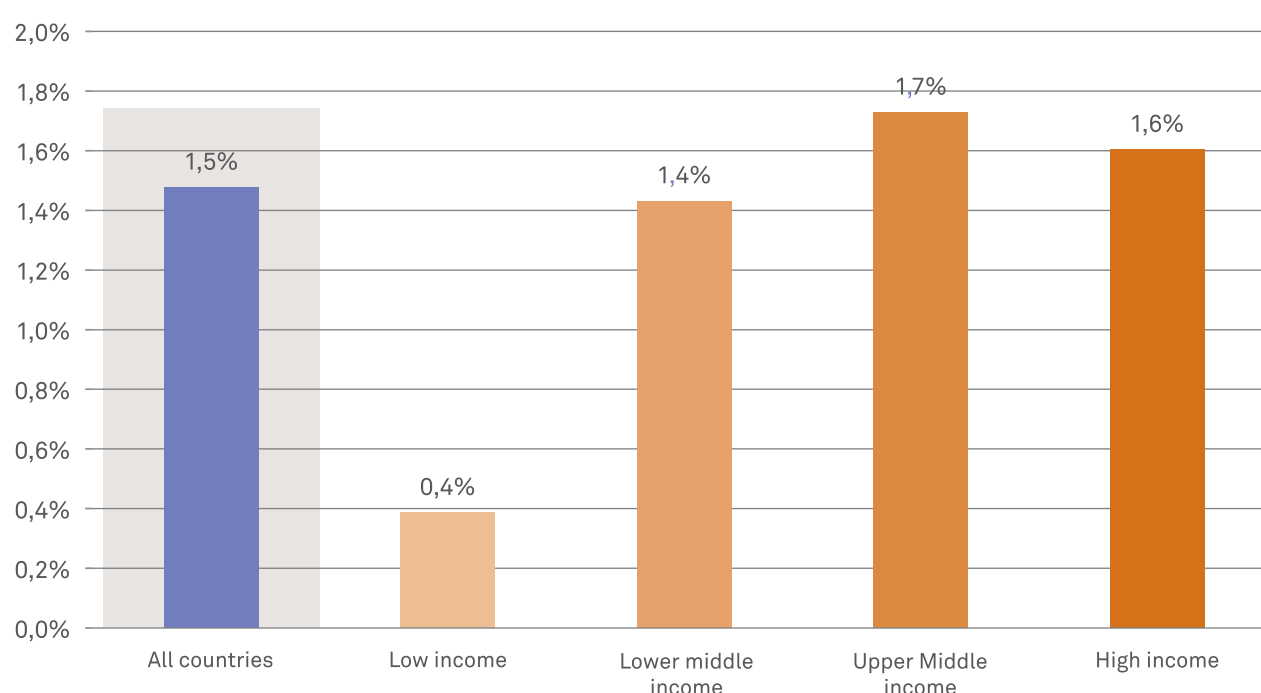
**2. Sub-national capacity challenges:** Where the capacities to design and implement investment strategies are weak, policies may fail to achieve their objectives. Evidence suggests that public investment and growth outcomes are correlated to the quality of government, notably at the subnational level.

**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)**

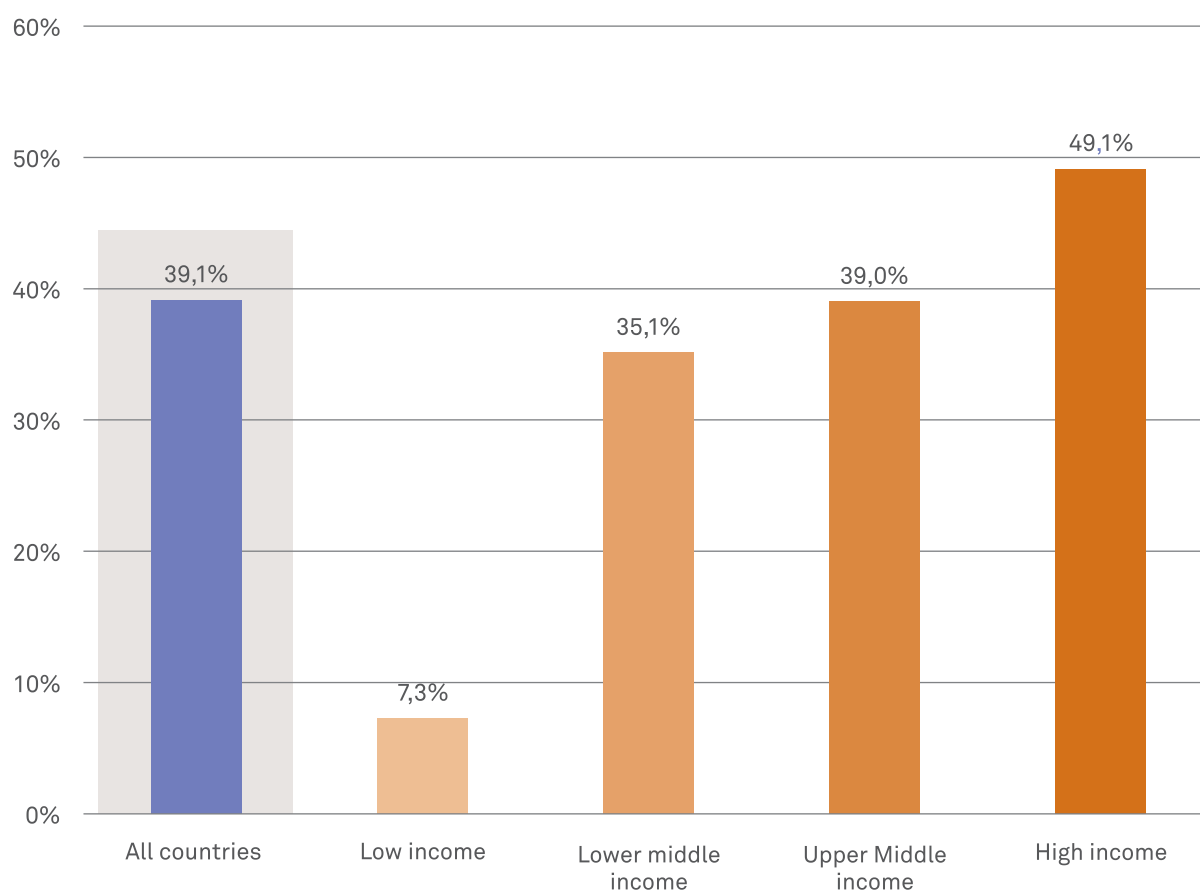
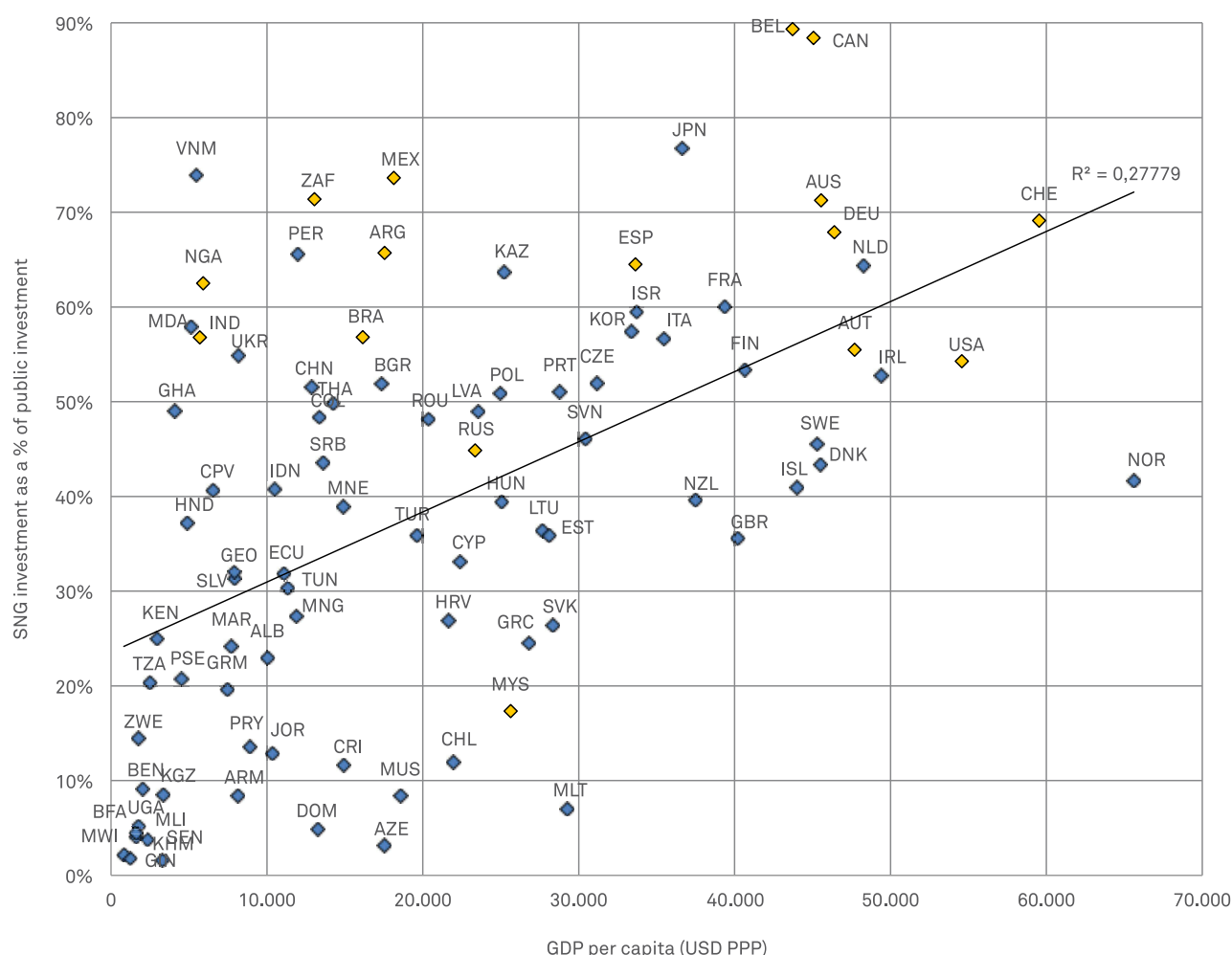




Figure 22. SNG investment as a share of public investment and GDP per capita (2013)



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**

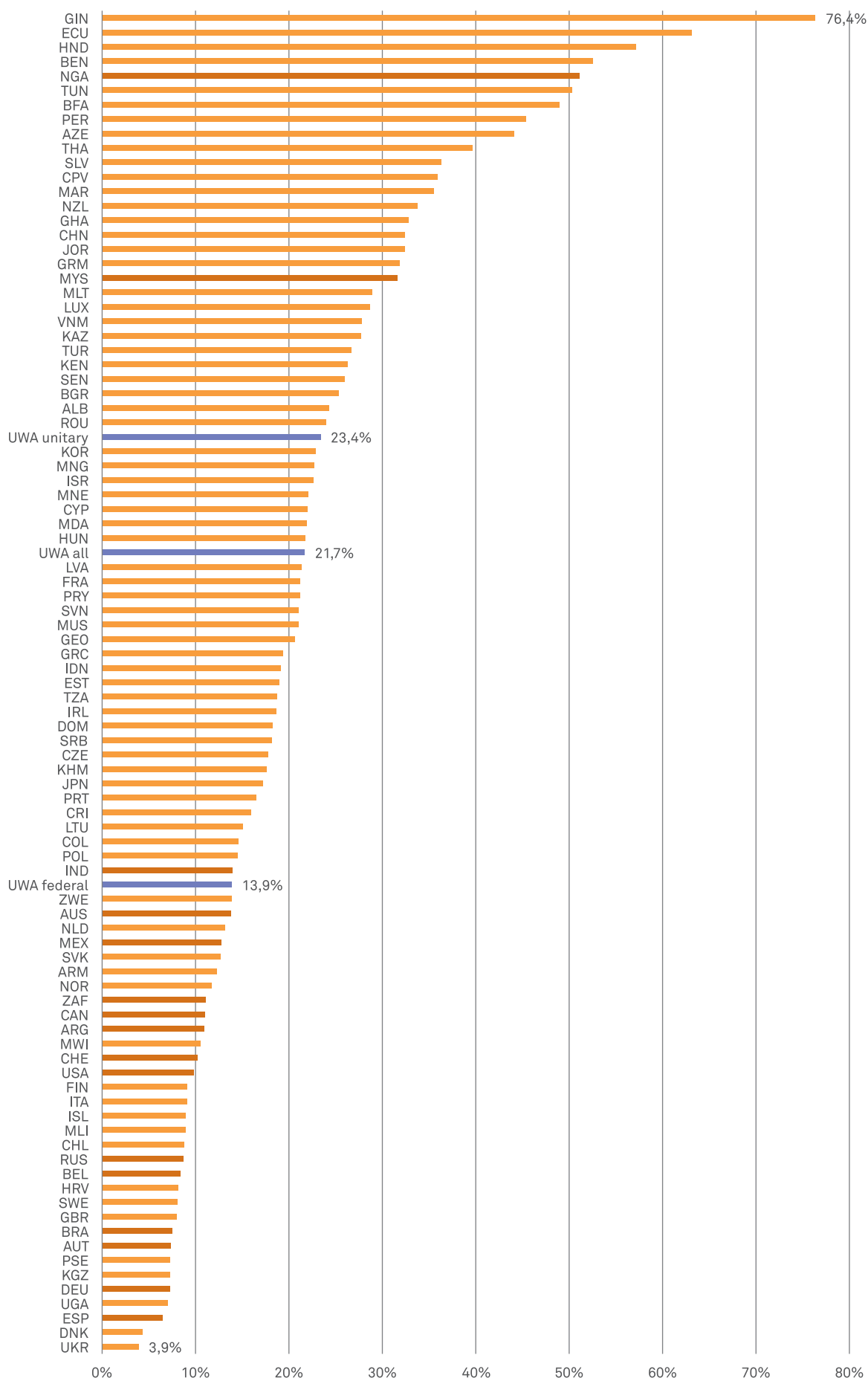
The share of investment in total SNG expenditure ranges from around 4% in Denmark and Ukraine to over three-quarters in Guinea, the unweighted average for the country sample being 21.7% (Figure 23).

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)

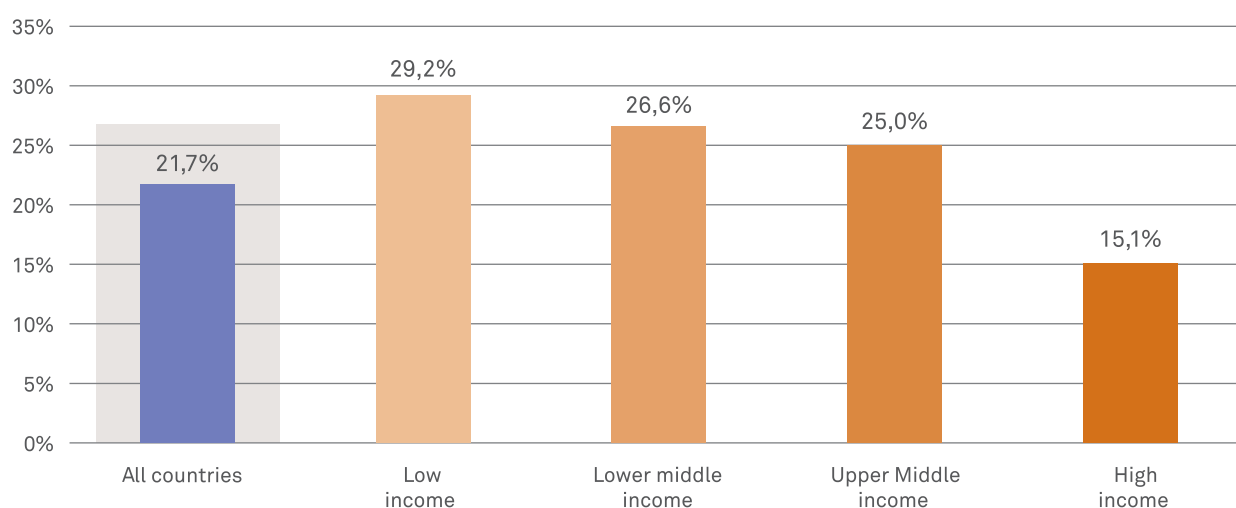
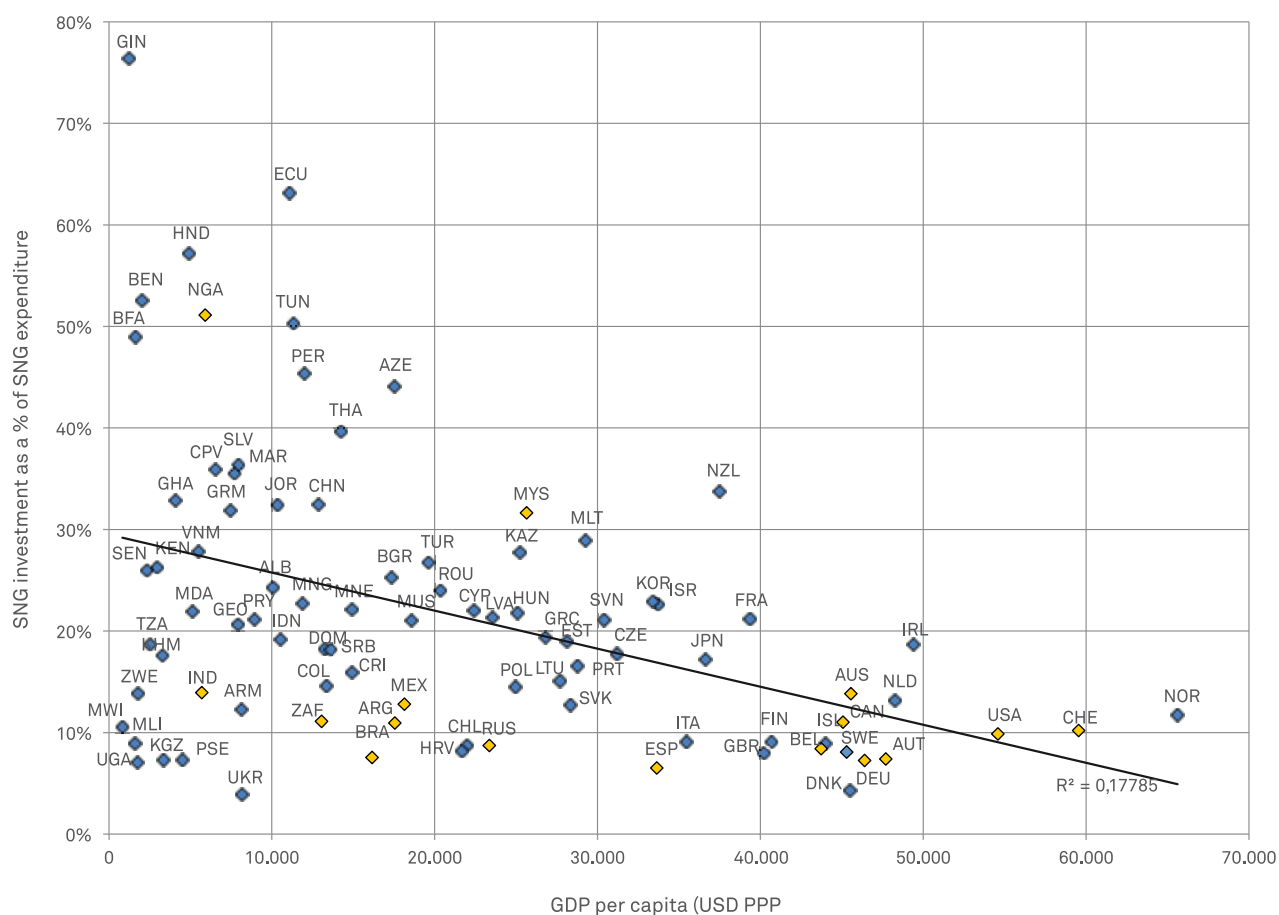


Figure 25. SNG investment as a % of SNG expenditure and GDP per capita (2013)





## 3.

# SUBNATIONAL GOVERNMENT REVENUES VARY GREATLY

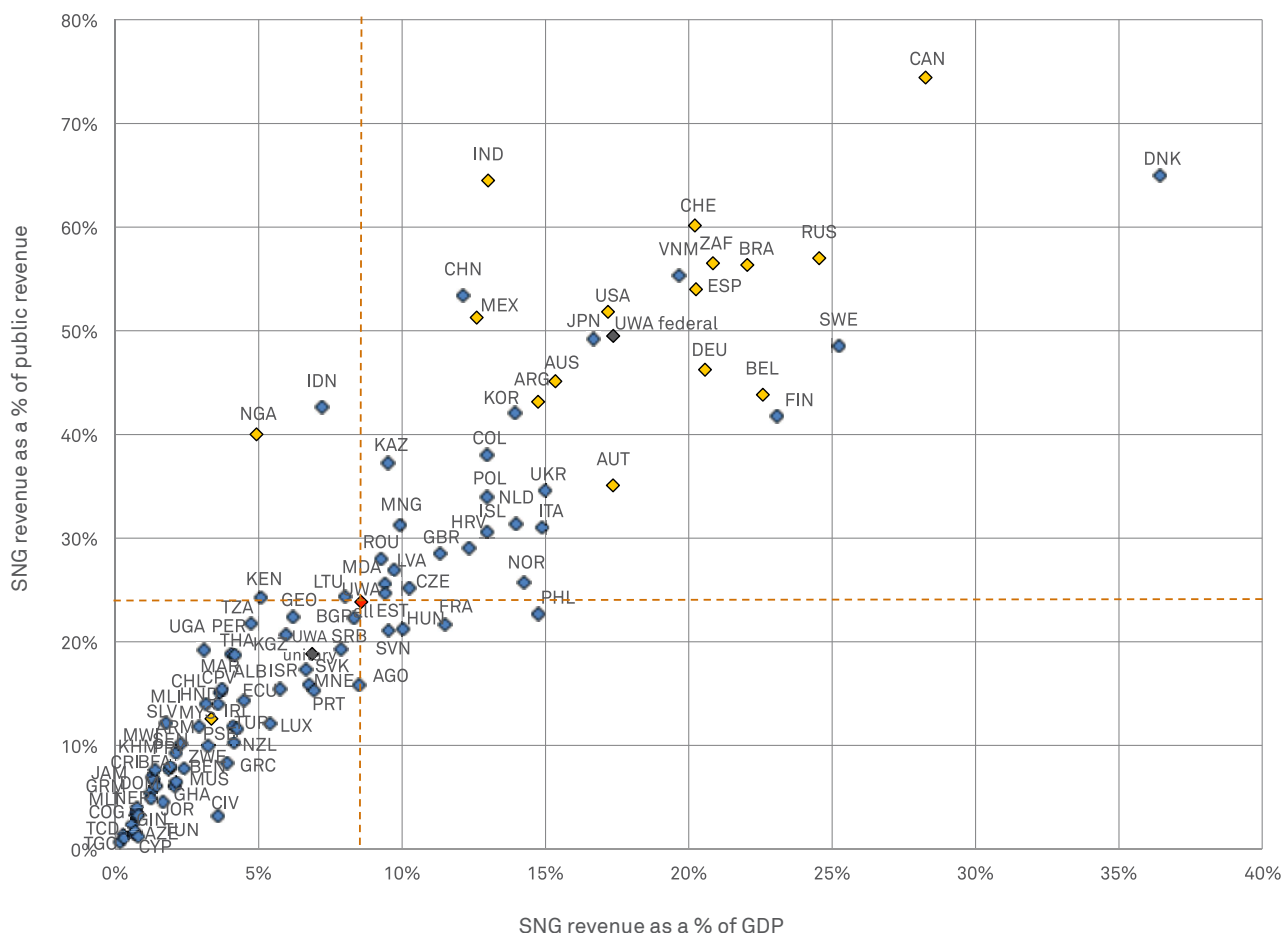
## 3.1

### 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)

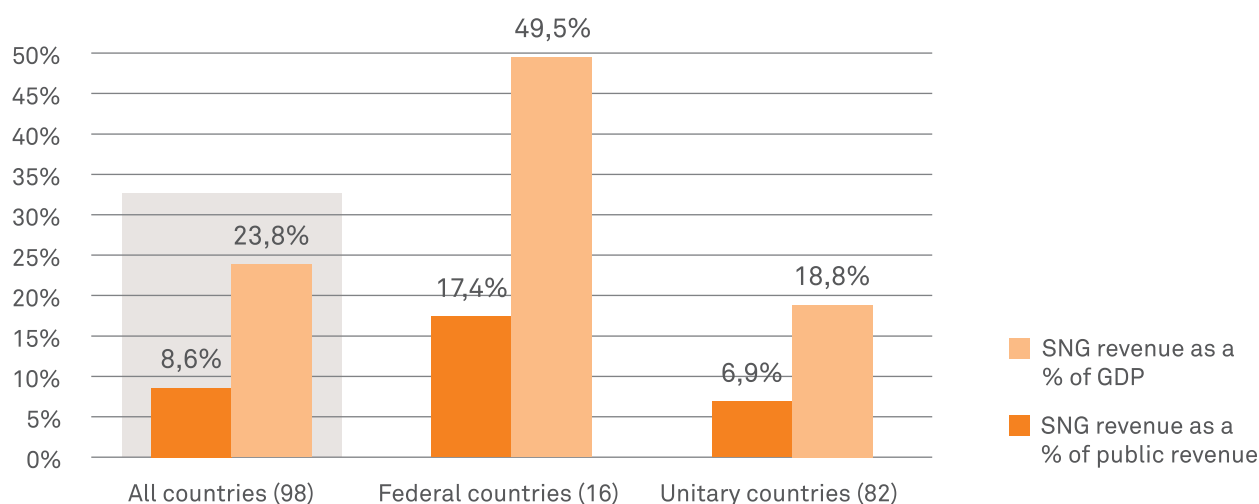
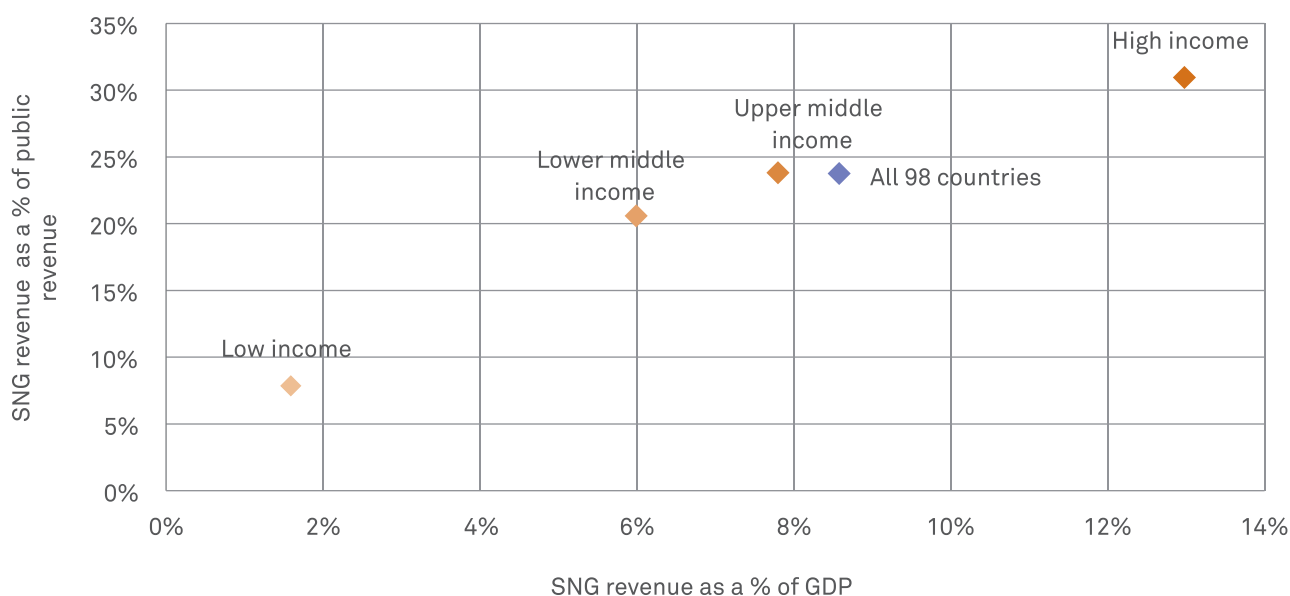


Figure 28. SNG revenue and income country groups (2013)



| 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)

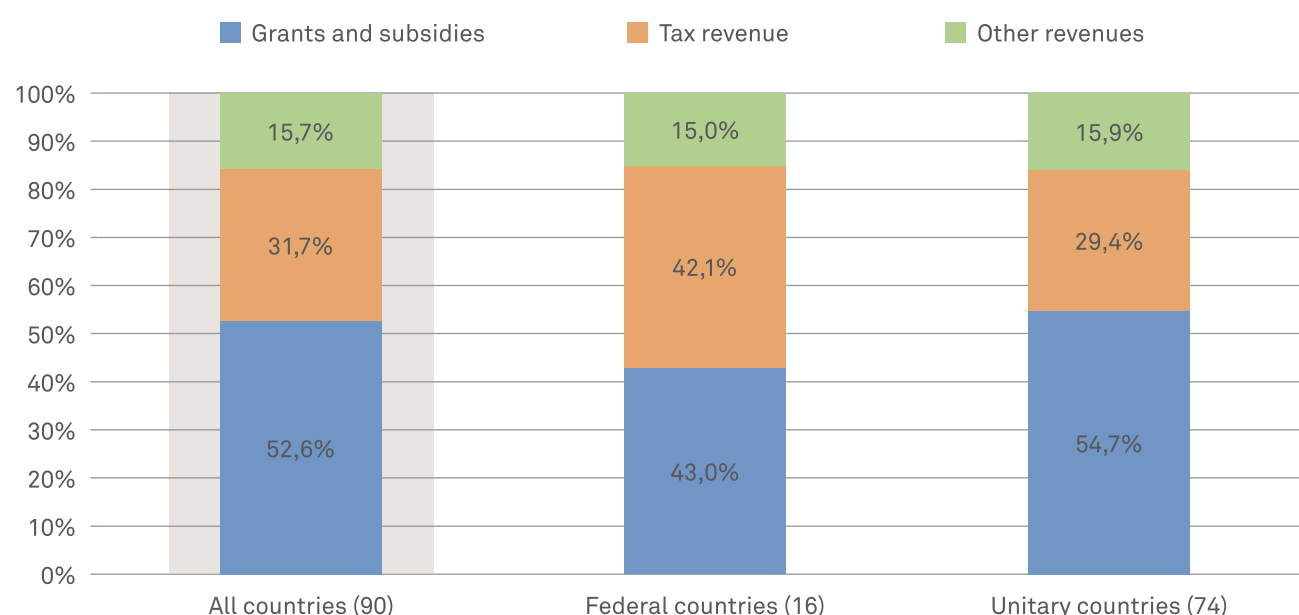


Figure 30. Breakdown of SNG revenue by category and income level (2013, % of SNG revenue)

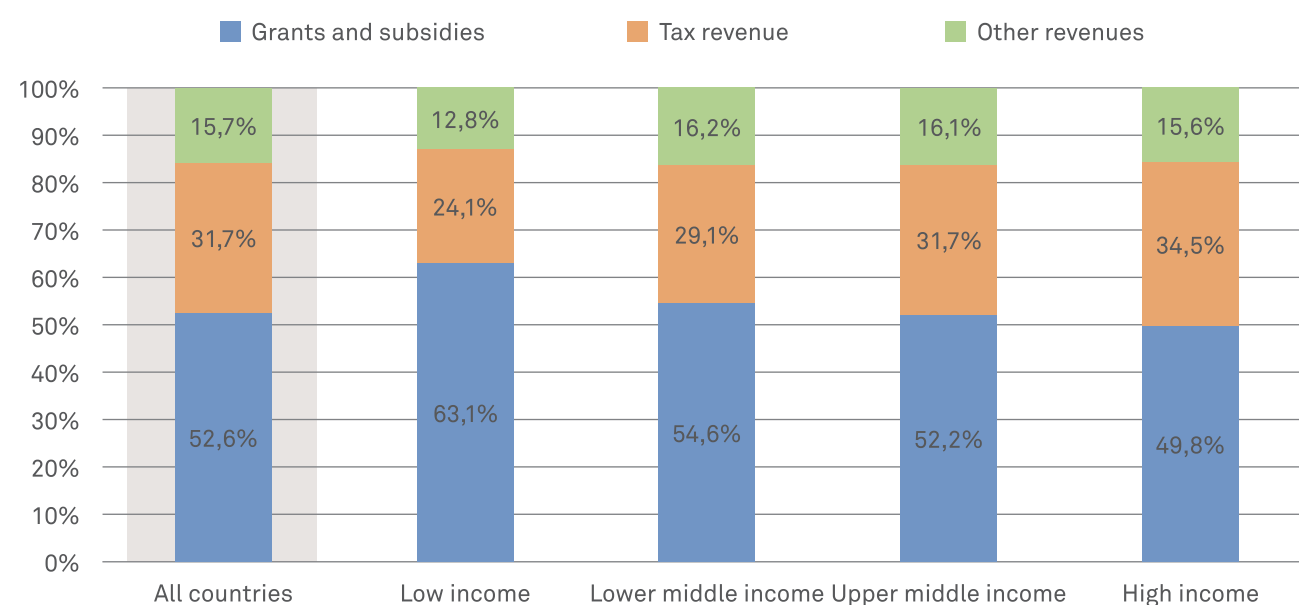
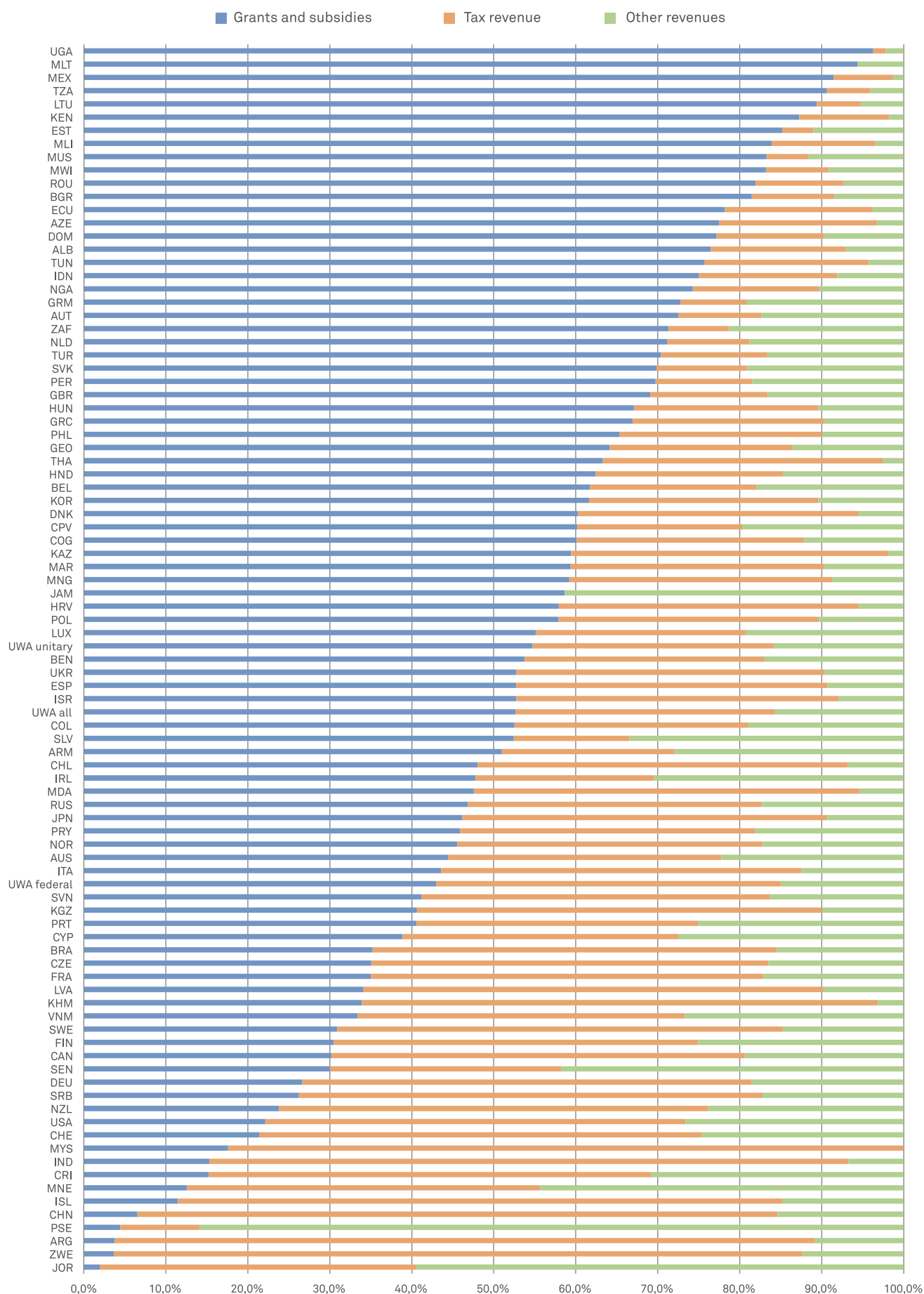




Figure 31. Breakdown of SNG revenue by category (2013, % of SNG revenue)





### 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)

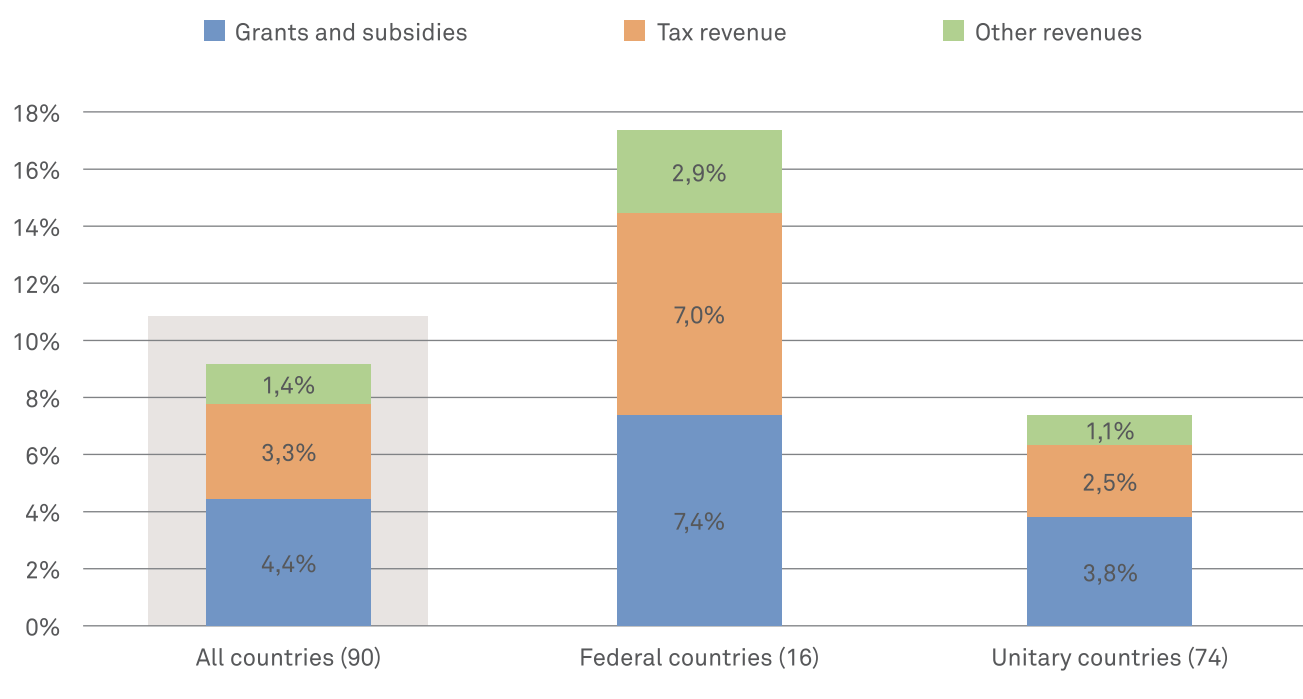
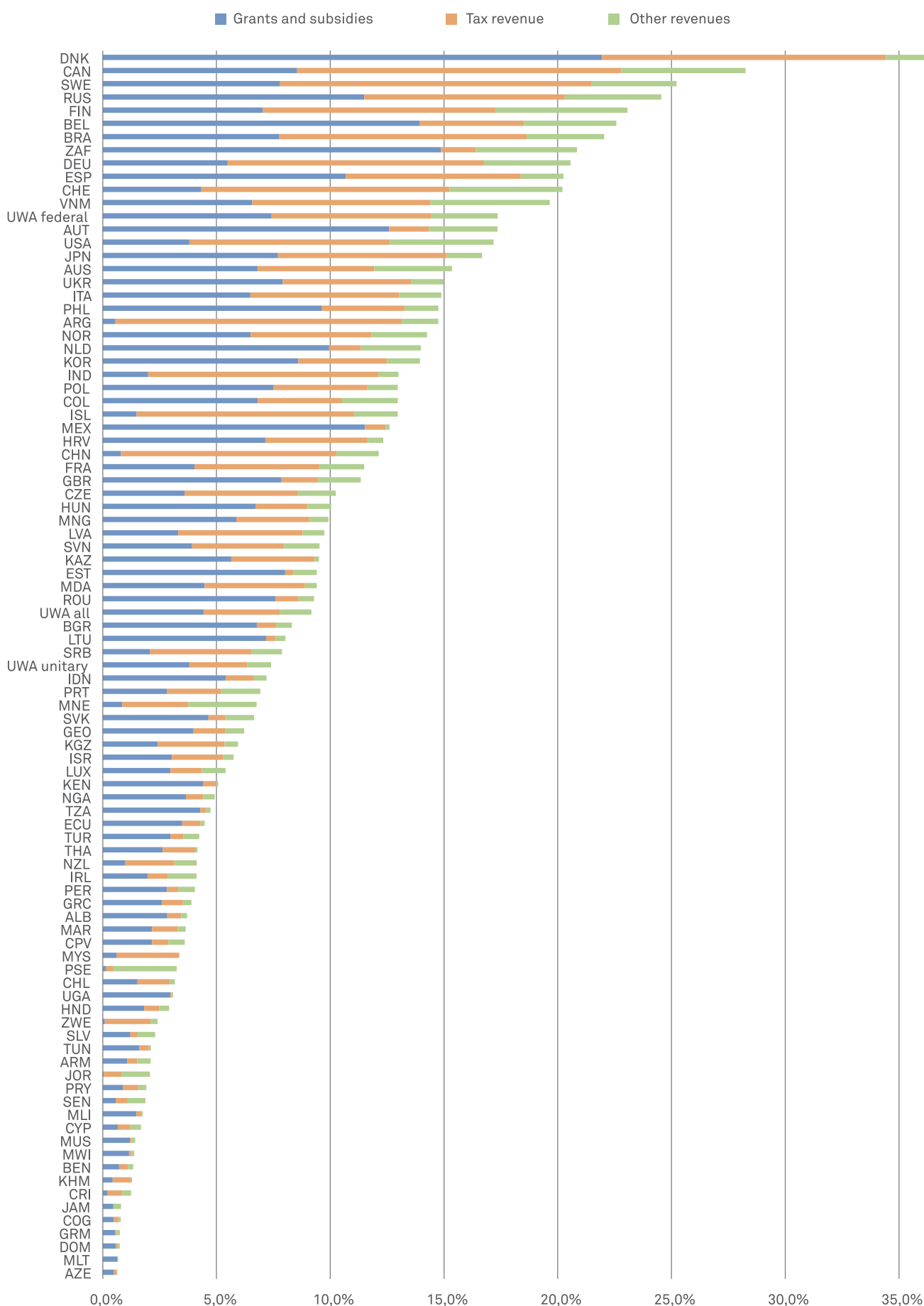




Figure 33. Breakdown of SNG revenue sources as a % of GDP by country (2013)

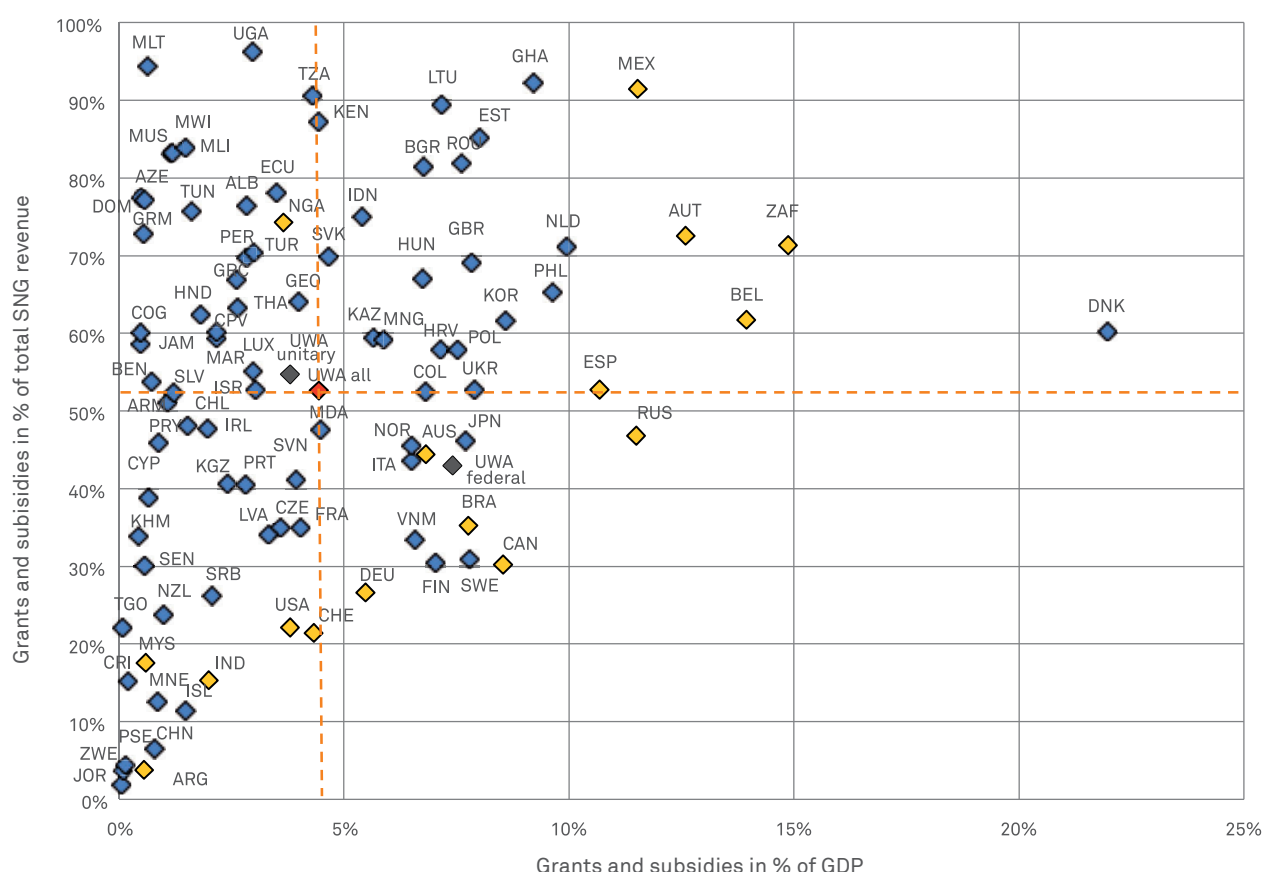




### 3.3 FOCUS ON GRANTS AND SUBSIDIES

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).

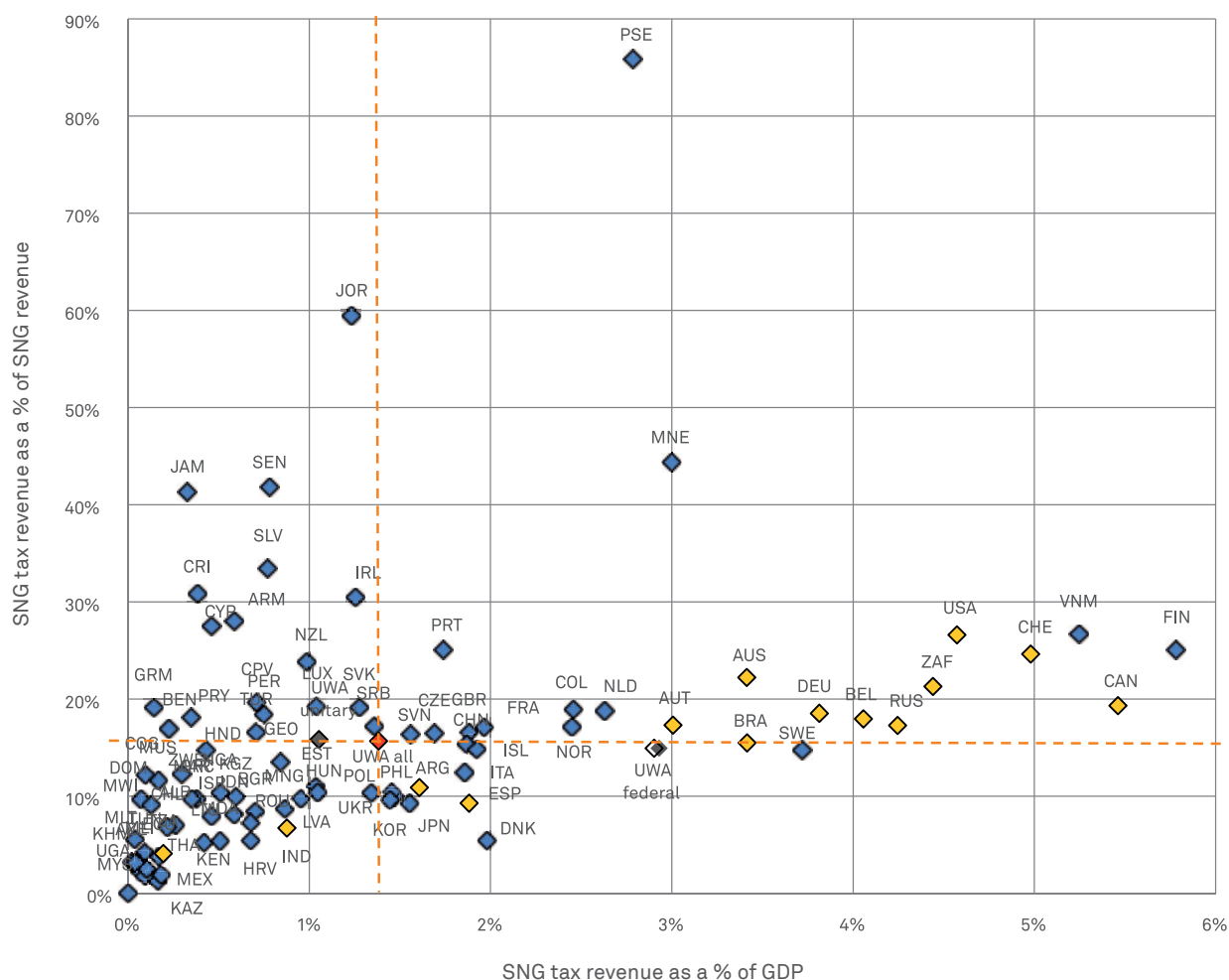
Ten federal countries have a high level of "other revenues" both in terms of GDP and share in total revenue, reflecting the importance of local public services which are charged (Switzerland) but also for some of them, the importance of property income, based on dividends and royalties (Australia, Brazil,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

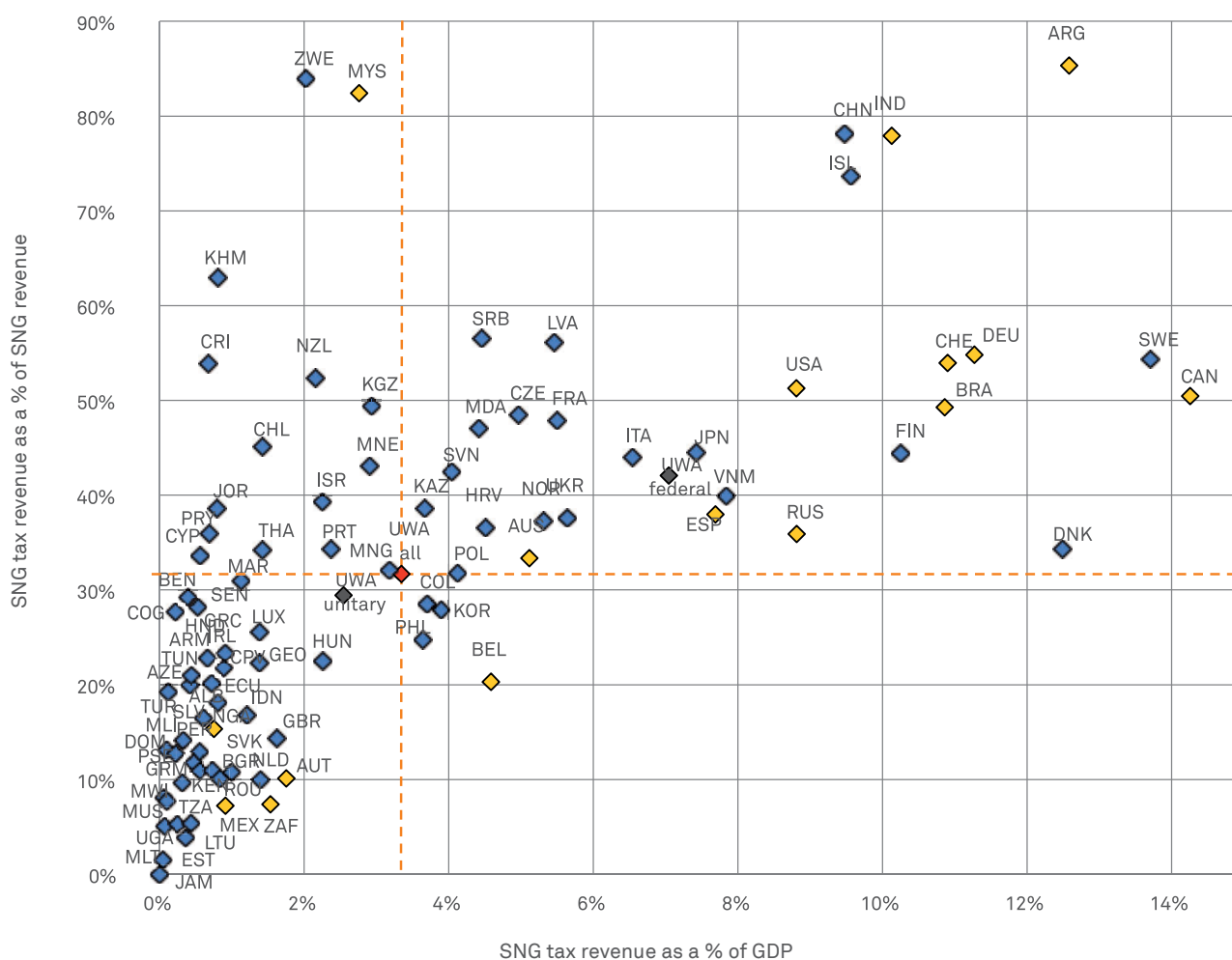
The comparison between both ratios reveals interesting findings. The funding model is based

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)**

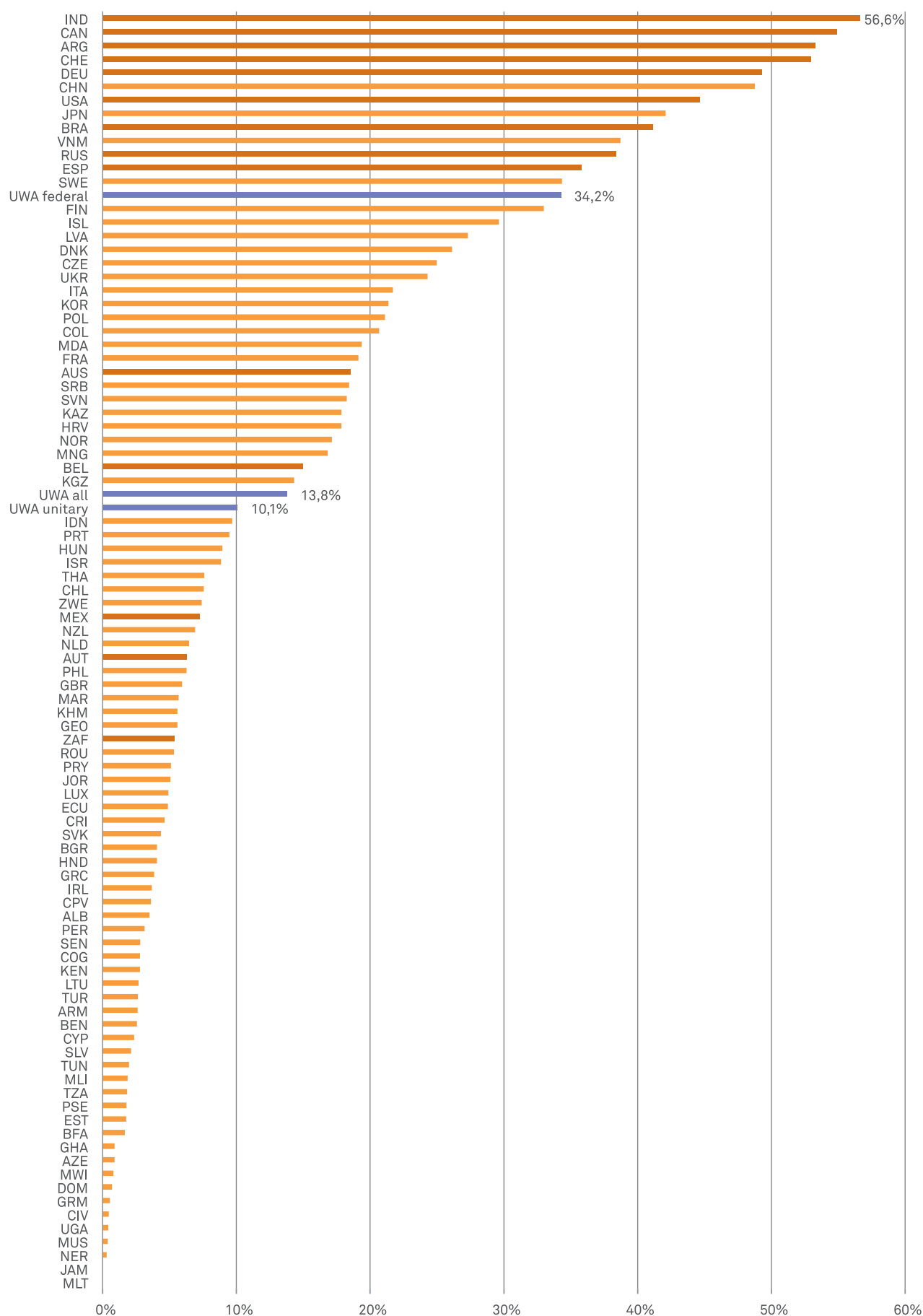


The share of SNG tax revenue in public tax revenue complements this overview, also reflecting the degree of tax decentralisation, keeping in mind however the fact that tax revenue is not made up only of own-source taxes, but includes also shared taxes (Figure 37). On average, SNG tax revenue represents 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

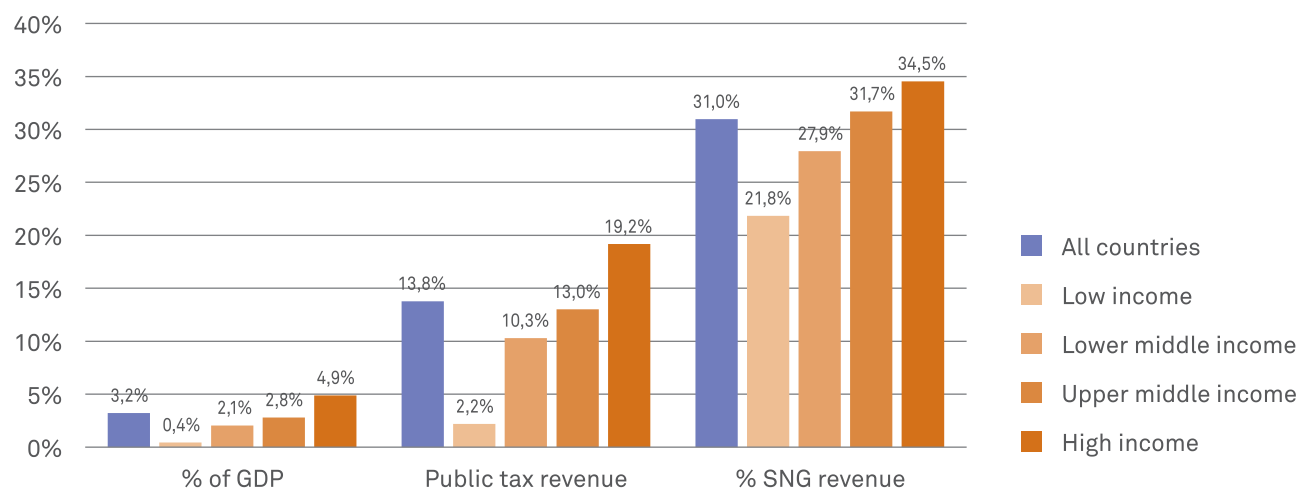
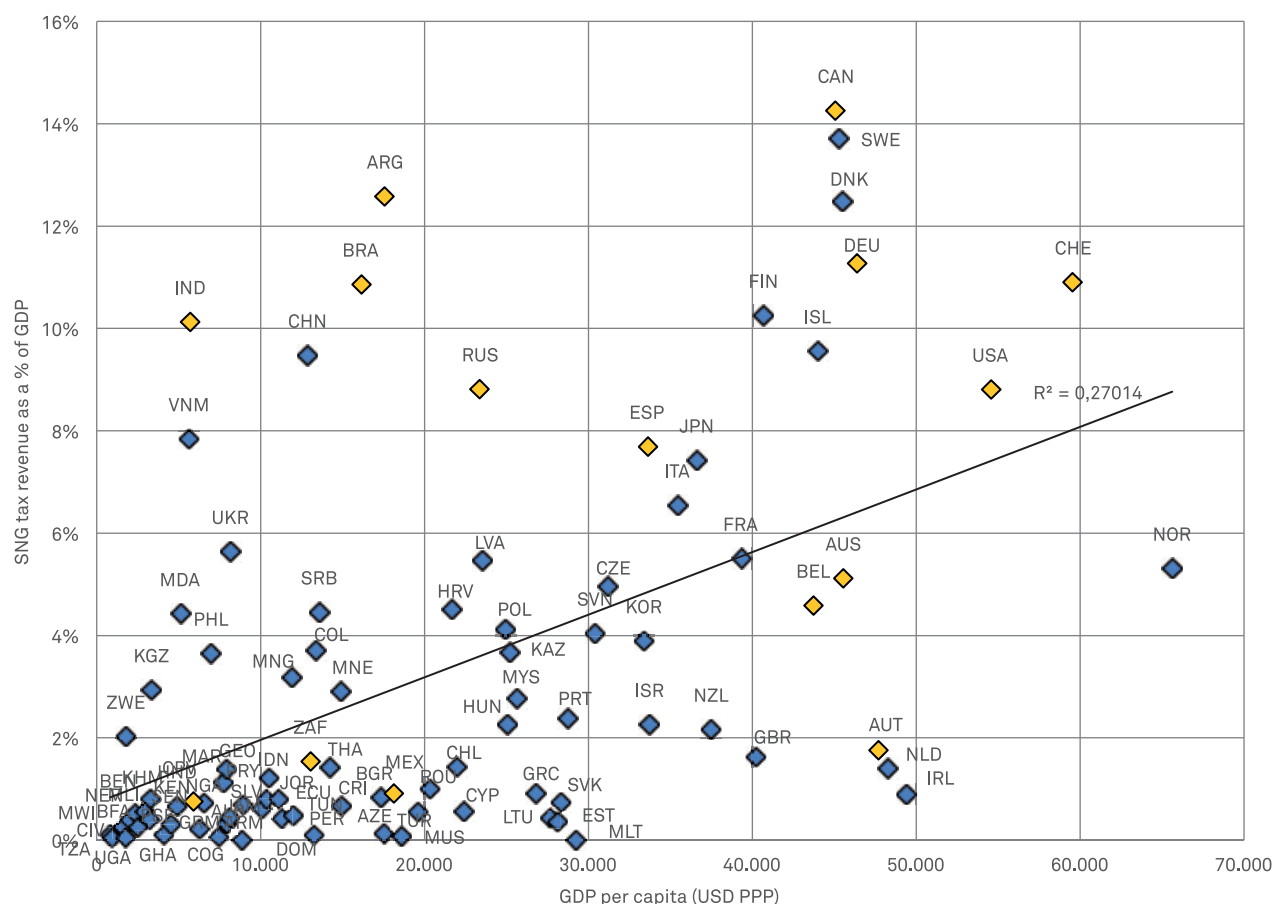


Figure 39. SNG revenue as a % of GDP and GDP per capita (2013)



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.

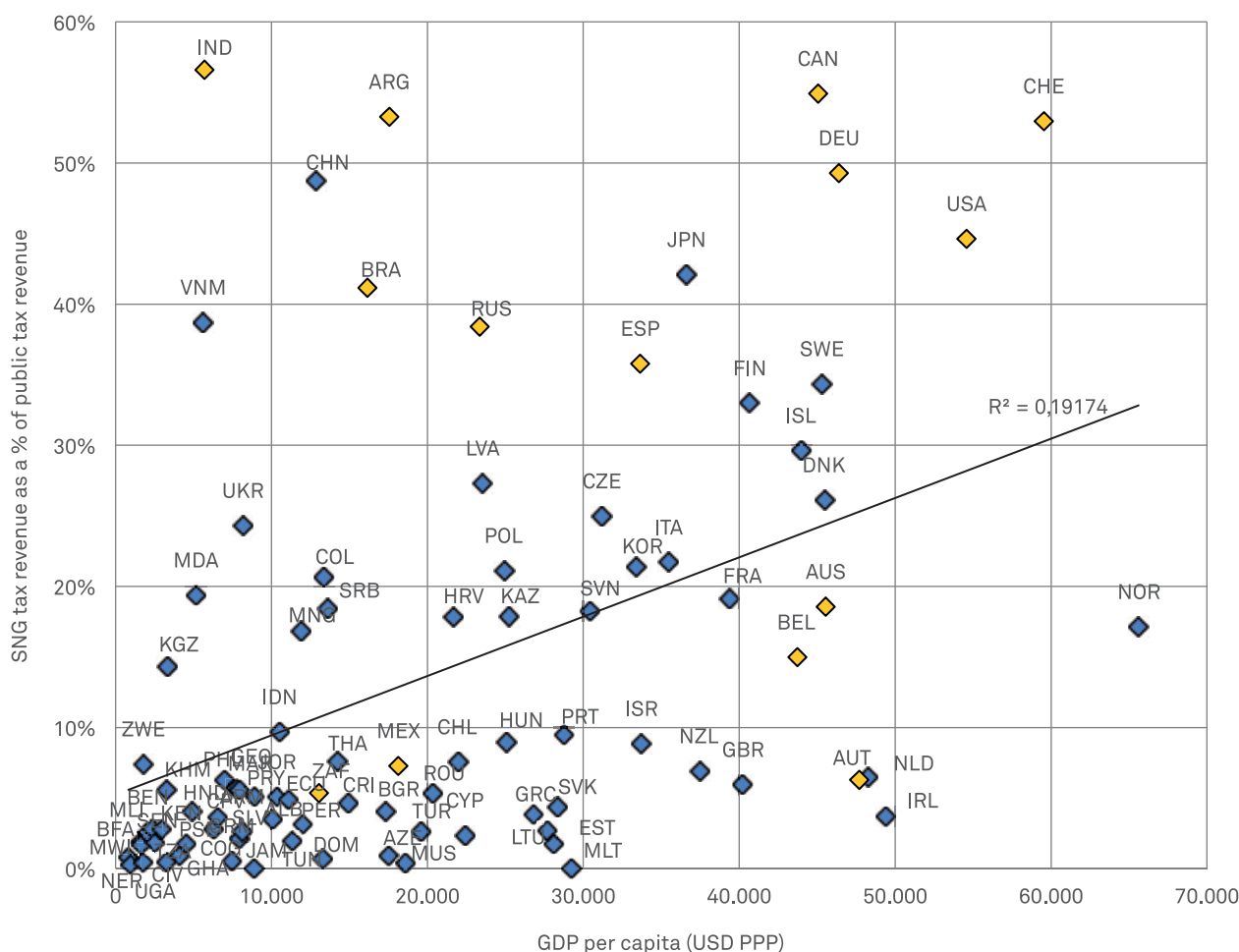
However, the fact remains that the funding model relies more on tax revenue (shared and own) in high income countries than in other groups, especially with low income countries.

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)

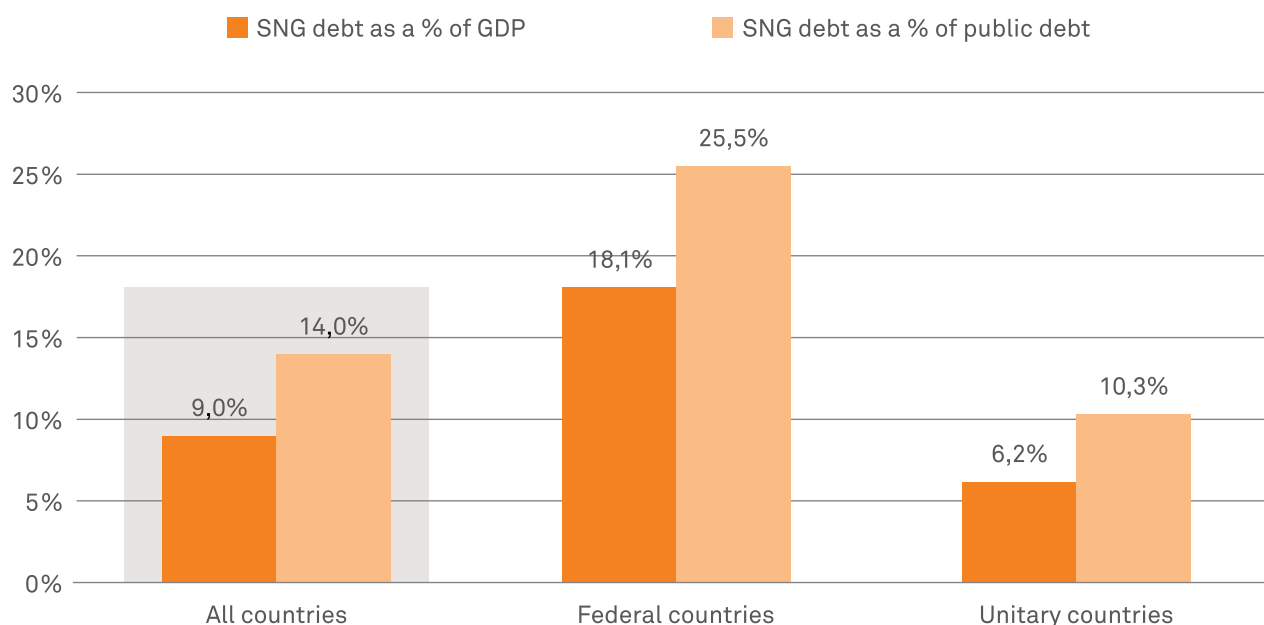
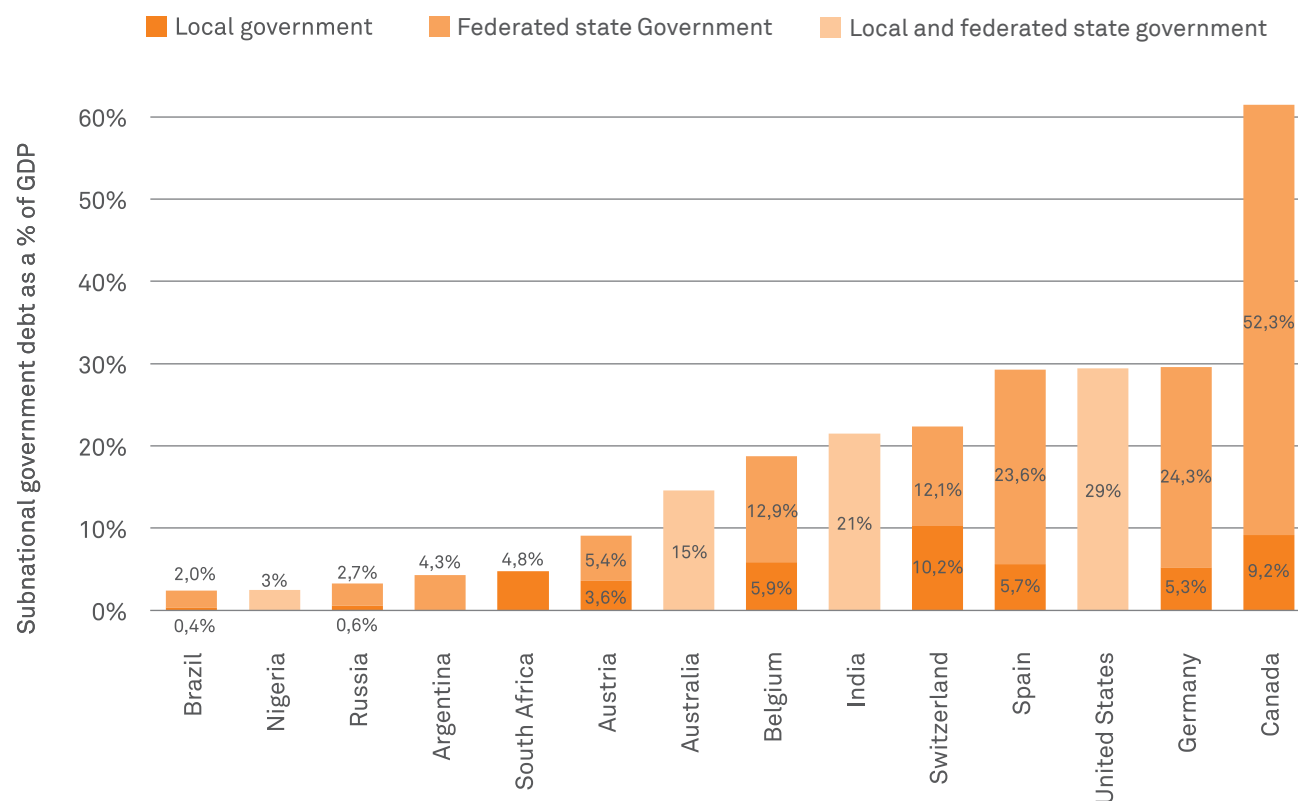






Figure 44. **Breakdown of SNG debt by levels of SNGs in federal countries (2013, % of GDP)**



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).

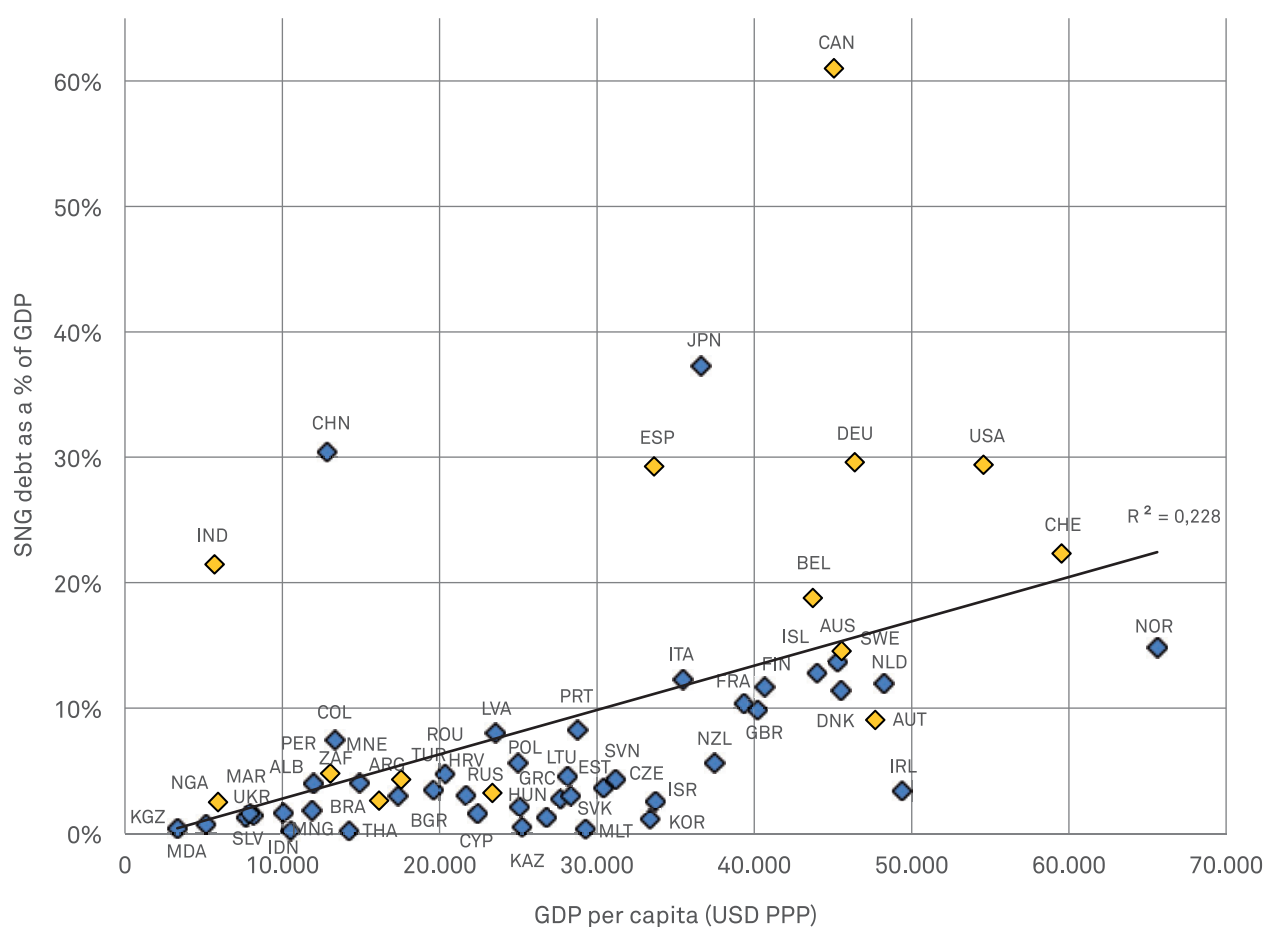


However, there are other factors impacting SNG debt, in particular the fiscal framework which can include rules governing the recourse to borrowing. As already underlined, recourse to borrowing by SNGs is regulated in the majority of countries, in particular at the local government level. In a number 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

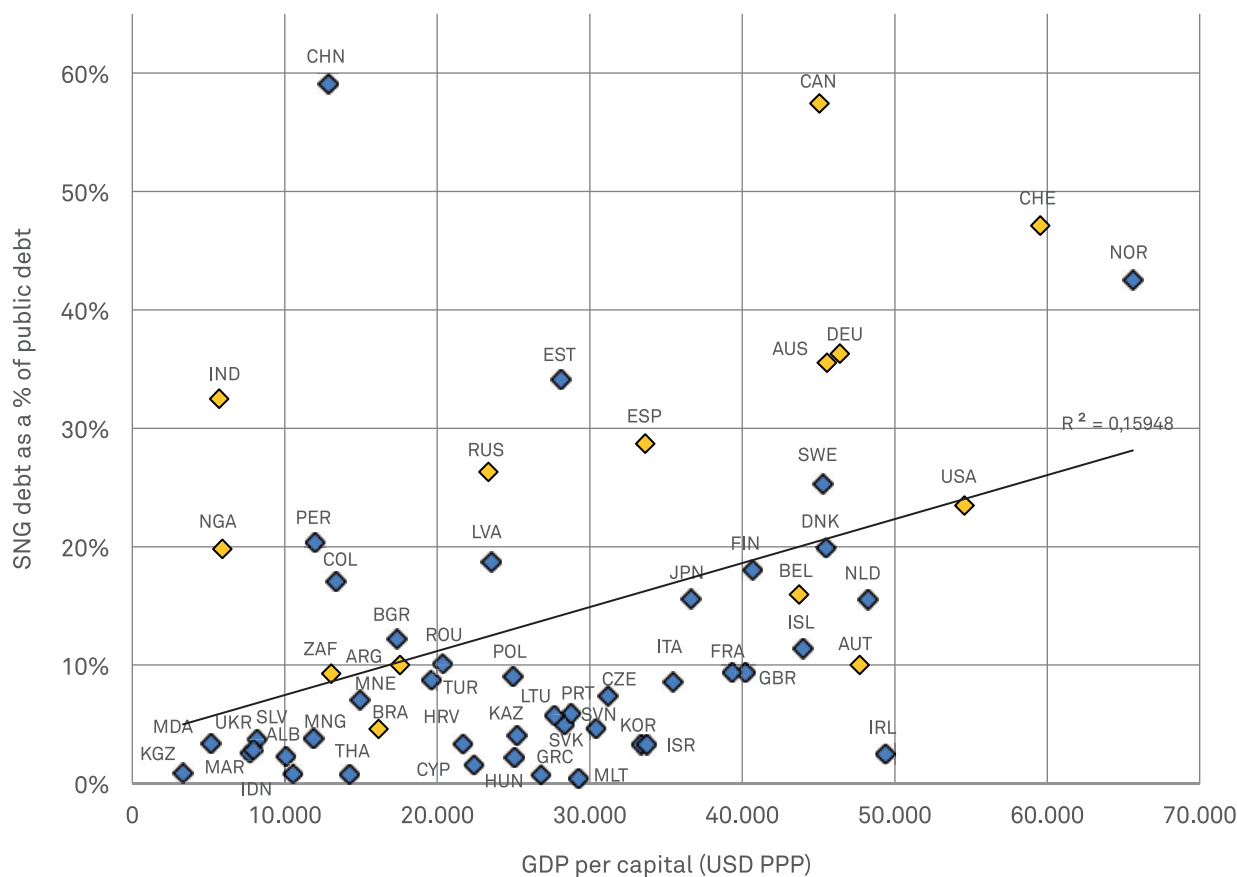
Figure 45. SNG debt as a % of GDP and GDP per capita (2013)



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

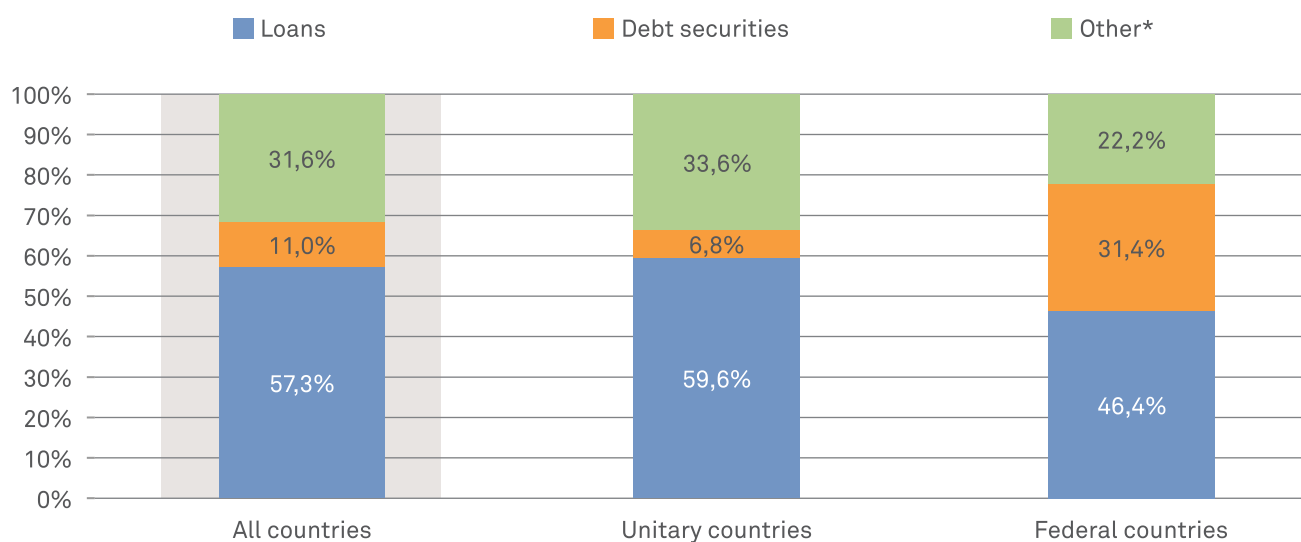
SNG debt stock is made up of “financial debt” (mainly loans and debt securities resulting from borrowing) and “non-financial debt” i.e. the sum of other accounts payable (arrears, suppliers debt, etc.) and pension liabilities (insurance pensions and standardised guarantees)

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.

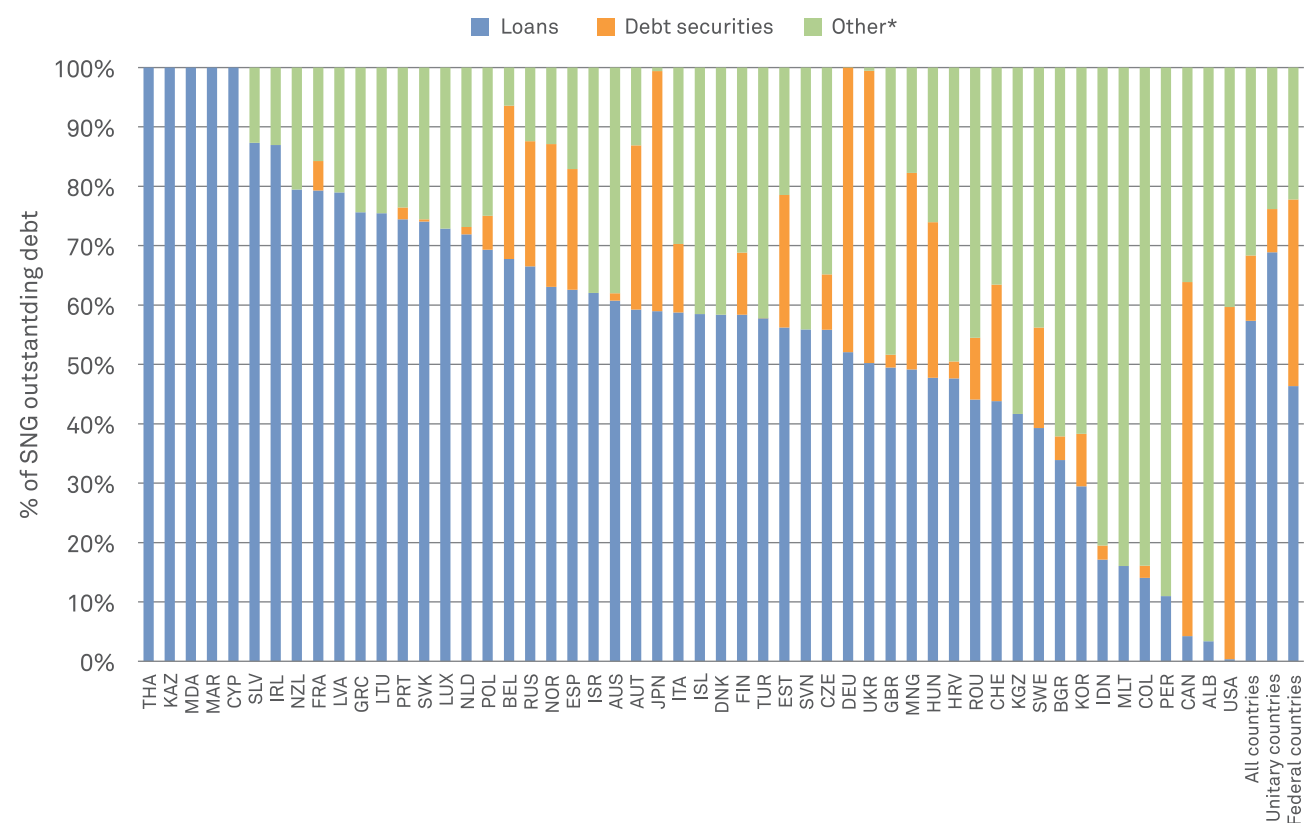


Figure 47. Debt composition in federal and unitary countries (2013)



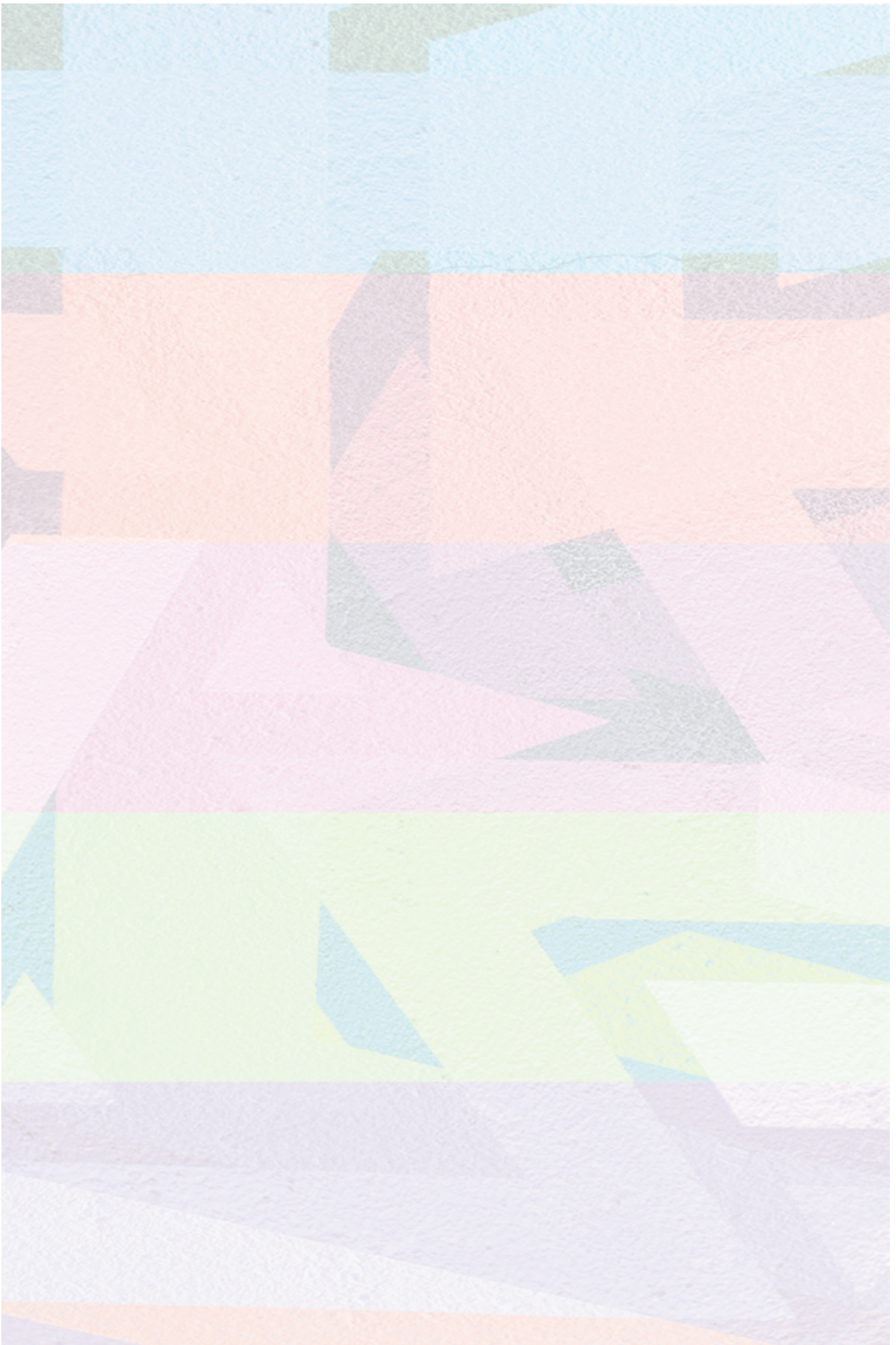
\*Other: other accounts payable, insurance pensions and standardised guarantees, currency and deposits.

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



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









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<br>(state government and/or local government)   |
|--|---|
| Expenditure                              | <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> |
| Expenditure by type of economic function | <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>   |
| Revenue                                  | <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>  |
| Debt                                     | <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.

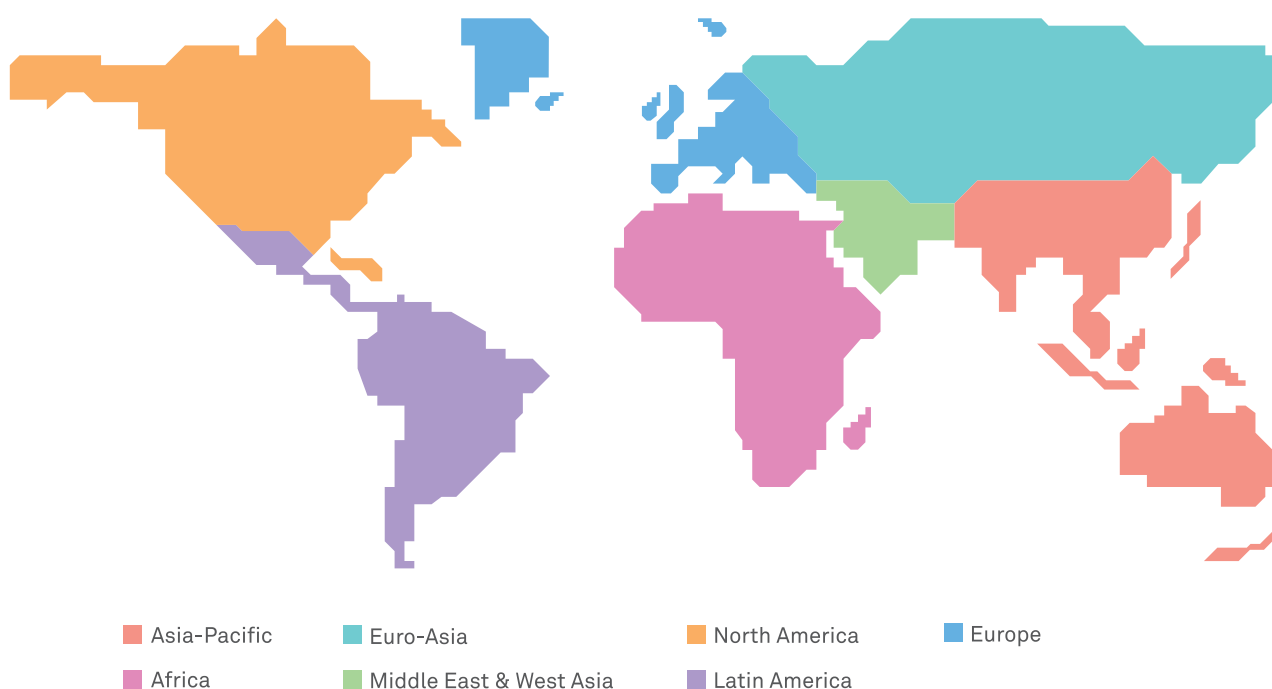
# A SAMPLE OF 101 COUNTRIES SPREAD OVER 7 MAIN REGIONS OF THE WORLD

## 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

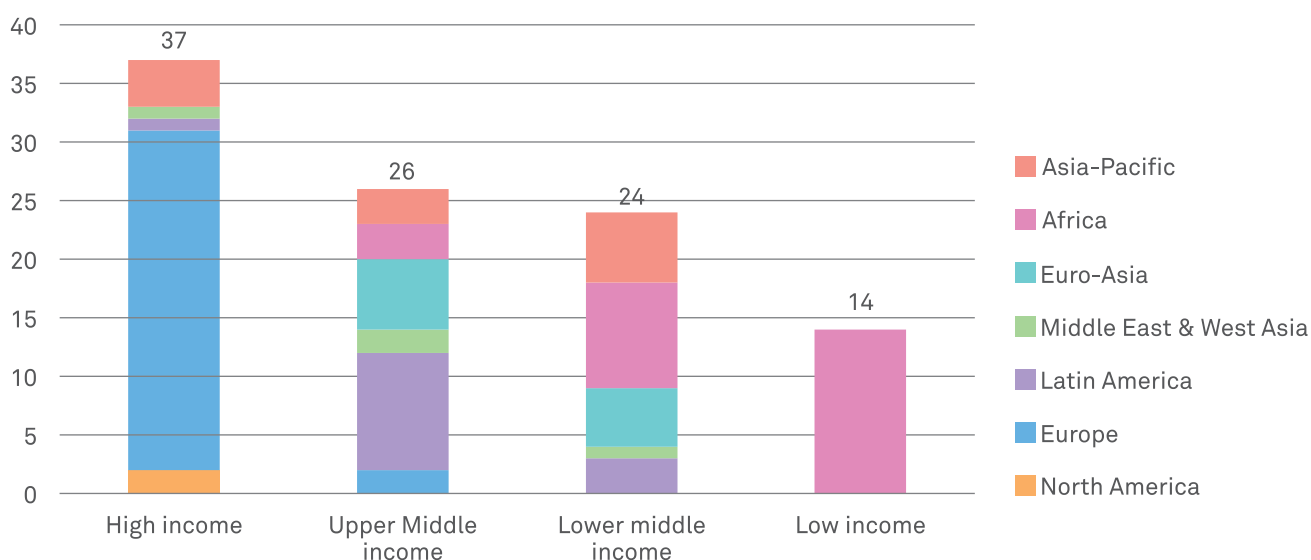
The 101 countries of the sample represent 5.965 billion inhabitants i.e. 82% of world population spread over the seven main regional areas in the world. The sample represents in total 87.5% of the world GDP.

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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- 





**PART III**

# **COUNTRY PROFILES**

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## AFRICA

Angola  
Benin  
Burkina Faso  
Cameroon  
Cape Verde  
Chad  
Republic of Congo  
Ethiopia  
Ghana  
Guinea  
Guinea Bissau  
Ivory Coast  
Kenya  
Malawi  
Mali  
Mauritius  
Morocco  
Niger  
Nigeria  
Senegal  
South Africa  
Tanzania  
Togo  
Tunisia  
Uganda  
Zimbabwe

## ASIA PACIFIC

Australia  
Cambodia  
China  
India  
Indonesia  
Japan  
Korea  
Malaysia  
Mongolia  
New Zealand  
Philippines  
Thailand  
Vietnam

## EURO-ASIA

Albania  
Armenia  
Azerbaijan  
Georgia  
Kazakhstan  
Kyrgyzstan  
Moldova  
Montenegro  
Russian Federation  
Serbia  
Ukraine

## EUROPE

Austria  
Belgium  
Bulgaria  
Croatia  
Cyprus  
Czech Republic  
Denmark  
Estonia  
Finland  
France  
Germany  
Greece  
Hungary  
Iceland  
Ireland  
Italy  
Latvia  
Lithuania  
Luxembourg  
Malta  
Netherlands  
Norway  
Poland  
Portugal  
Romania  
Slovak Republic  
Slovenia  
Spain  
Sweden  
Switzerland  
United Kingdom

## LATIN AMERICA

Argentina  
Brazil  
Chile  
Colombia  
Costa Rica  
Dominican Republic  
Ecuador  
El Salvador  
Guatemala  
Honduras  
Jamaica  
Mexico  
Paraguay  
Peru

## MIDDLE EAST WEST ASIA

Israel  
Jordan  
Palestinian territories  
Turkey

## NORTHERN AMERICA

Canada  
United States of America







# ANGOLA

UNITARY COUNTRY

## AFRICA

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **UPPER MIDDLE INCOME** Local currency - **Angolan Kwanza (AOA)**

#### POPULATION AND GEOGRAPHY

AREA: **1 246 700** km<sup>2</sup>

POPULATION: **22.1** million inhabitants (2014),  
an increase of 5.0% per year (2010-14)

DENSITY: **18** inhabitants/km<sup>2</sup>

URBAN POPULATION: **43.3%** of national population

CAPITAL CITY: **Luanda** (23.9% of national population)

Sources: World Bank, UNDP-HDR, ILO

#### ECONOMIC DATA

GDP: **(-)** billion (current PPP international dollars)  
i.e. (-) dollars per inhabitant (2014)

REAL GDP GROWTH: **3.9%** (2014 vs 2013)

UNEMPLOYMENT RATE: **7.6%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **1 922** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **24%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.526** (low), **rank 149**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL<br>deconcentrated level  | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL<br>deconcentrated level | TOTAL NUMBER OF SNGs |
|--|--------------------|---|----------------------|
| <b>162</b>                               |                    | <b>18</b>                                       | <b>180</b>           |
| <b>162 MUNICIPALITIES</b><br>(MUNICIPIO) |                    | <b>18 PROVINCES</b><br>(PROVINCAS)              |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Angola is a unitary country with two levels of subnational governments, composed of 18 provinces and 162 municipalities. The Constitution also recognizes sub-municipal entities, such as “traditional authorities”. Municipalities are further divided into 532 communes for administrative purposes. Governors of the provinces are appointed by the executive, and municipal administrators are appointed by the governor of the province in which the municipality is located. According to the Constitution, sub-national governments are separate legal entities. Municipalities are independent budget units since 2007 (following the implementation of the Local Administration Law 02/07). Decentralisation in Angola has significantly evolved since the late 2000s. Major recent legislation texts include the Decree 08/08 modifying local financial arrangements through the introduction of the Fund for Municipal Management Support), and the Decree 09/08 aiming to provide technical support to municipalities in order to comply with their new functions. The introduction of local elections has been high on the agenda of the government over the recent years. In May 2015, the Parliament approved a plan for the preparation of local elections that has however been delayed.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The competences allocated to each level of government are defined in the Constitution (art. 219), the Local Administration Law 02/07, and the Law 17/10. The provinces are responsible for the promotion and orientation of socio-economic development, provincial planning, social support, education (alphabetisation, primary education), healthcare, environment protection, etc. They also play a role in the execution of decisions made by central authorities regarding regional/local matters, and supervise public institutes and companies of provincial/local importance. Municipalities are responsible for municipal and urban planning, agriculture and rural development, primary healthcare, municipal police, sanitation, etc.

### SUBNATIONAL GOVERNMENT FINANCE

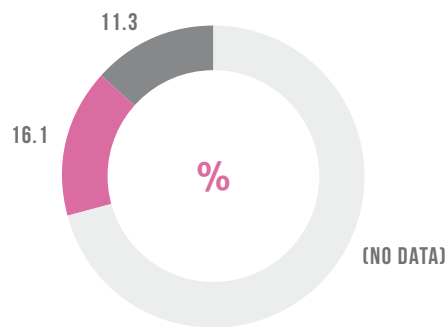
| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL GOVERNMENT |
|---------------------------------|-------------|---|--------------------------|
| <b>TOTAL EXPENDITURE (2012)</b> | <b>5.8%</b> | <b>12%</b>  | <b>100%</b>              |
| <b>CURRENT EXPENDITURE</b>      | 5.0%        | -   | 86.4%                    |
| <b>STAFF EXPENDITURE</b>        | -           | -   | -                        |
| <b>INVESTMENT</b>               | -           | -   | -                        |

Considering the distribution of expenditures by level of administration, Angola has a low degree of fiscal decentralization. In 2012, the local level was responsible for 12% of the expenditures made. Strong participation at the central government level can be explained by the capital expenditure that continued to be undertaken directly by bodies that are dependent on the central structure.



## EXPENDITURE BY FUNCTION

### % SUBNATIONAL GOVERNMENT EXPENDITURE



Healthcare and education represent a significant share of sub-national expenditures. Education expenditure is mostly related to provinces, which are responsible for primary education, although a few large municipality also have some degree of education spending. Both provinces and municipalities have healthcare expenditure; these include provincial hospitals, and primary healthcare.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2012) | 8.5%  | 15.9%   | 100%                     |
| TAX REVENUE          | -     | -   | -                        |
| GRANTS AND SUBSIDIES | -     | -   | -                        |
| OTHER REVENUES       | -     | -   | -                        |

The prominence of the central government can also be observed on the revenue side in this natural-resources based country. Out of the total fiscal revenue collected in Angola, only 15,9% was in respect of the provinces and municipalities that make up the country.

**TAX REVENUE.** Provincial and local governments in Angola do not raise any own tax. In practice, they are budget units under a centrally managed budget. While they benefit from shared taxes described in the Decree 30/10 (see below), all tax receipts are transferred to the "Single Treasury Account" (Conta Única do Tesouro, CUT); a share of these transfers is then re-distributed to sub-national governments. Another issue worth pointing out is related to the strong concentration of tax revenue collection (both with respect to central and local governments) on the province of Luanda.

**GRANTS AND SUBSIDIES.** Some provinces rely heavily on transfers based on revenues from oil or diamond extraction. For instance, the provinces of Luanda-Norte, Luanda-Sul and Moxico receive a transfer amounting to 10% of tax receipts on diamond extraction. The provinces of Cabinda and Zaire receive similarly funds from oil extraction.

According to the Decree 30/10, municipalities benefit from a share of the following taxes: personal income tax, real estate tax, real estate transfer tax, tax on industrial companies, inheritance and donation tax, excise duties, circulation tax, etc. These funds are transferred to local authorities from the "Single Treasury Account".

The Fund for Municipal Management Support is a main source of transfer revenues for municipalities. These transfers are not formula-based, and consist of the same amount for all municipalities irrespectively of their size or population. They mainly aim at financing infrastructure investments.

**OTHER REVENUES.** Additional revenues for municipalities include service and license fees that do not enter in the "Single Treasury Account", for instance local market fees.

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

Sub-national governments in Angola do not possess legal authority to contract debt.

A joint- study of:



Publication date: October 2016

**Sources:** <http://www.mat.gov.ao> • Relatório e Parecer sobre a Conta Geral do Estado 2012 • Ministério Das Finanças: Resumo Das Despesas De Funcionamento Do Órgão Por Uo • UNDP (2006): "Diagnóstico da Descentralização Fiscal em Angola" Decreto Presidencial n. 30/10 • Fjeldstad, O. and A. Orre (2011): "Porquê Cobrar Impostos Locais Em Angola?", Angola Brief Volume 1 • Yilmaz, S. and M. Felicio (2009): "Angola: Local Government Discretion and Accountability" • Africa Region Working Paper Series No. 128 • Own calculations based on Ministério Das Finanças, Resumo Das Despesas De Funcionamento Do Órgão Por Uo £M. Lemos Gabriel (2014): "Poder local e autarquias locais: institucionalização e modelos para sua implementação", Justiça Do Direito v. 28 • PAANE (2015): "Guia Básico Sobre Descentralização E Autarquias Locais No Contexto De Angola" • C. Teixeira (2012): "Administração e governação local em Angola", História: Debates e Tendências – v. 11



# BENIN

UNITARY COUNTRY

## AFRICA

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOW-INCOME** Local currency - **Franc CFA (XOF)**

#### POPULATION AND GEOGRAPHY

AREA: **112 622** km<sup>2</sup>

POPULATION: **10.6** million inhabitants (2014),  
an increase of 2.7% per year (2010-14)

DENSITY: **94** inhabitants/km<sup>2</sup>

URBAN POPULATION: **44%** of national population

CAPITAL CITY: **Porto Novo** (6.4% of national population)

Sources: Institut National de la Statistique et de l'Analyse Economique du Bénin ; WBI ; UNDP-HDI ; ILO

#### ECONOMIC DATA

GDP: **21.5** billion (current PPP international dollars)  
i.e. 2 030 dollars per inhabitant (2014)

REAL GDP GROWTH: **6.5%** (2014 vs 2013)

UNEMPLOYMENT RATE: **1.1%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **377** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **25%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.480** (low), rank **166**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL                        | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|--|--------------------|-------------------------|----------------------|
| <b>77</b><br>MUNICIPALITIES (COMMUNES) | -                  | -                       | <b>77</b>            |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Benin is a unitary state with a one-tier decentralization system based on 77 municipalities, among which 3 special status cities (Porto Novo, Cotonou, Parakou). The constitution provides for financial and political autonomy of these local governments, who have their own budget. The central state exercises a form of control and support to the municipalities throughout its deconcentrated entities: departments, districts (*arrondissements*), neighborhoods and villages. The idea of a reform of the country's governance towards a decentralized organization emerged in 1990 with the "National Conference of Active Forces of the Nation" and then consecrated by the Constitution. Yet, the first elections of local governments executives have only been organized in 2003. These elections were preceded by the promulgation of the decentralization laws and the creation of the 77 communes in 2001.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Local governments have been empowered with both exclusive and shared functions. Exclusive competences comprises seven major areas : local development and planning ; infrastructure, utilities and transportation ; environment ; primary education ; primary health care ; social and cultural action ; business services and investments. These competences are edicted by the 1999 law on territorial organisation and are clearly defined. Municipalities with a specific status benefit from additionnal responsibilities such as profesional training, higher education, public transporation, security and communication.

### SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>1.2%</b> | <b>5.6%</b>   | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | 0.6%        | -   | 47.4%                       |
| <b>STAFF EXPENDITURE</b>        | 0.2%        | 2.9%  | 16.4%                       |
| <b>INVESTMENT</b>               | 0.6%        | 9.1%  | 52.6%                       |

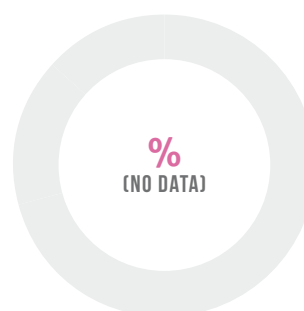
Local governments' expenditures in Benin are constrained by their lack of resources. They represent barely 1% of national GDP, and 6% of total public expenditures. On average, around half are spent on current expenditures, and the other half on capital expenditures. These shares vary widely depending on the municipalities and their sizes.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



The global volume of expenditures still constrained by limited local budgets, which are however balanced in terms of operating and investment distribution of spendings.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 1.3%  | 6.7%  | 100%                     |
| TAX REVENUE          | 0.4%  | 2.6%  | 29.3%                    |
| GRANTS AND SUBSIDIES | 0.7%  | -   | 53.8%                    |
| OTHER REVENUES       | 0.2%  | -   | 17.0%                    |

The principle of the concomitant transfer of resources and competences has not been consecrated by the Benin legislation. The law only provides for compensation for expenditures resulting from the decentralization of functions in health and primary education realms. The state has however made a large transfer of taxation powers.

**TAX REVENUE.** As for most of the UEMOA area local authorities, own tax resources are lower than those coming from intergovernmental transfers. In Benin, tax revenues comprises business tax, land tax and local development tax for 78%, and shared taxes on road maintenance et mines for 22%. Municipalities can state for the rate of the land tax, in the limits set by the legislator. Communes are still facing difficulties to properly collect their due taxes.

**GRANTS AND SUBSIDIES.** Intergovernmental transfers represent the largest share of local governments revenues in Benin. Financial transfers from the state pass through the Support fund for the development of the communes (FADEC - *Fonds d'Appui au Développement des Communes*) and are gathered through two grants: operational and investment, with the aim of compensating the inequalities between municipalities by a redistribution system, and supporting financial capabilities of the municipalities.

**OTHER REVENUES.** The municipalities also collect non-tax revenues, as fees and charges on public services, fees on ships and canoes, charges on advertisement and games, fees on artisanal alcohol. They however encounter similar problems as for the tax revenues collection.

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

Given the limits of local governments' opportunities to raise own revenues, local governments are mostly encouraged to turn towards regional development banks, international financial institutions, and the regional financial market, but they are constrained to get the approval of the central government. This blocks small-size municipalities to access borrowing from external lenders. On the other hand, some large-size municipalities, such as the city of Parakou, has issued a bond on the UEMOA regional market through the *Bourse Régionale des Valeurs Mobilières* (BRVM).

A joint- study of:



**Sources:** • Ministry of decentralization, local governance, administration and urban planning, *Recueil des lois sur la décentralisation* (2002) on <http://www.gouv.bj/sites/default/files/Recueil-des-lois-sur-la-decentralisation.pdf> • O. Syll, Decentralization in Sub-Saharan Africa. Benin., CERCOOP et Université de Franche-Comté, (2005) • F. Mbacké Cissé, K. Van Eynde, *Evaluation du thème « Appui à la décentralisation et gouvernance locale »*. Etape 2 : Etudes de terrain. Le Bénin, Coopération Belge au Développement (2006) • National Associations of Municipalities in Benin • National Committee on Local Finance of Benin • UCLGA and UCLG (2011) Regional report on decentralization and local democracy in the UEMOA area.

Publication date: October 2016

With the participation of the French Development Agency Country Office in Benin



# BURKINA FASO

UNITARY COUNTRY

AFRICA

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOW-INCOME** Local currency - **Franc CFA (XOF)**

### POPULATION AND GEOGRAPHY

AREA: **274 500** km<sup>2</sup>

POPULATION: **17.6** million inhabitants (2014),  
an increase of 3% per year (2010-14)

DENSITY: **64** inhabitants/km<sup>2</sup>

URBAN POPULATION: **29.9%** of national population

CAPITAL CITY: **Ouagadougou** (14.6% of national population)

Sources: World Bank, UNDP-HDR, ILO

### ECONOMIC DATA

GDP: **28.5** billion (current PPP international dollars)  
i.e. 1 619 dollars per inhabitant (2014)

REAL GDP GROWTH: **4%** (2014 vs 2013)

UNEMPLOYMENT RATE: **3%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **342** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **31%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.402** (low), rank **183**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL                                      | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|--|--------------------|-------------------------|----------------------|
| <b>368</b>   | <b>-</b>           | <b>13</b>               | <b>381</b>           |
| AVERAGE MUNICIPAL SIZE:<br><b>47 826 INHABITANTS</b> |                    | REGIONS                 |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Burkina Faso is a unitary state with a two-tier local government structure. Decentralisation has been enshrined in the constitution of Burkina Faso since 1991, with a devolution process on-going since 1995. Since 2006, the country is divided into 13 Regions, divided into 368 municipalities, shared between urban and rural status municipalities according to demographic and economic criterias. Between region and municipalities, there are deconcentrated provinces with role of advising mayors of municipalities. Among urban municipalities, Ouagadougou (capital city) which concentrate an important amount of inhabitants and economic activities, enjoy a special status and is divided into self-governed districts (*arrondissements*).

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The last decentralization reform in 2004 (law 055-2004, articles 28 to 105) introduced a progressive devolution of competences to local authorities including a step-by-step deconcentration then decentralization process. 10 areas of competence were to be transferred in compliance with this law, with a clear division between tiers functions. As the criteria that determined this transfer to the regional and local authorities are not explicated in the legislation or the accompanying documents, apart from the subsidiarity principle and a rule of "progressiveness", hence this devolution is defined as a devolution of „tasks“ but not as a devolution of expenditures. This often leads to confusion on the scope of devolved responsibilities and on difference between responsibility transfers and financial transfers.

## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>1.2%</b> | <b>3.9%</b>   | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | 0.6%        | -   | 51.2%                       |
| <b>STAFF EXPENDITURE</b>        | 0.1%        | 2.0%  | 11.3%                       |
| <b>INVESTMENT</b>               | 0.6%        | 4.5%  | 49.0%                       |

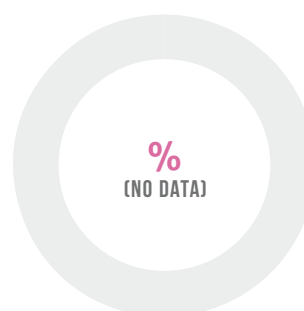
The Law 014-2006 enshrines the expenditures and resources allocations of local governments. According to this law, capital expenditures must reach at least 1/3 of total subnational expenditures, which is a great constraint on local governments' budget.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



Responsibilities by sector are being very progressively devolved upon local governments, vertically by also horizontally, according to the Burkina Strategic Framework for the implementation of decentralization (decree 095-2007). A first set of responsibilities has been devolved in 2009: culture and sport, primary school, water and sanitation, and health.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL<br>GOVERNMENT |
|----------------------|-------|---|-----------------------------|
| TOTAL REVENUE (2012) | 1.2%  | 5.4%  | 100%                        |
| TAX REVENUE          | 0.2%  | 1.7%  | 20.4%                       |
| GRANTS AND SUBSIDIES | -     | -   | -                           |
| OTHER REVENUES       | -     | -   | -                           |

Governmental transfers still the principal financial resources of Burkinabé LGs, although they can levy taxes, which are partly shared between the two tiers of subnational government. Municipalities have also the possibility to get paid for local services that they render, through secondary taxation system and user fees. Access to borrowing is very limited and mostly indirect (retroceded from the State to the LG), except for Bobo Dioulasso and Ouagadougou which have been authorized to borrow from an international development agency in the past years.

**TAX REVENUE.** Local tax revenue in Burkina Faso is mainly based on 6 shared taxes (*impôts*), divided between municipalities (97 to 98.5% of taxation) and Regions (5 to 3% of taxation). The taxes are based on license contribution; residency; montmain; firearms; informal sector contribution and land revenue. 4 other taxes are perceived by the municipalities. Regions also perceive a wide array of indirect taxes.

**GRANTS AND SUBSIDIES.** Central government transfers to local authorities are essential in Burkina Faso. For investments, this funding relies on the DGE (*Dotation globale d'équipement*), and on the investment grant allocated by the Permanent Development Fund for Local Governments (FPDCT) relying on a formula including poverty depth index and population; as for the current budget, the DGF (*dotation globale de fonctionnement*) grant is dedicated by the central government to municipalities and Region. Other specific investment grants can be allocated by lines ministries.

**OTHER REVENUES.** Appart from tax and grants, municipalities can collect: benefit-related taxes (*taxes locales*) which are levied by the municipality for a service that only the city can provide (for example potable water provision); and user fees and charges (*redevances*) as a price for a service rendered by the municipality.

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

Subnational borrowing is constrained to preliminary approval by central institutions.

A joint- study of:



**Sources:** B. Dafflon, T. Madiès, The Political Economy of Decentralization in Sub-Saharan Africa: A New Implementation Model in Burkina Faso, Ghana, Kenya, and Senegal. • B. Dafflon, Decentralization and local governance: local governments public finances in Burkina Faso (2012) • Africa Development Forum, Washington, DC: World Bank and Agence Française de Développement. (2013) • BCEAO, IDS World Bank 2015



# CAMEROON

UNITARY COUNTRY

AFRICA

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOWER MIDDLE INCOME** Local currency - **Franc CFA (XAF)**

### POPULATION AND GEOGRAPHY

AREA: **475 442 km<sup>2</sup>**

POPULATION: **22.8 million** inhabitants (2014),  
an increase of **2.6 %** per year (2010-14)

DENSITY: **48** inhabitants/km<sup>2</sup>

URBAN POPULATION: **54.4 %** of national population

CAPITAL CITY: **Yaounde** (12.9% of national population)

Sources: World Bank Database ; UNDP-HDR; ILO

### ECONOMIC DATA

GDP: **67.7** billion (current PPP international dollars)  
i.e. 2 972 dollars per inhabitant (2014)

REAL GDP GROWTH: **6%** (2014 vs 2013)

UNEMPLOYMENT RATE: **4.4%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **501** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **20.7%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.443** (low), rank **153**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|---|--------------------|-------------------------|----------------------|
| <b>360</b><br>COMMUNES/COUNCILS<br>AVERAGE MUNICIPAL SIZE:<br><b>63 250 INHABITANTS</b> | <b>-</b>           | <b>10</b><br>REGIONS    | <b>370</b>           |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** The constitution of Cameroon of 1996 consecrated the country as a decentralized unitary state. The country thus has both a deconcentrated administrative system (10 regions and 58 departments) and a decentralized structure of governance comprising to tiers of decentralization: 10 regions and 374 councils. However the regions are not active yet, as decentralization is still an on-going process in Cameroon. Another intermediate form of local entity comprises Urban councils (e.g. Communauté Urbaine de Douala/ Douala Urban Council). Nevertheless, despite the very similar status of these special councils and the common councils, they cannot really be considered as an independent level of local self-government. Indeed, they are composed of several Councils headed by directly elected mayors. These mayors are the members of the Urban Councils bodies. Competences assigned to common Councils are different from those of Urban Councils. After several years of stagnation, the decentralization process has been revived in the beginning of the 2000's. The general framework setting the guidelines, statutes and powers of the councils and regions consists in three laws of 2004. The local financial and taxation system is regulated by two laws of 2009. These laws encourage inter-councils cooperation.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The 2004 laws provide for transfer of powers to local entities who have been assigned functions as social care, health care and primary education, promoting economic development, culture and sport development. In order to make these transfers effective, the government has to take decrees for each of the devolved competence. As of 2010, half of the competences have been effectively transferred from central administration to the local governments. Another provision of the decentralization legislation provide that the implementation of their new competences by the LGUs is not exclusive, and is shared with central administration. This situation often induces unfunded mandates and the insufficiency of the means co-transferred with the competences.

## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | -     | -   | -                           |
| <b>CURRENT EXPENDITURE</b>      | -     | -   | -                           |
| <b>STAFF EXPENDITURE</b>        | -     | -   | -                           |
| <b>INVESTMENT</b>               | -     | -   | -                           |

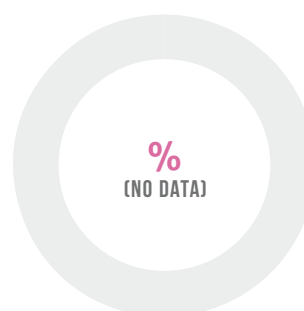
There is a scarcity of data on local finances in Cameroon, hence it still difficult to evaluate the impact of decentralisation on the volume of capital expenditures executed by LGUs. The confusion on the division of competences and the lack of local capabilities is surely an obstacle for the local governments to master their investment programs.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



Tools have been created to facilitate the enhancement of local public services provision, such as Municipal Development Plans that came under the National Participatory Development Programme (PNDP) which aims to improve the supply of basic social services, strengthen the decentralization process and to increase the ability of regional and local authorities to assume their competences. This program is now funded at 60% of credits from the Contract of Debt Reduction-Development (C2D) between France and Cameroon.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | -     | -   | -                        |
| TAX REVENUE          | -     | -   | -                        |
| GRANTS AND SUBSIDIES | -     | -   | -                        |
| OTHER REVENUES       | -     | -   | -                        |

There is a lack of consolidated data on all local governments finance in Cameroun. The FEICOM is currently working on the inventory of local budgets throughout the country. Local own resources are in general very limited, accounting for less than 10% of local revenues, due to the legal and judicial framework but also to the lack of human and technical capacities of municipal authorities, in particular in the poorest and small-size local governments. This situation is improving since in 2009, the law on local taxation has added news taxes in the pool of municipalities' resources, and a decree setting up the evaluation criteria for de decentralization general grant has passed.

**TAX REVENUE.** Both common and special urban councils can perceive business tax ; property land taxes ; vehicle tax ; tax on gambling ; local development tax and *centimes additionnels communaux* (additional communal cents). Yet local governments cannot create new taxes. Tax revenues collected by the tax authorities on behalf of local authorities and public bodies are subject to a 10% withholding tax for costs of assessment and collection: 70% of this tax goes to the municipalities, and the rest goes to an investment fund.

**GRANTS AND SUBSIDIES.** Municipal revenues in Cameroon are made for more than 90% of transfers from the central level of government. local governments receive three grants from the state. The decentralization general grant (Dotation générale de décentralisation) aims to compensate for the costs induced by the transfer of new competences to the LGUs. The funds received can be assigned to both operating and capital expenditures. So are the funds received through the tax tranfers. The grant consisting in the share of local tax income dedicated to perequation has to be used to fund investments.

**OTHER REVENUES.** To compensate for the scarcity of local tax revenues, municipalities can rely on other sources of revenues, such as stamp duties, fees and charges.

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

Councils are allowed to borrow on external and domestic markets under the supervision of the Ministry of Interior. In general, local governments have difficulties to access borrowing on the domestic market, as the banking sector is not used to work with local governments without guarantees. The FEICOM is a financial intermediary institution which aims at financing local investment.

A joint- study of:



**Sources:** UCLG-OECD 2015 survey on fiscal decentralization • Ministère de l'Administration Territoriale et de la Décentralisation (MINATD) • Centre National de la Fonction Publique Territoriale – CNFPT • Law N° 2004/017 of July 22, 2004 on the Orientation of Decentralisation; • Law N° 2004/018 of July 22, 2004 laying down rules applicable to Councils; • Law N°2004/019 of July 22, 2004 laying down rules applicable to Regions ; • C.Cheka (2007), The state of the process of decentralisation in Cameroon, Africa Development, Vol. XXXII, Council for the Development of Social Science Research in Africa



# CAPE VERDE

UNITARY COUNTRY

AFRICA

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOWER MIDDLE INCOME** Local currency - **Cape Verde escudo (CVE)**

### POPULATION AND GEOGRAPHY

AREA: **4 033** km<sup>2</sup>

POPULATION: **513.906** thousands inhabitants (2014),  
an increase of 1.2% per year (2010-14)

DENSITY: **127** inhabitants/km<sup>2</sup>

URBAN POPULATION: **65.5%** of national population

CAPITAL CITY: **Praia** (28.2% of national population)

Sources: World Bank World Development Indicators, UN World Urbanisation Prospects, <http://publications.europa.eu>, ILO

### ECONOMIC DATA

GDP: **3.4** billion (current PPP international dollars)  
i.e. 6 531 dollars per inhabitant (2014)

REAL GDP GROWTH: **2.8%** (2014 vs 2013)

UNEMPLOYMENT RATE: **10.7%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **132** (BoP, current USD  
millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **34.1%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.646** (medium), **rank 122**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|---|--------------------|-------------------------|----------------------|
| <b>22</b><br>MUNICIPALITIES<br>AVERAGE MUNICIPAL SIZE:<br><b>23 359 INHABITANTS</b> | -                  | -                       | <b>22</b>            |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Cape Verde is a unitary country, with a single level of sub-national governments composed of 22 municipalities. Decentralization has been established in the country since 1991, with the laws on local governments and municipal elections, and strengthened with the constitutional amendment of 1999. Municipalities are enshrined within the Constitution, as well as deconcentrated State entities (*concelhos*) sub-municipal entities (*freguesias*) which correspond to administrative subdivisions of municipal territories. The country is sub-divided in 32 freguesias. According to the Constitution of 1992 (art. 230 and 232), municipalities are separate legal entities with administrative and patrimonial autonomy. Municipal governors (*Presidentes da Câmara*) are elected through direct universal suffrage, and municipal Councils are elected through direct universal suffrage with proportional voting.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** According to the Estatuto dos Municípios (Law 134/IV, 1995), municipal responsibilities include functions that are closer to the population: municipal planning, sanitation, healthcare, housing, education, road transportation, culture, sports, tourism, municipal police, rural development, etc. Yet, they lack the necessary legislative framework to exercise the responsibilities that are devolved upon them, such as an updated law on local finances, law on city and territorial planning, and framework for decentralization progress. Besides, because of the geographical situation of the country, it is particularly difficult to mobilize and to supervise municipal staff.

## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2011)</b> | <b>4.2%</b> | <b>18.2%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | <b>2.7%</b> | -   | <b>64.1%</b>                |
| <b>STAFF EXPENDITURE</b>        | <b>1.4%</b> | <b>13.4%</b>  | <b>33.7%</b>                |
| <b>INVESTMENT</b>               | <b>1.5%</b> | <b>40.7%</b>  | <b>36.0%</b>                |

Municipalities in Cape Verde were responsible for expenditures up to 4.2% of the national GDP. They are mostly dedicated to current expenditures, with a high share dedicated to wages and other staff expenditures, leaving few resources for local investment (barely 1.5% of the national GDP).



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



Municipalities' main area of spending include, by order of magnitude: general public services (38.3%), housing and community amenities (32%) and recreation, culture and religion (13.3%). They are also in charge, to a small extent, of expenditures in public order, economic affairs and social protection and education (16.5% in total of subnational expenditures). The sector of services still needs to be developed, and the government plans to devolve more responsibilities to local governments on public transportation and social protection.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL<br>GOVERNMENT |
|----------------------|-------|---|-----------------------------|
| TOTAL REVENUE (2011) | 3.6%  | 14.0%   | 100.0%                      |
| TAX REVENUE          | 0.7%  | 3.6%  | 20.1%                       |
| GRANTS AND SUBSIDIES | 2.2%  | -   | 60.2%                       |
| OTHER REVENUES       | 0.7%  | -   | 19.7%                       |

The share of subnational revenues is relatively low in Cape Verde, reaching 3.6% of national GDP. Tax revenues represented 20.1% of total subnational revenues in 2011, which was almost equal to other types of revenues such as service fees and revenues from property, which made 19.7% of total subnational revenues. On the other hand, grants and subsidies through dedicated funds represented the highest share of revenues, up to 60.2%.

**TAX REVENUE.** Most municipal tax revenues (91% in 2013) include the wealth tax (Imposto Único sobre o Património-IUP). Other taxes include a tax on motor vehicle circulation (7% of tax receipts in 2013), and income tax (0.4% of tax receipts in 2013).

**GRANTS AND SUBSIDIES.** A major source of transfer revenues for municipalities in Cape Verde is the Fund for Financing Municipalities (Fundo de Financiamento dos Municípios, FFM), which represent over 90% of transfers from the central government. Transfers from the FFM represent in most cases more than 50% of municipalities' revenues. The FFM is subdivided into two funds, the Common Municipal Fund (Fundo Municipal Comum, FMC, representing 75% of the total fund) and the Solidarity Municipal Fund (Fundo de Solidariedade Municipal, FSM, representing the remaining 25%). Transfers from the FMC are formula-based: 20% of the funds are allocated equally among municipalities, 50% are based on the population, 15% on the percentage of children, and 15% on the surface area of the municipality. The FSM is an equalisation fund; transfers are also formula-based. Other sources of transfers for municipalities include for instance public donations from the central government or international public bodies.

**OTHER REVENUES.** Other municipal revenues include profits from municipal companies, service fees, products from the sale of assets, revenues from property, etc.

| OUTSTANDING DEBT        | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2011) | -     | -                    |

According to the Law of Local Finance (Lei das Finanças Locais, nº 79/VI/2005), short-term debt cannot be used to cover treasury gaps; moreover short-term debt should not exceed 10% of revenues from the previous year. Long-term debt should not exceed 15% of current revenues (including transfers from the FFM), and should not exceed 15% of the value of investments carried out during the previous year. Yet, many municipalities are facing high levels of debt.

A joint- study of:



**Source of Statistics:** • Ministério do Ambiente, Habitação e Ordenamento do Território (2013): "Diagnóstico do Processo de descentralização em Cabo Verde nos últimos 20 anos" • IMF Government Finance Statistics • CIA World Factbook Cape Verde • J. Floresvindo Barbosa (2010): "Elaboração Da Conta De Gerência Dos Municípios" • D. Tavares Furtado (2013): "Descentralização e Autonomia Financeira do Município de São Miguel"; • P. J. Lopes Ferreira (2012): "O impacto dos impostos no orçamento das Câmaras Municipais: O caso do Município do Tarrafal de Santiago" • Republica de Cabo Verde (2015): "Conta Geral do Estado 2013" • P. Fagundes Visentini (2011): "Cabo Verde", Thesaurus Editora



### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOW-INCOME** Local currency - **Franc CFA (XAF)**

#### POPULATION AND GEOGRAPHY

AREA: **1 284 000** km<sup>2</sup>

POPULATION: **13.587** million inhabitants (2014),  
an increase of 3.4 % per year (2010-14)

DENSITY: **11** inhabitants/km<sup>2</sup>

URBAN POPULATION: **22.5%** of national population

CAPITAL CITY: **N'Djamena** (8.9% of national population)

Sources: World Bank database, UNDP-HDR, ILO

#### ECONOMIC DATA

GDP: **29.6** billion (current PPP international dollars)  
i.e. 2 182 dollars per inhabitant (2014)

REAL GDP GROWTH: **7.3%** (2014 vs 2013)

UNEMPLOYMENT RATE: **5.6%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **761** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **33.8%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.392** (low), **rank 185**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL              | INTERMEDIATE LEVEL            | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|------------------------------|-------------------------------|-------------------------|----------------------|
| <b>348</b>                   | <b>61</b>                     | <b>23</b>               | <b>432</b>           |
| MUNICIPALITIES<br>(COMMUNES) | DEPARTMENTS<br>(DÉPARTEMENTS) | REGIONS<br>(RÉGIONS)    |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Chad is a unitary state with a three-tier structure of decentralization. The four level of subnational governments comprise , besides more than 800 rural communities, 348 municipalities, 61 departments and 23 regions. However, as of today, only 42 municipalities are effective, as elections have not been held in the other LGs. The capital-city of N'Djamena enjoys a special-status and is divided into 10 sub-municipalities and one city municipality, each of them being independent from each other. Every tier of decentralization has its deconcentrated entity: regions, prefectures (departments) and sub-prefectures. Decentralization process started in 1993 in Tchad, following the Sovereign National conference. The constitutional law of 2005 enshrined the decentralized structure or governance and guaranteed the local governments autonomy. The first local elections have been held in 2012, after a long-term delay. A 23rd region has been created in 2012, and all the limits of rural municipalities and departments have not been set yet. Local elected officials are elected for 6 years.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Transfers of competences to local governments are regulated by the Law No. 33/PR/2006 on local governments responsibilities, the powers assigned to each tier of local units are clearly assigned. It comprises 13 realm of competences. The municipalities are responsible for primary education, literacy and technical education ; health and social care (local infrastructures, primary health care, sanitation, ect.) ; promotion of cultural and sport activities ; urban development and planning ; environmental and natural resources protection ; promotion of commercial activities ; municipal transport and infrastructures ; potable water distribution.

### SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>0.1%</b> | <b>0.4%</b>   | <b>100%</b>                 |
| CURRENT EXPENDITURE             | -           | -   | -                           |
| STAFF EXPENDITURE               | -           | -   | -                           |
| INVESTMENT                      | -           | -   | -                           |

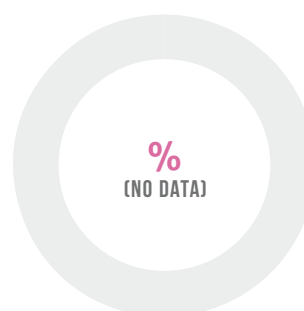
Local expenditures amount to around 0,4% of general government expenditures in 2013. There is no coordination entity or fund for public investment among levels of governments, and local governments spend most of their budget on current expenditures due to lack of financial resources and weak financial management.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



Local investment still very low in Chad, due to a weak coordination between the various levels of government, and the lack of incentives to foster the intergovernmental cooperation. The lack of financial, human and material resources is also an obstacle to local public investment development. Expenditures of the city of N'Djamena and of its districts account for 38,8% of local expenditures in 2013.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 0.1%  | 0.7%  | 100%                     |
| TAX REVENUE          | -     | -   | -                        |
| GRANTS AND SUBSIDIES | -     | -   | -                        |
| OTHER REVENUES       | -     | -   | -                        |

According to the law, municipalities can raise local taxes, and receive a share of national taxation through the system of „centimes additionnels“ (additional cents). there is a lack of available information on local finances in Tchad, and its difficult to know the exact share of each type of revenue. Due to the low degree of effective decentralization, municipalities are lacking the financial resources they need to invest and are facing difficulties to raise local taxation. They thus have a very limited autonomy.

**TAX REVENUE.** Local governments are authorized to vote the tax rates, within the limits set by the law. Article 677 of the CGI makes the list of local tax sources, which include taxes on built and non-built properties.

**GRANTS AND SUBSIDIES.** According to the law, State subsidies comprise a bulk operating grant, unearmarked and transferred to each LG. They also receive a capital grant, a subsidy aiming to compensate for the costs of devolved competences, and financial balance grant. In 2013, each of the 42 municipalities have received a 32 millions of Francs CFA unconditional, unearmarked grant, which distribution was based on the number of municipalities. The government is currently working on a global formula-based subsidy that could be implemented within the next years. A study of the European Union is also on-going on the calculation of the real costs of devolved competences from Ministries to local governments.

**OTHER REVENUES.** Other revenues include income from patents, licenses, fees from public services, etc. Tariffs can be set up by the Municipal councils, with the approval of the supervisory authority, and within the limits set by law.

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

Chadian local governments do not have access to the loan even if provided for in the Constitution in its Art 211: “LGs resources are made of the funds borrowed by the LGs on either the domestic market or on foreign markets with approval of the national monetary authorities, with or without government guarantee.”

A joint- study of:



**Source of Statistics:** • Constitution du Tchad • Loi organique N°002/PR/2000 du 16 Février 2000 portant Statuts des Collectivités Territoriales Décentralisées • Loi 06-033 2006-12-11 PR portant répartition des compétences entre l'Etat et les Collectivités territoriales décentralisées • UCLG-OECD Survey on decentralization, 2015 • Portail Tchad décentralisation, Centre International d'Etudes pour le Développement Local – CIEDEL



# REPUBLIC OF CONGO

UNITARY COUNTRY

AFRICA

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - LOWER MIDDLE INCOME Local currency - Franc CFA (XAF)

### POPULATION AND GEOGRAPHY

AREA: **342 000** km<sup>2</sup>

POPULATION: **4.5** million inhabitants (2014),  
an increase of 2.6% per year (2010-14)

DENSITY: **13** inhabitants/km<sup>2</sup>

URBAN POPULATION: **65.4%** of national population

CAPITAL CITY: **Brazzaville** (40.6% of national population)

Sources: World Bank database, UNDP-HDR, ILO

### ECONOMIC DATA

GDP: **28.3** billion (current PPP international dollars)  
i.e. 6 277 dollars per inhabitant (2014)

REAL GDP GROWTH: **6.78%** (2014 vs 2013)

UNEMPLOYMENT RATE: **7.2%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **5 502** (BoP, current  
USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **41.3%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.591** (medium), rank **136**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL                    | TOTAL NUMBER OF SNGs |
|--|--------------------|--|----------------------|
| <b>94</b><br>MUNICIPALITIES (COMMUNES)<br>AVERAGE MUNICIPAL SIZE:<br><b>51 193 INHABITANTS</b> | <b>-</b>           | <b>12</b><br>DEPARTMENTS<br>(DÉPARTEMENTS) | <b>106</b>           |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** The Republic of Congo (or Congo Brazzaville, or Congo) is a unitary country with a two-tier subnational government structures. The subnational level is made of 12 departments, including two departments with a specific status, corresponding to both departmental and municipal councils: Brazzaville, the administrative capital, and Pointe Noire, the economic capital. Then, the country has 6 cities with a municipal status (including Brazzaville and Pointe Noire). The departments and municipalities of Brazzaville and Pointe Noire each have their respective budgets. Representatives at both levels are directly elected. Municipalities and districts are then divided into sub-municipalities and urban sub-districts, 2753 villages, without administrative autonomy. Decentralization is enshrined in the constitution since 2002 (Art. XVI) and the 2003 judicial framework (after past attempts in 1973, 1979, and 1992). Its implementation follows a devolution process. Since then, the departmental councils have been renewed twice following local elections. Subnational governments are autonomous administrative entities, yet the central State through the national law that allocates their responsibilities, resources, operating and for supervision of their activities. Currently, the laws on local governments are specific within 9 laws. The departments are supervised by national delegates as Prefects (préfets) and Sub-prefects (sous-préfets). The current context of accelerated growth and urgent need of infrastructures could lead to rapid progress in the decentralization process if the national environment and frameworks allow for developing subnational governments responsibilities and resources.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Despite the 9 laws adopted on decentralization between 2003 and 2005, the judicial framework on local governments' responsibilities is still incomplete and the lack of clear framework leads to some mismatch between department and municipal responsibilities. In addition, The Mayors-Administrators of the sub-districts of Brazzaville and Pointe Noire are nominated by the Central Level, leading to conflicts with the Municipal Mayors on their jurisdictions. According to the law N°10-2003, local governments are devolved responsibilities in order to increase accountability to the citizens and better meet local needs. Municipalities and departments often share different functions of the same sectors of activities. These include, limited to subnational capabilities to exercise these responsibilities: local affairs (art.15), planning, public education, health, environment, tourism, sport and culture, trade, public infrastructures and transportation, employment. At the national level, an on-going project aims at supporting the implementation of decentralization and local development.

## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2010)</b> | <b>0.4%</b> | <b>1.9%</b>   | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | <b>0.4%</b> | <b>-</b>  | <b>99.5%</b>                |
| <b>STAFF EXPENDITURE</b>        | <b>0.2%</b> | <b>5.3%</b>   | <b>43.5%</b>                |
| <b>INVESTMENT</b>               | <b>-</b>    | <b>-</b>  | <b>-</b>                    |

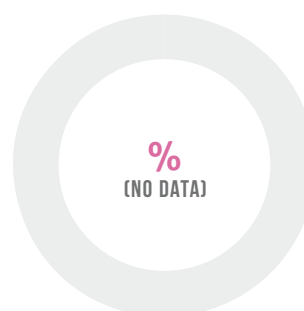
Subnational expenditures remain very low in Republic of Congo despite the slow progress in decentralization since 2003. In 2010, they accounted for 0.4% of GDP and 1.9% of overall public expenditures. Moreover, subnational expenditures were essentially dedicated to current expenditures, including for the half to staff expenditures (43.5% of subnational governments expenditures). Local public investment is not yet operational, as the rest of subnational expenditures were spent on capital transfers.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



There is a lack of official data on economic classification of expenditures by subnational governments, as opposed to the national level. The very high share of current expenditures in subnational governments expenditures (99.5%) in 2010 leaves no concrete room for manoeuvre for subnational authorities, compared to the wide array of responsibilities devolved upon them by law.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2010) | 0.8%  | 1.2%  | 100,0%                   |
| TAX REVENUE          | 0.2%  | 2.8%  | 27,7%                    |
| GRANTS AND SUBSIDIES | 0.5%  | -   | 60.1%                    |
| OTHER REVENUES       | 0.1%  | -   | 12.2%                    |

Subnational governments in the Republic of Congo are encountering massive financial difficulties, and they rely mainly on allocations from State. The Law 10-2003 stipulates that for each devolved responsibility, the central government should transfer the corresponding amount of resources, either under the devolution of local taxes, shared taxation or intergovernmental transfers.

**TAX REVENUE.** Tax revenues of subnational governments include the tax on building occupancy, that replace since 2014 the tax on rent value of office buildings, with the aim of strengthening local governments own resources. This tax is set at between 60 and 12 thousands FCFA for residential occupancy, and between 60 000 and 1.2 million FCFA for professional occupancy.

**GRANTS AND SUBSIDIES.** Grants and subsidies represent the highest share of local governments revenues (60.1%). Most of the time, the transfer of responsibilities to subnational governments is compensated by transfer, through the global decentralization transfer (dotation globale de décentralisation). By decret, this transfer should provide each department and municipality with 1 billion FCFA for the implementation of public projects. Yet this transfer is often late and misallocated. Subnational governments also perceive a share („additional cents“) of the VAT and of registration rights.

**OTHER REVENUES.** Other expenses include patents and licenses, whose amounts are variable depending on the nature of activity, facilities, locality and other economic parameters. Complex calculation formula lead to a weak collection of these types of resources.

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

At the time being, subnational governments in the Republic of Congo have not accessed borrowing to finance their expenditures.

A joint- study of:



Sources: IMF-GFS • Alternatives citoyennes, 24 August 2015, Collaborative multi-stakeholders program PCPA-Congo • Law N° 10-2003 on the allocation of responsibilities to local governments • F. Breitzer MOUNZEO, The Congolese taxation system (2013) • National Statistical Institute of Congo



# ETHIOPIA

FEDERAL COUNTRY

## AFRICA

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOW-INCOME** Local currency - **Ethiopian Birr (ETB)**

#### POPULATION AND GEOGRAPHY

AREA: **1 104 300** km<sup>2</sup>

POPULATION: **96.958** million inhabitants (2014),  
an increase of 2.6% per year (2010-14)

DENSITY: **88** inhabitants/km<sup>2</sup>

URBAN POPULATION: **19.5%** of national population

CAPITAL CITY: **Addis Abeba** (3.3% of national population)

Sources: World Bank database, UNDP-HDR, ILO

#### ECONOMIC DATA

GDP: **145.4** billion (current PPP international dollars)  
i.e. 1 500 dollars per inhabitant (2014)

REAL GDP GROWTH: **10.3%** (2014 vs 2013)

UNEMPLOYMENT RATE: **5.3%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **1 200** (BoP, current  
USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **38%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.442**(low), rank **173**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL  | TOTAL NUMBER OF SNGs |
|---|--------------------|--|----------------------|
| <b>770</b><br>DISTRICTS<br>(WOREDAS)<br>AVERAGE MUNICIPAL SIZE:<br><b>125 919</b> INHABITANTS | <b>-</b>           | <b>11</b><br>9 AUTONOMOUS REGIONAL STATES<br>(KILILOCH) AND 2 CHARTERED CITIES<br>(ADDIS ABABA AND DIRE DAWA)<br>(ASTEDADER AKABABIWOCH) | <b>781</b>           |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Ethiopia is a federal country with a two-tiers structure of decentralized governance. The country's current Constitution from 1995, establishes the federal structure based on nine ethnic regional states and two special status cities. Each region has its own autonomous and elected government. They are assigned with extensive powers by the Constitution. As the decentralization process progressed asymmetrically, it is hence difficult to know the exact number of local governments in Ethiopia. For these highly decentralized regional states, the decentralization is structured into zones, districts (*woredas*) and wards (*kebele*). As the decentralisation of governance to the regional states level started in 1995, a second phase of decentralisation took place in 2002, with the bulk provision of public services being devolved to the sub-regional governments. The second level is composed of the districts (*woredas*), which can be rural or urban. Below the *woredas*, the next level of decentralisation is made of small demographic units (around 5000 inhabitants), the wards (*kebele*), which can be divided into sub-level entities. In parallel to *woredas* decentralization, municipalities have been assigned with the governance of urban centers of importance. Their executives are appointed by a higher level of government. However their role still unclear.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Division of responsibilities between the different levels of governments is driven by a subsidiarity principle enshrined in the 1995 constitution. Each sub-federal government is responsible for the provision of public services at its level, whereas the federal state is responsible for all powers that have not been delegated to the regional level, or for shared competences. Regions and *woredas* competences are dictated by the constitution. The regional governments are responsible for the implementation of economic and social development policies, and for maintaining public order. The zones serve as an intermediary level between *woredas* and region and are also headed by elected executives and councils. The *woredas* are in charge of water provision and distribution, local roads building and maintaining, primary school and primary health care services, as well as veterinary services, agricultural activities management and natural resources protection. As for the *kebele*, their powers are not formally stated for in the constitution. As the lowest level of subnational government, and thus act in all proximity matters. They form users communities in charge of proximity services implementation and regulation, e.g. water users, parents-teachers associations, etc.

### SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE              | % GDP | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|--------------------------|-------|---|-----------------------------|
| TOTAL EXPENDITURE (2013) | -     | -   | -                           |
| CURRENT EXPENDITURE      | -     | -   | -                           |
| STAFF EXPENDITURE        | -     | -   | -                           |
| INVESTMENT               | -     | -   | -                           |

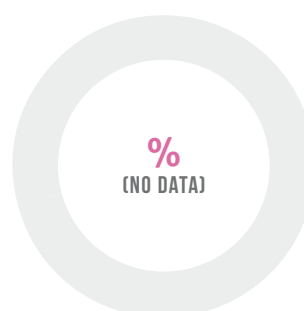
Expenditure distribution has not been clearly dictated by the constitution, and their assignment emanates from the competences and powers devolution. This lack of specification or of a single law aiming to clarify the situation creates an ambiguity in the relation between regional states and *woredas*. However the size of sub-national governments expenditure has grown extensively over the last decade.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



In 2011/12 fiscal year, the regional investment rate represented 20% of public sector investment, or 2.8% of GDP. Regarding the woredas, their share in roads investment was of 26% (7% for Regions) with a net growth of 44,5% since 2010, this increasing trend being a result of the federal government will, and the increasing means dedicated to it through intergovernmental transfers over the last years. Primary education enrollment also grew (+3%) during 2012 year, which both reveals the importance of woredas level for basic infrastructures investments, and their dependence to national priorities and funding.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2012) | -     | -   | -                        |
| TAX REVENUE          | -     | -   | -                        |
| GRANTS AND SUBSIDIES | -     | -   | -                        |
| OTHER REVENUES       | -     | -   | -                        |

Unlike expenditures assignment, revenue sources are clearly assigned to the federal and regional states. However, local governments fiscal revenues are undermined by weak fiscal bases and collection problems, making the local governments highly relying on intergovernmental transfers, and thus limiting their autonomy.

**TAX REVENUE.** According to the constitution, regional states can levy income tax on employees of the state government ; agricultural tax from farmers ; tax on individual traders, houses and other property owned by private persons or regional government ; sales tax from public enterprises owned by the state government ; forest products. They also receive income from shared taxes levied by the federal government on profit, sales, exercise, and personal taxes on enterprises (the list of whom is jointly established); taxes on the profits of shareholders (companies and individuals) ; taxes on the incomes of derived from large-scale mining, petroleum and gas operations. This regional system of taxation creates important inequalities of resources between regions. Vertical imbalances are generated by the limited tax bases in the country. Also, there is a disproportion between federal and regional state, and between the regional states themselves, in the distribution or shared taxes. For instance the chartered city of Addis Ababa, estimated to generate a quarter of national GDP, has the power to create new taxes and levies.

**GRANTS AND SUBSIDIES.** Regional states receive both block grants and conditional special grants from the federal government. These grants allocation is based on population weight, expenditure needs assessment and revenue potential of each region. In 2009, intergovernmental transfers represented from 45% to 80% of regional expenditures, creating a high dependency of regional governments and thus reducing their autonomy. Woredas are facing a similar situation as they are mostly relying on regional transfers to fund their spendings.

**OTHER REVENUES.** Regional states and chartered cities also benefit, to the margin, from other sources of revenues such as administrative fees and charges, such as work permits, court fines and fees, forfeits, business and professional registration and license fees; sales of public goods and services; government investment income; and miscellaneous revenues. The city of Addis Ababa is also rising revenues through urban land lease, yet the share of this source of revenues in its local revenues is decreasing.

## OUTSTANDING DEBT

### % GDP

### % GENERAL GOVERNMENT

#### OUTSTANDING DEBT (2013)

-

-

Regional states are legally allowed to borrow, with a set of limitations: they are only able to borrow on domestic market, with the supervision and approval of the federal state which holds the decision in terms of amount that is to be borrowed according to the region's financial capacity. However, borrowing seems to be very limited at the local level in Ethiopia.

A joint study of:



**Source of Statistics:** • S.Yilmaz, V.Venugopal, (2008), *Local government discretion and accountability in Ethiopia*, International studies program working paper 08-38, Andrew Young school of policy studies • Alefe Abeje Belay (2014), System of division of revenue in Ethiopia, European Scientific Journal • D.Assefa, *Fiscal (2015) Decentralization in Ethiopia: Achievements and Challenges*, "Public Policy and Administration Research", Vol.5, No.8 • National Bank of Ethiopia, Annual report 2012/13 available on <http://www.nbe.gov.et/pdf/annualbulletin/Annual%20Report%202012-2013/Annual%20Report%202012-2013.pdf>

Publication date: October 2016



# GHANA

UNITARY COUNTRY

## AFRICA

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOWER MIDDLE INCOME** Local currency - **Cédi Ghanéen (GHS)**

#### POPULATION AND GEOGRAPHY

AREA: **238 537** km<sup>2</sup>

POPULATION: **26.786** million inhabitants (2014),  
an increase of 2.4% per year (2010-14)

DENSITY: **113** inhabitants/km<sup>2</sup>

URBAN POPULATION: **54%** of national population

CAPITAL CITY: **Accra** (8.4% of national population)

Sources: World Bank World Development Indicators, UN World Urbanisation Prospects, ILO

#### ECONOMIC DATA

GDP: **109.3** billion (current PPP international dollars)  
i.e. 4 080 dollars per inhabitant (2014)

REAL GDP GROWTH: **4.0%** (2014 vs 2013)

UNEMPLOYMENT RATE: **5.9%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **3 363** (BoP, current  
USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **27.1%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.579** (medium), **rank 140**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL                        | TOTAL NUMBER OF SNGs |
|---|--------------------|--|----------------------|
| <b>216</b><br>6 METROPOLITAN, 55 MUNICIPAL AND<br>155 DISTRICT ASSEMBLIES<br>AVERAGE MUNICIPAL SIZE:<br>124 009 INHABITANTS | -                  | <b>10</b><br>REGIONAL COORDINATING<br>COUNCILS | <b>226</b>           |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Ghana is a unitary country with a three-tier system of local governments. Ghana has embarked in a comprehensive decentralisation programme since 1988 with the introduction of the Local Government Law (PNDC law 207). The subnational government system consists of 10 Regional Coordinating Council, a four-tier Metropolitan and three-tier Municipal/District Assemblies structure. A Metropolitan/Municipal/District Assembly (MMDA) is created to serve as a pivot of administrative and developmental decision-making in the district and basic unit of government administration. The MMDA is constituted as the planning authority for the District. The Sub-Metropolitan Districts, Urban/Town/Zonal/Area Councils and the Unit Committees make up the substructures under the MMDA. A draft Consolidated Local Government Bill which seeks to harmonize conflicting laws and consolidate 5 major legislations on decentralisation into one Act, was developed to deepen local governance and decentralization. Indicators of the Functional and Organisational Assessment Tool (FOAT) VII were reviewed and subsequently a nationwide performance assessment of all the 216 MMDAs was conducted in 2015. In addition, Human Resource Units will be established in 66 District Assemblies, whilst monitoring and evaluation missions will be conducted in MMDAs and RCCs using the Results Based Management System.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Decentralization Acts and Laws contributed to decentralise 22 functional areas of government to local government authorities. The Assemblies perform their functions through the Executive Committee, which include Social Services, Works, Finance and Administration, Development Planning, among others. The Ministry of Local Government and Rural Development has the role to promote the good development of the decentralised system of local government. Yet, inconsistencies in legislation have led to overlapping of central and local responsibilities.

### SUBNATIONAL GOVERNMENT FINANCE

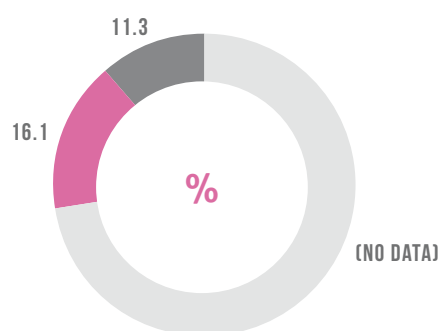
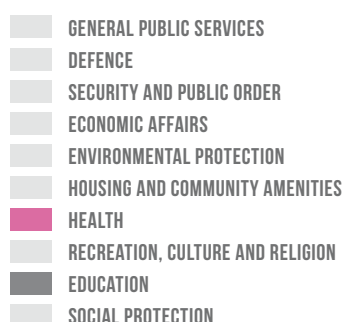
| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>7.7%</b> | <b>26.0%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | 5.1%        | -   | 67.2%                       |
| <b>STAFF EXPENDITURE</b>        | -           | -   | -                           |
| <b>INVESTMENT</b>               | 2.5%        | 49.0%   | 32.9%                       |

Moreover, local government authorities often do not have the capacity to act autonomously. Funds are often allocated to the departments instead of the district assemblies. The Regional Coordinating Councils and the Public Investment Division of the Ministry of Finance are assigned the responsibility of coordinating public investment activities across different levels of government in their respective regions (Sections 140-146 of ACT 462).



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



According to the law, district assemblies are the exclusive bodies in charge of water and sanitation services at the local level. Service delivery for health and education is decentralized to a department of the district assemblies.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL<br>GOVERNMENT |
|----------------------|-------|---|-----------------------------|
| TOTAL REVENUE (2013) | 0.7%  | 3.3%  | 100%                        |
| TAX REVENUE          | -     | -   | -                           |
| GRANTS AND SUBSIDIES | 9.2%  | -   | 92.3%                       |
| OTHER REVENUES       | -     | -   | -                           |

The key challenge for local governments in Ghana is their limited capacity to generate sufficient local revenues. The 2007/2008 financial crisis did not have much effect on local government sub-national finance in Ghana. They continued to rely on intergovernmental fiscal transfers and their own internally generated funds (IGF).

**TAX REVENUE.** Any creation of new local taxes to be collected is subject to the approval of the Minister of Finance. Rates-property taxes make up 18,3% of tax revenues, building permits make up 14,8%. MMDAs are free to set tax rates.

**GRANTS AND SUBSIDIES.** Transfers are often late, with low predictability. Transfers are made up primarily from the earmarked District Assembly Common Fund (DACF) to all local assemblies. This formula-based transfer is based on population, need, poverty and social services pressure, and it must exceed 7.5% of total government revenue. Two types of untied grants can also be attributed to MMDAs, based on performance FOAT criteria.

**OTHER REVENUES.** MMDAs primarily rely on Fees & Fines (Market tickets, Court Fines, etc.) as part of subnational government revenues.

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

The MMDAs may borrow on the basis of loans or overdrafts from public institutions, for amounts up to 2 000 Cedi without approval, provided that these do not require central government guarantees. For amounts above 2 000 Cedi, the Local Government Act (1993) restricts the MMDAs access to domestic borrowing and require approval from the Minister of Local Government and Rural Development (MLGRD), given in consultation with the Minister of Finance. There is a lack of legislation on accumulating larger overall debt provided that the individual loan amounts do not exceed 20 Million Cedi. The issuance of a central government guarantee requires the authorisation of the Minister of Finance. A Municipal Finance Bill which will enable MMDAs to borrow directly from the financial market is yet to be approved by the Parliament of Ghana.

A joint- study of:



Sources: Budget Statement and Economic Policy of the Government of Ghana for 2015 financial year • Ministry of Finance, 2015 Composite budgets of MMDAs • Ministry of Local Government and Rural Development Website • N. Devas, Financing Local Government, Commonwealth Secretariat, Local Government Reform Series (2008) • S. Ankamah, The Politics of Fiscal Decentralization in Ghana: An Overview of the Fundamentals (2012)



# GUINEA

UNITARY COUNTRY

## AFRICA

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOW INCOME** Local currency - **Guinean Franc (GNF)**

#### POPULATION AND GEOGRAPHY

AREA: **245 857** km<sup>2</sup>

POPULATION: **12.3** million inhabitants (2014),  
an increase of 2.8% per year (2010-14)

DENSITY: **50** inhabitants/km<sup>2</sup>

URBAN POPULATION: **37.2%** of national population

CAPITAL CITY: **Conakry** (15% of national population)

Sources: World Bank database, UNDP-HDI, ILO

#### ECONOMIC DATA

GDP: **15** billion (current PPP international dollars)  
i.e. 1 219 dollars per inhabitant (2014)

REAL GDP GROWTH: **0.4%** (2014 vs 2013)

UNEMPLOYMENT RATE: **1.7%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **566** (BoP, current USD  
millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **14%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.411**(low), **rank 182**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL                                      | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|--|--------------------|-------------------------|----------------------|
| <b>341</b>   | <b>-</b>           | <b>-</b>                | <b>341</b>           |
| MUNICIPALITIES (COMMUNES)                            |                    |                         |                      |
| AVERAGE MUNICIPAL SIZE:<br><b>36 070 INHABITANTS</b> |                    |                         |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Guinea is a unitary country with a one tier decentralization structure. The decentralization process started in 1986, in a country that inherited a highly centralized administration from the colonial period. After the publication of the Fundamental Law of 1991, later modified by the 2001 Constitution, the Guinea territorial divisions are the regions, prefectures, sub-prefectures, neighborhoods and districts. Local governments consist in urban municipalities and rural development communities. Guinea accounts 341 municipalities divided into 38 urban municipalities, of which five are located within the capital city of Conakry. These urban municipalities are themselves subdivided into neighborhoods, whereas the rural areas the villages are made of several districts. A local governments code has been adopted in 2006, however the decrees for their implementation weren't published. Municipalities are headed by elected councils among which executives are also elected. The city of Conakry enjoys a special status, as it is subdivided into urban municipalities, each of them having its mayor, but the executive of the city is a governor appointed by the President of the Republic.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Competences of municipalities do not vary whether they are urban or rural. They are stated for in the Local Governments Code. The competences assigned to the municipalities are covering administrative services management (registry services, local police and safety) ;infrastructure and transport (roads maintenance, sewerage management, ect.); urban management ; environment, hygiene and sanitation (potable water provision and distribution management, environmental protection, ect.) ; social services (literacy campairs, development of cultural services, health centers building and maintenance, primary schools building and management); economic services (building and maintenance of municipal markets and tourists sites) ; local development and urban planning.

### SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>0.2%</b> | <b>0.8%</b>   | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | 0.05%       | -   | 23.6%                       |
| <b>STAFF EXPENDITURE</b>        | -           | -   | -                           |
| <b>INVESTMENT</b>               | 0.2%        | 1.8%  | 76.4%                       |

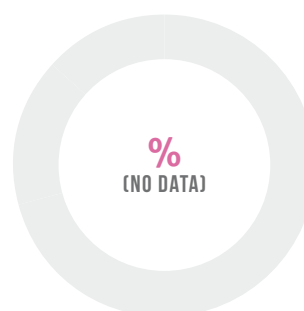
It should first be noted that all the data here displayed are from only 150 of the overall municipalities. Despite the responsibilities devolved upon them by the law, Guinean municipalities are not fully effective due to the lack of legal acts to enforce them, and to a lack of resources, both human and financial. They account for only 0.8% of total public expenditures, corresponding to only 0.2% of the national GDP.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



From this sample, we can observe that local governments expenditures represent a very low share of GDP, thus reflecting the difficulties the municipalities are facing to fulfill their duties. These difficulties come partly from a mismatch between the government stated priorities (primary education, public health, road maintenance) and concrete expenditure allocation.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2012) | 0.3%  | 1.4%  | 100%                     |
| TAX REVENUE          | -     | -   | -                        |
| GRANTS AND SUBSIDIES | -     | -   | -                        |
| OTHER REVENUES       | -     | -   | -                        |

Municipalities global revenue level appears to be insufficient to allow them to fully fulfill their devolved responsibilities. Fiscal devolution is still unfinished in Guinea, despite the provision of the local governments code, and the share of LGs revenue to GDP still very low at 0.3%, below the average level of West African decentralized countries.

**TAX REVENUE.** There is no official statistics on subnational governments revenues in Guinea. Municipal tax revenues comprise business tax, property taxes, tax on registry, on market places and parking. There is an important fiscal imbalance between municipalities, as their number of taxes and their share of local revenue differ. The major part of own local revenues is concentrated in the Conakry urban agglomeration.

**GRANTS AND SUBSIDIES.** Municipalities receive two types of intergovernmental transfers : an operating grant, and a specific purpose capital grant. The latter has to be used to fund investments comprised in the municipalities development plan or annual investment programme.

**OTHER REVENUES.** Other revenues include fees and fines, but they represent only a very small share of subnational revenues.

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

The municipalities are legally authorized to borrow. Yet, in practice, contracting a loan is a complex process and requires the approval of the central government, and is strictly limited to the funding of capital expenditures.

A joint- study of:



**Sources:** Ministère de l'Administration du Territoire • *Decentralisation in Guinea : strengthening accountability for better service delivery, Public sector reform and capacity building unit, World Bank (2008)* • Portail foncier et développement (2008), *Cadre législatif et institutionnel de Guinée Conakry, "Décentralisation, foncier et acteurs locaux"*, on <http://www.foncier-developpement.fr/> • UCLG (2010), *Survey on decentralisation* • O. Fjeldstad, G. Chambas, J. Brun, *Local government taxation in sub-saharan Africa, CMI Working Paper (2014)*

Publication date: October 2016

With the participation of Florian Bruandet, International Technical Expert to the Ministère de l'Administration du Territoire et de la Décentralization



# GUINEA-BISSAU

UNITARY COUNTRY

AFRICA

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOW-INCOME** Local currency - **Franc CFA (XOF)**

### POPULATION AND GEOGRAPHY

AREA: **36 125** km<sup>2</sup>

POPULATION: **1.8** million inhabitants (2014),  
an increase of 2.5% per year (2010-14)

DENSITY: **50** inhabitants/km<sup>2</sup>

URBAN POPULATION: **49.3%** of national population

CAPITAL CITY: **Bissau** (26.3% of national population)

Sources: World Bank World Development Indicators, UN World Urbanisation Prospects, <http://publications.europa.eu>, ILO

### ECONOMIC DATA

GDP: **28.5** billion (current PPP international dollars)  
i.e. 1 619 dollars per inhabitant (2014)

REAL GDP GROWTH: **2.54%** (2014 vs 2013)

UNEMPLOYMENT RATE: **7.6%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **21** (BoP, current USD  
millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **7.0%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.420**(low), rank **178**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL                           | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|---|--------------------|-------------------------|----------------------|
| <b>37</b><br>MUNICIPALITIES<br>(SECTORES) | -                  | -                       | <b>37</b>            |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Guinea-Bissau is a unitary country with one tier of sub-national governments (sectors). The 37 sectors include special status municipalities (towns and cities) and are further sub-divided into 185 *sections*. Towns consist of municipalities of more than 1500 inhabitants with at least 50% of urban territory, and providing specific services (see below); cities consist of municipalities of more than 6000 inhabitants with at least 60% of urban territory, and providing additional services (see below). Municipalities are enshrined in the Constitution. They are led by a Municipal Assembly composed by 9 to 27 elected by a Municipal College. The country is also divided into 8 regions and one autonomous sector for administrative purposes. The regions are sub-divided in administrative sectors, which in turn are sub-divided in administrative sections. Regions and administrative sectors are led by a representant of the central government.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Municipalities' functions include the construction and maintenance of roads, primary education, parks, cementaries, markets, swater supply, waste collection, culture, sports, health centers, etc. However these functions are not mandatory and can vary according to the municipalitie's size. In order to be recognised as a town, a municipality (besides the requirements mentioned above) must provide water supply, electricity, possess a cementary, a market, a health center, etc. Cities must, in addition, possess a well-developed road network, provide basic sanitation, etc.

## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE              | % GDP | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|--------------------------|-------|---|-----------------------------|
| TOTAL EXPENDITURE (2013) | -     | -   | -                           |
| CURRENT EXPENDITURE      | -     | -   | -                           |
| STAFF EXPENDITURE        | -     | -   | -                           |
| INVESTMENT               | -     | -   | -                           |

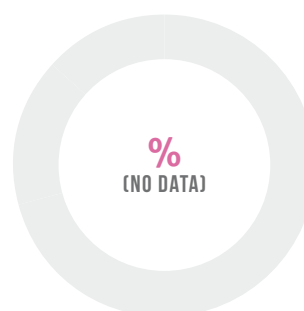
The institutional environment of Guinea Bissau remain very weak and not in favor of local and municipal action. There is no official statistics on the levels of spending of lcoal authoritiesand no accountability mechanism.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



In Guinea Bissau, the blurred allocation of responsibilities between the central and local level restrains the actions of the latter for the provision of basic public services.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL<br>GOVERNMENT |
|----------------------|-------|---|-----------------------------|
| TOTAL REVENUE (2013) | -     | -   | -                           |
| TAX REVENUE          | -     | -   | -                           |
| GRANTS AND SUBSIDIES | -     | -   | -                           |
| OTHER REVENUES       | -     | -   | -                           |

Municipalities in Guinea Bissau mainly perceives grants from the central government, as well as various taxes, with the approval of the central level, and a few other revenues.

**TAX REVENUE.** Municipal tax revenues include a property tax, a tax on motor vehicles, a tax for firefighting services, a tax on capital gains, and a property transfer tax. Moreover, municipalities can levy a surtax on the personal income tax (10% maximum), in order to finance investments or balance the municipalities' finances. The introduction of this surtax must be approved by the central government.

**GRANTS AND SUBSIDIES.** Transfers to municipalities include shared taxes and grants from the central government. Shared taxes consist in 50% of the receipts from the tourism tax. As far as grants are concerned, by far the largest source of grants to municipalities is the Fund for Financial Balance (*Fundo do Equilíbrio Financeiro*, FEF). The FEF amounts to 10% (at minimum) of national tax receipts from the previous year, and provides both current and capital grants (capital grants must represent at least 40% of all transfers). Funds from the FEF are distributed according to the following formula: 50% on an equal share to all municipalities; 15% based on municipal population; and the remaining 25% based on the size of municipal area. Moreover, municipalities may receive additional transfers from the central government, for instance in case of natural disaster, urban renovation, for new municipalities, etc.

**OTHER REVENUES.** Other revenues for municipalities include service charges and fees, fines, interests, property revenues, etc.

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

Municipalities are able to borrow through loans, securities, etc, at all maturities. Short-term borrowing can be used to cover liquidity problems, but it must remain lower than 10% of FEF receipts. Medium- and long-term borrowing should not exceed 3/12 of FEF receipts or 20% of investment spending over the previous year (whichever is larger).

A joint- study of:



**Sources:** [http://www.stat-guineebissau.com/pais/organizacao\\_administrativa.htm](http://www.stat-guineebissau.com/pais/organizacao_administrativa.htm) • Lei nº 5/97, de 2 de Dezembro • Lei nº 7/96, de 9 de Dezembro • M. do Rosário Caleiro da Costa (2005), "Redes intermunicipais: Uma nova dimensão económica no quadro da CPLP?" • J. L. Eichelsheim (2014), compilation bibliographique, IDEE Casamance • M. Lemos Gabriel (2014), "Poder local e autarquias locais: institucionalização e modelos para sua implementação", Justiça do Direito v. 28



# IVORY COAST

UNITARY COUNTRY

AFRICA

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOWER MIDDLE INCOME** Local currency - **Franc CFA (XOF)**

### POPULATION AND GEOGRAPHY

AREA: **322 463** km<sup>2</sup>

POPULATION: **22** million inhabitants (2014),  
an increase of 2.4% per year (2010-14)

DENSITY: **69** inhabitants/km<sup>2</sup>

URBAN POPULATION: **54.2%** of national population

CAPITAL CITY: **Abidjan** (21.4% of national population)

Sources: World Bank indicators, UNDP, ILO

### ECONOMIC DATA

GDP: **72.2** billion (current PPP international dollars)  
i.e. 3 258 dollars per inhabitant (2014)

REAL GDP GROWTH: **8.5%** (2014 vs 2013)

UNEMPLOYMENT RATE: **9.4%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **462** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **17%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.462** (low), rank **172**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL  | TOTAL NUMBER OF SNGs |
|--|--------------------|--|----------------------|
| <b>197</b><br>MUNICIPALITIES<br>AVERAGE MUNICIPAL SIZE:<br>112 473 INHABITANTS | -                  | <b>33</b><br>31 REGIONS<br>± AUTONOMOUS DISTRICTS<br>WITH SPECIAL STATUS | <b>230</b>           |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Ivory Coast is a unitary State with a specific two tiers government organization as the two cities of Abidjan and Yamoussoukro, due to their importance, are autonomous districts. The country is therefore divided in 31 Regions and 2 autonomous districts, which are themselves divided in 197 municipalities (*communes*). In Abidjan and Yamoussoukro the municipalities relies on districts (*arrondissements*), as for the rest of the regions small urban centers named "villages" constitute the basic level of administration and are closely linked to devolved local powers.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Decentralization reform was implemented in 2011 and should be completed in 2011. Aside from a renewed organization and the creation of regions, this reform aims to create support institutions dedicated to local authorities. A local finance committee is to be created, and division of competences between the two tiers of government has been clarified by the new legislation. Competences are divided between decentralized and deconcentrated authorities according to a subsidiarity principle. Municipalities are the designated level to provide inhabitants with basic services and administrative acts of a local interest, as the regions are in charge of college education, regional hospitals, emergency and police services, ect. However, as the national government hasn't take the necessary decrees yet, this division of charges and competences is not effective for the whole municipal level.

## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE              | % GDP | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|--------------------------|-------|---|-----------------------------|
| TOTAL EXPENDITURE (2013) | -     | -   | -                           |
| CURRENT EXPENDITURE      | -     | -   | -                           |
| STAFF EXPENDITURE        | -     | -   | -                           |
| INVESTMENT               | -     | -   | -                           |

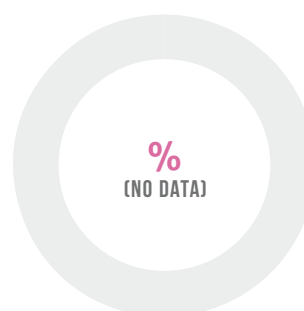
Municipal budgets are submitted to the approval of the central government by the Ministry of Interior before being executed.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



There is a lack of available reliable data on the classification of subnational expenditures by functions. Yet, on average over the past years, current expenditures made almost two thirds of subnational expenditures. Within these current expenditures, more than half is spent on average on general public services. Many municipalities do not play any role in terms of expenditures regarding economic affairs, and they have a very low contribution to promote social and economic development.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL<br>GOVERNMENT |
|----------------------|-------|---|-----------------------------|
| TOTAL REVENUE (2012) | 3.6%  | 3.2%  | 100%                        |
| TAX REVENUE          | 0.4%  | -   | 11.3%                       |
| GRANTS AND SUBSIDIES | -     | -   | -                           |
| OTHER REVENUES       | -     | -   | -                           |

According to the legislation, municipalities can levy taxes and perceive user fees and charges, however, despite these fiscal resources, and due to the challenges linked with tax and fees collection, municipalities rely heavily on national financial transfers that constitute by far the most of their local revenues.

**TAX REVENUE.** Municipalities can levy 4 global taxes (*impôts*) on : land, business licenses, stamp duties, and a synthetic tax perceive by all municipalities. A share of these taxes is perceived directly by the Central Government, and the rest goes to the local budget.

Appart these taxes, local authorities can levy taxes on their own for services that they render (*taxes rémunératoires*). There are around 22 such taxes, that are the standard fees of small traders and artisans, taxes on fuels distributive pumps, on carts, on shows and galas, port and airport taxes, taxes on advertising.

**GRANTS AND SUBSIDIES.** Central government transfers funds to municipalities through a general grants to current budget (Dotation globale de fonctionnement) half of which is set at a flat rate, and the other half is defined by demographic and economic criteria. Investment grants are also allocated, the FIAU (*Fonds d'Investissement et d'Aménagement Urbain*) and the FRAR (*Fonds Régional d'Aménagement Rural*).

**OTHER REVENUES.** Municipalities also perceive fees and charges (*redevances*) for public services provision, including parking fees, fees on public transportation, etc. The collection of these fees is challenged by a lack of human, technical and financial resources within municipal administrations.

## OUTSTANDING DEBT

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

Municipalities are legally allowed to borrow under strict conditions, however, as the necessary decrees were never published by the general government, these conditions are unknown and this legislation cannot be enforced. The country has reached a high level of national debt, limiting very strictly the opportunities for local authorities.

A joint- study of:



Source: National Statistical Institute of Ivory Coast • F. Yatta (2013) • *Direction Générale de la Décentralisation et du Développement Local (DGDDL)*, Guide pratique de l' élu • Decree n°2011-262 du 28/09/2011 on the orientation of the general organisation of administrative division of the State de l'organisation générale de l'Administration Territoriale de l'Etat; • Law n°2012-1128 du 13/12/2012 on territorial organization



### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOWER MIDDLE INCOME** Local currency - **Kenyan shilling (KES)**

#### POPULATION AND GEOGRAPHY

AREA: **580 367** km<sup>2</sup>

POPULATION: **44.9** million inhabitants (2014),  
an increase of 2.7% per year (2010-14)

DENSITY: **77** inhabitants/km<sup>2</sup>

URBAN POPULATION: **25.6%** of national population

CAPITAL CITY: **Nairobi** (8.4% of national population)

Sources: World Bank database; UNDP-HDR, ILO

#### ECONOMIC DATA

GDP: **132.5** billion (current PPP international dollars)  
i.e. 2 954 dollars per inhabitant (2014)

REAL GDP GROWTH: **5.3%** (2014 vs 2013)

UNEMPLOYMENT RATE: **9.2%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **944** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **21.4%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.548** (low), rank **147**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|-----------------|--------------------|-------------------------|----------------------|
| <b>47</b>       | <b>-</b>           | <b>-</b>                | <b>47</b>            |
| COUNTRIES       |                    |                         |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Kenya is a unitary country, with a one-tier structure of decentralization comprising 47 counties. Each county has its own directly elected executive called governor, and its assembly whose members are elected from wards of the county. In addition to the counties, urban and non-urban sub-counties deconcentrated entities are placed under the authority of the county government, they are currently distributed into 1 city (Kisumu), 2 municipalities and 103 towns. This form of decentralized organization is relatively new, as it was promulgated with the new constitution of 2010. Constitution provided for a major reform of local government organization, with the former 8 provinces and 280 districts being merged into the 47 actual counties. The 2010 Constitution provides for the decentralized organization of the country into its 6th and 184th articles, and thus both guarantees the autonomy of the 47 counties and their sub-units. A corpus of legislative texts then backed the principle of decentralization, the most important of them being the County Governments Act of 2012, the Urban Areas and Cities Act of 2011, and the County Allocation of Revenue Act of 2013.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The Constitution clearly states for the division of functions between national and county governments and introduces a principle of general jurisdiction, as any of the responsibilities not specifically assigned to the local governments by the constitution shall remain the competences of the national government. The local governments gained a number of new responsibilities with the decentralization reform, and the constitution also provided for a transitional period to allow country governments to progressively adapt to these additional functions. Counties are responsible for implementation of national environmental policies; statistics and planning at their level; commerce (markets, trade development and regulation, business licenses); water provision and distribution; public transport; education (pre-school and technical); health (primary health prevention, county medical services); agricultural and veterinary services; local tourism; housing provision and cultural and sport development.

### SUBNATIONAL GOVERNMENT FINANCE

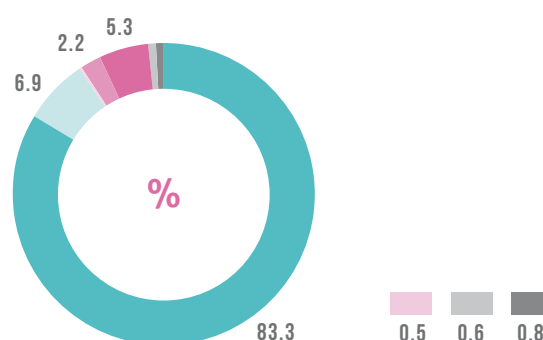
| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>3.4%</b> | <b>13.8%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | <b>2.3%</b> | <b>-</b>  | <b>68.4%</b>                |
| <b>STAFF EXPENDITURE</b>        | <b>1.4%</b> | <b>19.0%</b>  | <b>39.8%</b>                |
| <b>INVESTMENT</b>               | <b>0.9%</b> | <b>25.0%</b>  | <b>26.3%</b>                |

Subnational expenditures concern essentially the county levels. They represent on average 13.8% of total public expenditures. A large part of these expenditures go to current expenditures (68.4%), while 26.3% of local expenditures are dedicated to public investments. These amounts are expected to increase strongly in the coming years, as the new county entities will gain in resources and autonomy.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



Kenyan counties main sector of expenditures is by far general public services (83.8% of local expenditures, accounting to 2.8% of GDP). They are responsible for 27.4% of total public expenditure in this domain, in particular in agriculture and transportation where they play an important role. Health and education are the second sectors of involvement of subnational governments.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL<br>GOVERNMENT |
|----------------------|-------|---|-----------------------------|
| TOTAL REVENUE (2013) | 5.1%  | 24.3%   | 100%                        |
| TAX REVENUE          | 0.6%  | 2.8%  | 10.9%                       |
| GRANTS AND SUBSIDIES | 4.4%  | -   | 87.3%                       |
| OTHER REVENUES       | 0.1%  | -   | 1.8%                        |

Counties have both exclusive and shared taxation. They can locally raise and exclusively collect property taxes and entertainment taxes. However, taxation still represents a limited resource for counties, and the majority of it is centrally collected, meaning that county governments still heavily rely on intergovernmental transfers.

**TAX REVENUE.** The equitable share, considered as a state transfer by the Kenyan accountability framework represents a large part of local governments revenue. Constitution provides that an equitable share of no less than 15% of nationally raised revenue should be annually transferred to the counties. Horizontal distribution of equitable share is made upon a senate law every 5 years on the advice of the Commission of Revenue Allocation. An additional shared revenue can be received by marginalised areas from the Equalisation fund, consisting of 0.5% of national revenue, and with the purpose of funding basic services.

**GRANTS AND SUBSIDIES.** Intergovernment transfers include unconditional and conditional grants from the national government, the most important being the Local Authorities Transfer Fund (LATF) and the Constituency Development Fund (CDF). The LATF is a formula-based block grant created by the 1998 legislation, and thus might be reformed over the coming years. It comprises a revenue transfer to support local governments service delivery capacities, improve financial management and reduce the local outstanding debt rates. The CDF was also established under the former decentralization framework in 2013. It aims to support basic public services provision.

**OTHER REVENUES.** Other revenues includes fees and charges, they are locally raised by the county governments.

## OUTSTANDING DEBT

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

County governments are allowed to borrow by the Constitution, but only with a guarantee of the central government. This guarantee depends on the approval of the cabinet secretary for finance, according to conditions applied to the loans (transparent, equitable and prudent). This framework has been set after the subnational debt rates had raised unsustainable level in 2007/08, especially for the four largest local governments of Nairobi, Mombasa, Kisumu and Nakuru.

A joint- study of:



**Sources:** D.Ndii (2010), Decentralization in Kenya, background note • 2010 Constitution of Kenya • M.Alam (2014), Intergovernmental fiscal transfers in developing countries. Case studies from the Commonwealth, Commonwealth secretariat local government reforms series 5 • Kenya National Bureau of Statistics, Statistical Abstract 2015 • Commonwealth Local Governments Forum (2016), Kenya Country profile • Kenya National Treasury- IFMIS



## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOW INCOME** Local currency - **MALAWIAN KWACHA (MWK)**

## POPULATION AND GEOGRAPHY

AREA: **118 484** km<sup>2</sup>POPULATION: **16 695** million inhabitants (2014),  
an increase of 3.1% per year (2010-14)DENSITY: **141** inhabitants/km<sup>2</sup>URBAN POPULATION: **16.37%** of national populationCAPITAL CITY: **Lilongwe** (5.2% of national population)

Sources: World Bank, UNDP-HDR, ILO

## ECONOMIC DATA

GDP: **13.7** billion (current PPP international dollars)  
i.e. 821 dollars per inhabitant (2014)REAL GDP GROWTH: **5.7%** (2014 vs 2013)UNEMPLOYMENT RATE: **6.6%** (2014)FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **716** (BoP, current USD  
millions, 2014)GROSS FIXED CAPITAL FORMATION (GFCF): **15.4%** of GDP (2014)HUMAN DEVELOPMENT INDEX: **0.445** (low), rank **173**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|---|--------------------|-------------------------|----------------------|
| <b>35</b><br>COUNCILS<br>AVERAGE MUNICIPAL SIZE:<br>477 000 INHABITANTS | -                  | -                       | <b>35</b>            |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Malawi is a unitary country with a single-tier structure of decentralized governance. The decentralization process is enshrined by the Constitution of 1995, and the local government system comprises 28 district councils, 4 city councils, 2 municipal councils and one town-council. All these councils have elected local bodies, among whom their executive, called mayor, is appointed. According to the type of council, the composition of the elected body may differ and include traditional authority leaders. The constitution doesn't provide for a subsidiarity principle, and there is no hierarchy between the different types of local governments. The decentralization framework in Malawi has been provided for by the 1995 constitution in the first place, with a specific chapter (XIV) dedicated to local government. Three years later in 1998, the Local Government Act reinforced the constitutional provisions and set legal status, functions and competences of local governments. This Act were further amended in 2010 with the Amendment to the Local Government Act.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Urban and rural councils have the same competences, however, local authorities have the possibility to adapt these functions to the reality of their territory, and to jointly discharge a competence that couldn't be implemented due to a local government specificity. Local governments have been assigned with education, science and technology (primary school, kindergartens, etc.); health and population ; transport and public works (maintenance of roads, driver's license, etc.); land and planning; agriculture and irrigation ; water development (provision and distribution); gender, youth and community services (cultural affairs, community development, etc.); natural resources and environmental affairs; commerce and industry.

## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>1.1%</b> | <b>4.8%</b>   | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | 1.0%        | -   | 90.0%                       |
| <b>STAFF EXPENDITURE</b>        | 0.1%        | 2.6%  | 11.5%                       |
| <b>INVESTMENT</b>               | 0.1%        | 2.2%  | 10.5%                       |

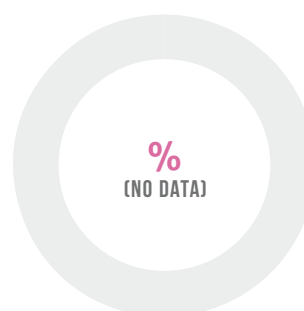
While the Local Governments Act mandates that 5% of general government discretionary spending should be directed through councils, in 2012, local governments were responsible for 4.8% of total government expenditures. However it should be noted that recent financial reports has shown an increasing trend of local expenditures level.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



Evidence from studies and surveys have shown that local councils are facing difficulties to spend due to a lack of material, human and financial means. In some extent, it explains the heavy part taken by operating expenditures in LGs budget, as they are expected to pay for the running costs of district offices, and the weakness of local investment in other sectors. Yet in general local governments have higher levels of expenditures in health and education, which are mainly funded through sector budget support grants from international donors.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2012) | 1.4%  | 7.7%  | 100%                     |
| TAX REVENUE          | 0.1%  | 0.8%  | 7.7%                     |
| GRANTS AND SUBSIDIES | 1.2%  | -   | 83.2%                    |
| OTHER REVENUES       | 0.1%  | -   | 9.1%                     |

Due to the weakness of local fiscal bases, local councils are highly relying on intergovernmental transfers to fund their competences. However, this situation should evolve with the development of the country's economy. In total, local governments revenue barely represent 1,38% of GDP, and are made of grants and subsidies from national and international funds up to 83%.

**TAX REVENUE.** Malawi accountability framework has a comprehensive definition of tax revenues covering for „locally generated revenue“. Thus tax revenue includes property and ground taxes, fees and licenses, and commercial undertakings and services charges. Yet the reliance of local governments on tax revenues is very limited given the low performance in local tax collection.

**GRANTS AND SUBSIDIES.** The two existing types of grant transfers from central government account for the largest part of LGs revenue (83%). The main grant consists in an unconditional grant based on a share of 5% of national net revenue. A second conditional grant can be allocated for specific projects in health and education. Under the Local Government Act of 1998, as amended in 2010, the distribution of grants to the local government assemblies is carried out by the Minister for Local Government on the recommendation of the National Local Government Finance Committee, based on a formula approved by the National Assembly. In total, 90,8% of grants were current grants, and 6,9% were capital grants.

**OTHER REVENUES.** The central government collect a number of fees and charges on behalf of the local governments : toll fees, gambling and casino fees, fuel and road levies. These resources are then distributed on the base of a formula approved by the government.

## OUTSTANDING DEBT

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

In accordance with the Local government act, the local councils are allowed to borrow. There is however a scarcity of data on the reality of local debt, with no comprehensive consolidated reporting on the debt stock.

A joint- study of:



**Sources:** Ministry of Finance and IMF-GFS • Malawi Country Profile, Local Government Service Commission – LGSC • A. Chiweza (2010), A review of the Malawi decentralization process: lessons from selected districts • O'Neil, Cammack, Kanyongolo, Mkandawire, Mwalyambwire, Welham, Wild (2014), Fragmented governance and local service delivery in Malawi, Overseas Development Institute (ODI) • N.Jagero, H.H.Kwandayi, A.Longwe (2014), Challenges of decentralization in Malawi, International journal of management sciences, vol.2, No.7



## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOW INCOME** Local currency - **Franc CFA (XOF)**

## POPULATION AND GEOGRAPHY

AREA: **1 241 231** km<sup>2</sup>POPULATION: **17.1** million inhabitants (2014),  
an increase of 3% per year (2010-2014)DENSITY: **14** inhabitants/km<sup>2</sup>URBAN POPULATION: **39,9%** of national populationCAPITAL CITY: **Bamako** (14.0% of national population)

Sources: World Bank, UNDP-HDR, ILO

## ECONOMIC DATA

GDP: **27.3** billion (current PPP international dollars)  
i.e. 1 597 dollars per inhabitant (2014)REAL GDP GROWTH: **7.2%** (2014 vs 2013)UNEMPLOYMENT RATE: **8.2%** (2014)FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **199** (BoP, current USD  
millions, 2014)GROSS FIXED CAPITAL FORMATION (GFCF): **34.1%** of GDP (2014)HUMAN DEVELOPMENT INDEX: **0.419** (low), **rank 179**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL                  | REGIONAL OR STATE LEVEL                                    | TOTAL NUMBER OF SNGs |
|--|-------------------------------------|--|----------------------|
| <b>703</b><br>MUNICIPALITIES<br>(COMMUNES)<br>AVERAGE MUNICIPAL SIZE:<br><b>24 324</b> INHABITANTS | <b>49</b><br>DISTRICTS<br>(CERCLES) | <b>9</b><br>8 REGION (RÉGIONS)<br>≠ THE DISTRICT OF BAMAKO | <b>761</b>           |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Mali is a unitary country with a decentralized structure of governance. This three-tier structure of decentralization exists since its consecration by the Constitution in 1992, and has been reformed in 2012. The first level of decentralization comprises 703 municipalities, among which 666 rural municipalities composed of villages, and 37 urban municipalities gathering different wards. Above the municipalities are 49 *Cercles*, or Districts, serving as intermediary between municipalities and Regions. As of today, the country has 8 Regions, and the special-status city of Bamako, whose powers are the same of both the districts and the regions', and which consists in 6 municipalities. As the reform is not fully effective yet, the number of regions is not stable and 11 more units should be created at the end of 2018. Each municipality is headed by directly elected councils among which the chief of the executive, called mayor, is nominated by its peers. Regions and Districts have councils with members elected by electoral college made of municipal councilors for the Districts, and of District members for the Region. Local governments are also represented at the central level through the *Haut Conseil des Collectivités Territoriales* (HCCT), a consultative committee advising the government on all matters related to local and regional development.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** According to the Local Governments Code (Law n°2015-047, 2015), recently amended in 2016 to create transition bodies at the local level, subnational entities have both general and exclusive responsibilities. General responsibilities are the same for the overall LGs. They follow a classic scheme in West Africa with the general ability to create and manage local public services as well as development program, land management, agricultural activities management, environmental protection. Specific powers differ according to the type of LG considered. Municipalities are in charge of markets, sport art and culture; pre-school and professional education; primary health care, sanitation and waste management; public transport and communications at their level and water distribution and provision. Districts are responsible for secondary education; health; communication; water provision and distribution. Regions have to coordinate the development actions held by the different local actors and the central government on their territories. They are considered as a key entity for the promotion of economic, social and cultural development since the last reform. They also are in charge of technical education; health; communications and energy. The draft of the Alger Agreement for the Peace and Reconciliation in Mali of February 2015 enlarged their duties to a large scale of matters such as planning, agriculture, commerce, transportation, tourism and basic social services.

## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>2.0%</b> | <b>11.7%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | <b>1.7%</b> | <b>-</b>  | <b>85.5%</b>                |
| <b>STAFF EXPENDITURE</b>        | <b>1.2%</b> | <b>21.4%</b>  | <b>60.3%</b>                |
| <b>INVESTMENT</b>               | <b>0.2%</b> | <b>4.1%</b>   | <b>8.9%</b>                 |

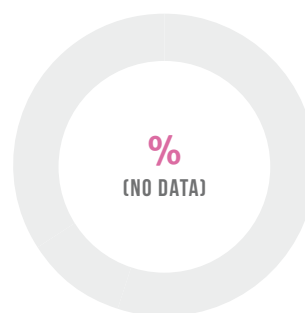
LGs spendings remain low in 2012, which could seem logical as the decentralisation reform wasn't implemented at that time. However, latter studies conducted in the countries by the IMF in 2015 has shown that local governments are facing difficulties to implement their new responsibilities.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



Most LGs expenditures are dedicated to current spendings, and capital local budgets are very weak. Several elements are raised to explain that trend, and first of all judicial limitations. The implementation of the corpus of legislative texts constituting the decentralization framework has to be backed by specific decrees and regulation to detail the mechanisms of transfer and the resources associated with each competences. As these decrees are often incomplete, they slow down the decentralisation process. Other limitations are financial and technical, LGs lacking the human and technical resources they need to fully implement their new duties.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 1.8%  | 12.2%   | 100%                     |
| TAX REVENUE          | 0.2%  | 1.9%  | 12.7%                    |
| GRANTS AND SUBSIDIES | 1.5%  | -   | 83.9%                    |
| OTHER REVENUES       | 0.1%  | -   | 3.4%                     |

Local governments in Mali have relative autonomy to hold a budget and locally raise taxes and charges; the draft of the Alger agreement for peace and reconciliation in Mali states that Mali shall transfer 30% of State resources to local governments before 2018. Despite an increasing trend over the last years, the overall level of Malian LGs revenue is far below the volume observed in other WAEMU countries. The weakness of own-raised revenue is also undermining their financial autonomy, as most part of their resources come from intergovernmental transfers.

**TAX REVENUE.** Malian LGs tax revenue include personal income taxes (local development tax, ect.); business taxes; amusement taxes; vehicle taxes and additional mining tax, ect. Despite the variety of existing taxation, this resource is insufficient, as the tax bases are weak, and too diverse as they induce difficulties for their collection. Again the lack of human and material means increases the complexity of local taxation and prevents any reliable resources forecast.

**GRANTS AND SUBSIDIES.** The weakness of locally raised revenue induce a high dependency on intergovernmental transfers. The main grants are coming from the central State, through the *Dotation générale de décentralisation*, used to compensate for the costs induced by de devolution of new powers to local governments. A number of other subsidies are transferred to the local units to fund specific projects.

**OTHER REVENUES.** LGs also raise fees from royalties, land and real estate, and charges for public services e.g. waste collection fees, registry fees, to a limited extent (only 3.4% of subnational resources).

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

The local governments in Mali are allowed to borrow to finance investments, however they cannot contract loans directly to external institutions. They can perceive investment grants through the National Agency for Local Governments Investment (ANICT) as enshrined in article 252 of the local governments code.

A joint- study of:



**Source of Statistics:** Malian Constitution of 27 february 1992 and local governments code • Draft law of finances 2016-2018, Document of budgetary and multi-annual economy programming, Ministry of economy and finance (2016) • Ministry of economy and finance, National Directorate of Treasury and Public Accounting (data from 2012) • G.Rota Graziosi, E.Caldeira, G.Chambas, Mali. Local taxation and decentralization, Public finances department, IMF, 2015 • B.Taiclet, M-L Berbach, M.Sow, Mali. Succeeding fiscal decentralization, Public finances department, IMF, 2015

Publication date: October 2016

With the participation of the AFD country office in Mali and Philippe Assézat, International technical expert seconded to the General Director of Taxation in Mali.



# MAURITIUS

UNITARY COUNTRY

## AFRICA

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **UPPER MIDDLE INCOME** Local currency - **Mauritian rupee (MUR)**

#### POPULATION AND GEOGRAPHY

AREA: **1 865** km<sup>2</sup>

POPULATION: **1.261** million inhabitants (2014),  
an increase of 0.2% per year (2010-14)

DENSITY: **676.1** inhabitants/km<sup>2</sup>

URBAN POPULATION: **39.7%** of national population

CAPITAL CITY: **Port Louis** (10.7% of national population)

Sources: World Bank Development Indicators, UNDP-HDI, ILO

#### ECONOMIC DATA

GDP: **23.4** billion (current PPP international dollars)  
i.e. 18 584.4 dollars per inhabitant (2014)

REAL GDP GROWTH: **3.6%** (2014 vs 2013)

UNEMPLOYMENT RATE: **7.7%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **418** (BoP, current USD  
millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **23%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.777** (high), **rank 63**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL  | REGIONAL OR STATE LEVEL             | TOTAL NUMBER OF SNGs |
|--|---|-------------------------------------|----------------------|
| <b>130</b><br>RURAL AUTHORITIES<br>(VILLAGES COUNCILS)<br>AVERAGE MUNICIPAL SIZE:<br><b>10 000 INHABITANTS</b> | <b>12</b><br>5 URBAN COUNCILS<br>(MUNICIPALITIES),<br>7 DISTRICT COUNCILS | <b>1</b><br>THE ISLAND OF RODRIGUES | <b>143</b>           |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Mauritius is a unitary country with two levels of local governments. Decentralization is not enshrined in the Constitution, with the exception of the guaranteed special status of the Island of Rodrigues, which has its own Regional Assembly. On the Island of Mauritius, local governments are divided into urban and rural authorities. The second tier of decentralization comprises five urban councils, and seven districts councils, whose mayors are elected every two years by each city and municipal council. The latter are overseeing 130 villages councils, which represent the first level of government. They have a part-time chair as leader, elected every two years in a secret ballot by the village councillors. Decentralization framework has been set by the Local Government Act of 2011, and by the Rodrigues Regional Assembly Act of 2001. The Ministry of Local Government and Outer Islands (MLGOI) is responsible for overseeing local authorities.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Municipalities and Districts councils have been devolved the same responsibilities and powers. The Local Government Act clearly provides for local governments competences in: education (pre-school and technical education), social welfare (nursery, etc.), health protection, housing, roads, environment and public sanitation, culture, leisure, sports, and economic promotion. Village councils functions overlap with those of municipalities and districts in many categories, and only differ as villages are not responsible for roads. The Local Government Act of 2011 requires for financial estimates of local authorities to be approved by the Minister of Local Government, as well as subjected to the Ministry of Finance and Economic Development.

### SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>1.7%</b> | <b>6.3%</b>   | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | <b>1.3%</b> | -   | <b>78.9%</b>                |
| <b>STAFF EXPENDITURE</b>        | <b>0.8%</b> | <b>8.6%</b>   | <b>46.9%</b>                |
| <b>INVESTMENT</b>               | <b>0.4%</b> | <b>8.4%</b>   | <b>21.0%</b>                |

Local governments expenditures represent a low share of GDP, and 6.3% of general government expenditures. This reflects the weakness of local governments budget, which are still depending on centra government support to fund their investment programmes. A large part of LGs spendings is dedicated to current expenditures, as local government councillors and are paid by their respective local authorities from council funds. On the other hand, 21% of public investments are done by local governments. Data on capital expenditures concern local governments units only, without the Rodrigues Regional Assembly.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



Data on expenditure by economic functions concern local governments units only, without the data of the Rodrigues Regional Assembly. The main sector of expenditure of local governments is by far general public services (32%), followed by economic affairs, environmental protection, and housing and community amenities.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 1.4%  | 6.1%  | 100%                     |
| TAX REVENUE          | 0.1%  | 0.4%  | 5.0%                     |
| GRANTS AND SUBSIDIES | 1.2%  |   | 83.3%                    |
| OTHER REVENUES       | 0.2%  |   | 11.7%                    |

Municipal and district councils are empowered to raise revenues via various fees, yet they have a limited financial autonomy, as they are mostly relying on intergovernmental transfers. Total subnational revenues represented 6.1% of overall public revenues in 2013, corresponding to 1.4% of GDP. The Rodrigues Regional Assembly, with its specific regional status, is responsible on his own for a large share of these revenues.

**TAX REVENUE.** In 2013, most of the local governments tax revenues were coming from taxes on property. However tax revenue is constrained by narrow tax bases, and represents a low share of both general government revenue and GDP.

**GRANTS AND SUBSIDIES.** Grants and subsidies are the bulk of municipal and district councils revenues, through the annual „grant in aid“ system, which allocates a monthly amount to each of the local authority for current expenditures. The large majority of these grants are current grants. The annual grant is voted as part of the budget of the Ministry of Local Governments. With almost two-third of their resources for coming from subsidies, local governments are highly dependent on central government support.

**OTHER REVENUES.** The second sources of revenue of councils comprises fees and charges, such as property income, building and land use permits, trade, markets, cemeteries, scavenging, traffic fees, advertisements, sales of goods and services, and fines.

## OUTSTANDING DEBT

### % GDP

### % GENERAL GOVERNMENT

#### OUTSTANDING DEBT (2013)

-

-

Local governments and the Island of Rodrigues may borrow, with the approval and the guarantee of the central government, based on their financial capability.

A joint- study of:



Sources: IMF-GFS • Local Government Service Commission – LGSC • Commonwealth Local Government Forum – CLGF country profile • Public Debt Management Act of 2008 • Ministry of Finance and Economic Development (2013), Digest of public finance statistics 2013.



# MOROCCO

UNITARY COUNTRY

## AFRICA

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOWER MIDDLE INCOME** Local currency - **Moroccan dirham (MAD)**

#### POPULATION AND GEOGRAPHY

AREA: - km<sup>2</sup>

POPULATION: **33 493** million inhabitants (2014),  
an increase of 1.4% per year (2010-14)

DENSITY: **75** inhabitants/km<sup>2</sup>

URBAN POPULATION: **59.7%** of national population

CAPITAL CITY: **Rabat** (5.77% of national population)

Sources: OECD, World Bank, UNDP, ILO

#### ECONOMIC DATA

GDP: **258 296** billion (current PPP international dollars)  
i.e. 7 712 dollars per inhabitant (2014)

REAL GDP GROWTH: **2.4%** (2014 vs 2013)

UNEMPLOYMENT RATE: **9.9%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **3 582** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **32.2%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.628** (medium), **rank 126**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL              | INTERMEDIATE LEVEL       | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|------------------------------|--------------------------|-------------------------|----------------------|
| -                            | -                        | -                       | -                    |
| MUNICIPALITIES<br>(COMMUNES) | PROVINCES<br>(PROVINCES) | REGIONS<br>(RÉGIONS)    |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Morocco is a constitutional monarchy, democratic and parliamentary. According to the new Constitution (2011), "the territorial organisation of Morocco is decentralised, and based upon an advanced degree of regionalisation". Subnational governments include regions, prefectures (urban areas) and provinces (rural areas) and communes. The new Constitution introduced elections for regional councils, which were formerly appointed by central authorities. Regional and local elections held in September 2015 were an important step in the implementation of the deconcentration and decentralisation process enshrined in the constitution of 2011.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The 2011 Constitution introduces three types of local competencies: own competencies, competencies shared with the central government, and competencies transferred by the central government :

- Regional competencies include designing regional economic and social plans, environmental protection, vocational training, etc.
- Provincial competencies include maintaining local roads, managing public transport, etc.
- Local competencies include socio-economic development, urbanism and territorial planning, etc.

Transferred competencies include building and maintenance of hospitals and schools, and investing in infrastructure and equipment. Competencies are transferred to regions, provinces or communes according to their level of importance (regional, provincial, local). An "advanced regionalisation process" has been launched providing for the reinforcement of regional competences in the area of economic and social development and corresponding resources (transferred and own).

### SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE              | % GDP | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|--------------------------|-------|---|-----------------------------|
| TOTAL EXPENDITURE (2013) | 3.7%  | 11.8%   | 100%                        |
| CURRENT EXPENDITURE      | 2.4%  | -   | 64.5%                       |
| STAFF EXPENDITURE        | 1.3%  | 11.1%   | 35.5%                       |
| INVESTMENT               | 1.3%  | 24.2%   | 35.5%                       |

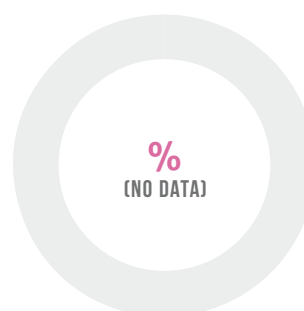
Morocco still has a low level of decentralisation, with SNGs playing a minor role in terms of provision of public services and investment. Morocco is at the level of the most centralised countries of the OECD i.e. Chile, Greece, Ireland, New Zealand or Turkey (in terms of spending indicators). This situation could evolve with the ongoing decentralisation process which will transfer new spending responsibilities to SNGs. Although SNG roles in total public investment is weak, investment remains an important local function, representing 35% of local expenditure. Staff expenditure also accounts for a relatively large share of SNG spending.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



Over 2009-13, 77% of expenditure on average was carried out by municipalities, in particular urban municipalities (55%) while the regional and provincial levels undertook respectively 5% and 18% of subnational expenditure. Over the same period, 65% of investment on average was carried out by the municipal level (43% by urban municipalities), 9% by the regional level and 26% by the provincial level. Priority areas for investment are roads, utilities (water and electricity networks) and administrative buildings.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL<br>GOVERNMENT |
|----------------------|-------|---|-----------------------------|
| TOTAL REVENUE (2012) | 3.6%  | 15.1%   | 100%                        |
| TAX REVENUE          | 1.1%  | 5.7%  | 30.9%                       |
| GRANTS AND SUBSIDIES | 2.2%  | -   | 59.4%                       |
| OTHER REVENUES       | 0.4%  | -   | 9.7%                        |

Subnational revenue comprises revenues transferred by the central government (54% on average over 2009-13), tax revenue managed by central government (21%) and own revenues (18%, mainly own taxes and user fees). Municipalities represent the bulk of subnational revenues (79 % on average over 2009-13), while prefectures and provinces represent 16 % and the regions, 5 %. However, in the context of the regionalisation process and devolution of new responsibilities to the new regions, they should receive additional funding in the near future.

**TAX REVENUE.** Tax revenue comprises both own-source taxes and taxes managed by the central government and redistributed to subnational governments (in more or less equal measure). Three-quarters of own-source tax receipts derive from six local taxes such as tax on port activity, tourist tax, property tax (on urban land), construction tax, tax on allotments and tax on mining exploitation and port activity. More than 90% of receipts go to the municipal level. Some taxes go to the regions and the provincial level. Taxes managed by the central government are the residence tax (*taxe d'habitation*), municipal service tax (*taxe des services communaux*) and the local business tax (*taxe professionnelle*). They benefit almost exclusively urban municipalities.

**GRANTS AND SUBSIDIES.** The major source of transfers from the central government to local authorities comes from the redistribution of national taxes (30% of VAT, 1% of PIT and 1% of CIT). Over 2009-13, 69% of receipts on average went to municipalities (VAT, CIT and PIT, i.e. around 50% of municipal revenue), 27% to the provincial level (VAT i.e. 90% of their total revenue) and 5% to the regions (PIT and CIT i.e. around 50% of their total revenue). The organic law 111-14 provides for the progressive allocation of 5% of PIT and CIT receipts to the regions. Criteria for the distribution of these funds to individual local governments include the amount of local staff salaries, population, land area, etc.

**OTHER REVENUES.** Other revenues include property revenues, sale of assets, services fees, etc.

| OUTSTANDING DEBT        | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 1.3%  | 2.6%                 |

In order to finance investments, local governments are able to contract loans from the Municipal Equipment Fund (*Fonds d'équipement communal*, FEC), a major institution for financing local governments in Morocco. Projects funded through this organisation include responsibilities such as urban infrastructure, roads, water and sanitation equipment, etc. Initial resources of the FEC were transfers from the central government, but its funding resources have widened over time and now include grants from the World Bank, the European Investment Bank, etc.

A joint study of:



Publication date: October 2016

**Sources:** OECD calculations from IMF data GFS Statistics • Comité des régions, projet ARLEM (2014) • Cour des Comptes du Maroc (Mai 2015) Rapport sur la Fiscalité Locale • Trésorerie générale du Royaume du Maroc (2013), Bulletin Mensuel de Statistiques des Finances Locales, Décembre 2013 • Comptes Nationaux Provisoires 2013 • Fonds d'équipement communal, <http://www.fec.org.ma/Textes/Loi47-06.pdf> • N. Boutayeb (2012): "Clarification des relations financières entre l'Etat et les Collectivités territoriales" • Royaume du Maroc, Commission Consultative de la Régionalisation (2010): "La régionalisation avancée au service du développement économique et social" • C. Diop (2009): "Autonomie Financière des Collectivités Locales d'Afrique" • <http://www.pncl.gov.ma/fr/Pages/default.aspx> (2015).



# NIGER

UNITARY COUNTRY

## AFRICA

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOW-INCOME** Local currency - **Franc CFA (XOF)**

#### POPULATION AND GEOGRAPHY

AREA: **1 267 000** km<sup>2</sup>

POPULATION: **19.1** million inhabitants (2014),  
an increase of 4.1% per year (2010-14)

DENSITY: **15** inhabitants/km<sup>2</sup>

URBAN POPULATION: **17.6%** of national population

CAPITAL CITY: **Niamey** (5.5% of national population)

Sources: World Bank database, UNDP-HDR, ILO

#### ECONOMIC DATA

GDP: **17.9** billion (current PPP international dollars)  
i.e. 938.4 dollars per inhabitant (2014)

REAL GDP GROWTH: **7.0%** (2014 vs 2013)

UNEMPLOYMENT RATE: **2.7%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **769** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **40.2%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.348**(low), rank **188**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL  | TOTAL NUMBER OF SNGs |
|---|--------------------|--|----------------------|
| <b>265</b><br>MUNICIPALITIES (COMMUNES)<br>WITH 52 URBAN AND 213 RURAL<br>AVERAGE MUNICIPAL SIZE:<br>72 075 INHABITANTS | <b>-</b>           | <b>8</b><br>7 REGIONS (RÉGIONS) AND THE<br>URBAN COMMUNITY OF NIAMEY<br>(COMMUNAUTÉ URBAINE DE NIAMEY) | <b>273</b>           |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Niger is a unitary country with a two-tiers system of decentralization, comprising 265 municipalities, among which 52 urban municipalities and 213 rural, and 8 Regions, including the urban community of Niamey. The cities of Maradi, Zinder and Tahoua also have a special status of Urban Communities (*communautés urbaines*) due to their importance as urban centers, however, unlike Niamey they are not considered as being of both municipal and regional level. They all gather 15 sub-municipalities (*arrondissements*). Niger also accounts 63 departments, which are intermediary subnational entities between the regions and the municipalities. However as their executive is directly appointed by the central government, they couldn't be considered as decentralized units, but as deconcentrated administrative units in the western definition of decentralization. As for the municipalities and regions, they have both elected executives and local bodies. In addition, the 2002 Law on local governments provides for the inclusion of traditional authorities in the definition of local institutional development plans. Decentralization was the result of the National conference of 1991. 2010 coup opened a transition period where local bodies were replaced by consultative commissions comprising local traditional authorities, representatives of deconcentrated administration of local organizations, etc.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The newly adopted Constitution of Niger consecrated the freedom of administration and autonomy of local governments, and after the adoption of the local governments code in 2011, elections have been organized to newly appoint municipal councils, and elect regional councils for the first time after the creation of Regions. The country has established a National Policy on Decentralization, aiming to improve local democracy and basic public services provision through the decentralization process. Local governments are responsible for economic development, education, social services and cultural development on their territory. At the municipal level, they also are in charge of primary health care provision, water provision (both potable and for agricultural purposes), public safety and justice (for the Regions only).

### SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | -     | -   | -                           |
| <b>CURRENT EXPENDITURE</b>      | -     | -   | -                           |
| <b>STAFF EXPENDITURE</b>        | -     | -   | -                           |
| <b>INVESTMENT</b>               | -     | -   | -                           |

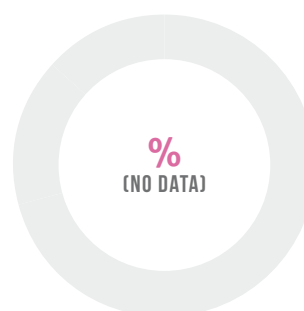
There is no official statistics on local governments expenditures compared to general government expenditures in Niger, due to the incomplete definition of responsibilities and functions of levels of government.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



Despite a strong natural resource potential and dynamic economic growth, Niger local investments still very weak. This is the challenge that strive to meet the Nigerian authorities, which have intensified their investment policy by offering a range of incentives and legal and fiscal advantages for potential investors. Yet, considering these elements and the limited resources available to local governments, the effective devolution of powers is unfinished in Niger.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL<br>GOVERNMENT |
|----------------------|-------|---|-----------------------------|
| TOTAL REVENUE (2013) | 0.6%  | 2.4%  | 100%                        |
| TAX REVENUE          | 0.04% | -   | 7.5%                        |
| GRANTS AND SUBSIDIES | -     | -   | -                           |
| OTHER REVENUES       | -     | -   | -                           |

As the legal corpus is being finalized and the transfer of resources and responsibilities to local authorities have low effectiveness on the ground, the sub-national development of the country now depends on central funding, and external resources (budget support loans, budget support, etc), and the process of fiscal decentralization is being slow down by inadequate human, financial and technical resources.

**TAX REVENUE.** Nigerian municipalities and regions both receive a share of national raised taxes. For the municipality, which can also raise local taxes, shared taxation represent the majority of tax revenue. Shared taxes are : property tax, with 50% being retroceded to the LGs; business tax, with the total being given to municipalities and regions ; personal income tax (30% to the LGs) ; business licenses tax (100%) and the mining and petrol tax (15% of the mining and petrol revenues of the state). In addition to these shared taxes, municipalities may raise a high variety of local taxes. This diversity induces difficulties for the collection of these taxes which thus constitute a limited resource.

**GRANTS AND SUBSIDIES.** Due to the lack of resources and increasing needs at the local level, a National agency for local governments funding (ANFICT) has been recently created to support the LGs in fulfilling their financial needs by mobilizing, managing and distributing resources to the LGs. It is thus both a decentralization compensation fund, and a perequation fund aiming to enhance the territorial development. the ANFICT is responsible for allocation of grants, however as explained above, its power still very limited for the moment, and no data are available at the moment on its activity.

**OTHER REVENUES.** Due to their limited human and technical capacity, subnational governments in Niger are very limited in their collection of other sources of revenues.

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

According to the 2002 law on local governments, municipalities and regions are allowed to borrow from credit and financial markets. The decree 2003-178/PRN of 2003 provides for a set of conditions applied to this ability, the most important being that the loan should be used to fund investments only, it can be contracted through financial operator or bond issuance or with another LG, long and middle-term loans do not require a state guarantee; the loan cannot exceed 25 years.

A joint- study of:



Sources: Ministère de l'intérieur, de la sécurité publique, de la décentralisation et des affaires coutumières et religieuses (MI/SP/D/ACR) – Direction générale de la décentralisation et des collectivités territoriales (DGDCT) available on <http://decentralisation-niger.org/> • Document cadre de politique nationale de décentralisation, MI/SP/D/ACR-DGDCT (2012) • F. Yatta (2013) • UCLG-OECD Survey on fiscal decentralization (2015)



# NIGERIA

FEDERAL COUNTRY

## AFRICA

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOWER MIDDLE INCOME**

Local currency - **Nigerian naira (NGN)**

#### POPULATION AND GEOGRAPHY

AREA: **923 773** km<sup>2</sup>

POPULATION: **177,475** million inhabitants (2014),  
an increase of 2.70% per year (2010-14)

DENSITY: **192** inhabitants/km<sup>2</sup>

URBAN POPULATION: **47.7%** of national population

CAPITAL CITY: **Abuja** (1.3% of national population)

Source: World Bank, UNDP, ILO

#### ECONOMIC DATA

GDP: **1 049.1** billion (current PPP international dollars)  
i.e. 5 911 dollars per inhabitant (2014)

REAL GDP GROWTH: **6.3%** (2014 vs 2013)

UNEMPLOYMENT RATE: **4.8%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **4 956** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **15.8%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.514** (low), **rank 152**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL                                   | TOTAL NUMBER OF SNGs |
|---|--------------------|---|----------------------|
| <b>774</b><br>LOCAL GOVERNMENTS<br>AVERAGE MUNICIPAL SIZE:<br>229 295 INHABITANTS | <b>-</b>           | <b>37</b><br>36 STATES + THE FEDERAL<br>CAPITAL TERRITORY | <b>811</b>           |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Nigeria is a federal country with a three-tier subnational government system, made of 36 States, one Federal Capital Territory and 774 Local Governments. Fiscal federalism as enshrined in the 1999 Constitution of the Federal Republic of Nigeria. Back in 1914 the Northern and Southern protectorates of Nigeria were amalgamated, under a unitary political administration, with powers being shared between the Governor-General head of the Central government, and the Lieutenant Governors heading the governments of Northern and Southern Protectorates. In 1946, under the British colonial administration, three provinces were created out of the Northern and Southern Protectorates, institutionalizing the current federal government system. The Macpherson Constitution of 1951 reinforced federalism in Nigeria, appointing governors at the head of these 3 regions, and the Lyttelton Constitution of 1954 granted legislative power to legislative and executive councils, making the constitutional status of federal and state governments clear and distinct. A Supreme Court is in charge of handling conflicts between central and regional governments. Until now, the 1979 constitution and the current 1999 constitution failed to provide the necessary constitutional backing and legal framework to operationalise local governments as a third-tier of the federation, even though they are in theory a unit of government with defines powers and authority. Despite their importance (some local governments' population exceeds 1 million inhabitants) they remain an appendage of state government which have absolute discretion over their creation and their operational autonomy. The creation of the State Joint Local Government Account (SJLGA) by the 1999 constitution undermined their role further.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The federal regions own and manage their resources. They equally take charge of all residual matters that affect the regions, while the federal government takes charge of few exclusive matters of national interest such as: defense, foreign policy, currency regulations etc. The 1999 constitution sets out the following functions of local government in Nigeria: provision and maintenance of health services; agricultural and national resource development; provision and maintenance of primary, adult and vocational education; and other functions as may be conferred on it by the state house of assembly. No constitutional distinction exists between rural and urban local governments. Due to the intervention of military power in government, Nigeria does not fully operate according to a federal system of government. The regional states rely heavily on the federal government and the relationship between the two levels remains one-sided. Recently, state governors demanded for a paradigm shift in the national practice of federalism, and for dual sovereignty between federal and federating states.

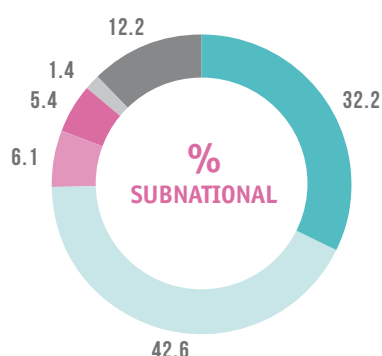
| EXPENDITURE                     | % GDP            |             | % GENERAL GOVERNMENT<br>(same expenditure category) |              | % SUBNATIONAL GOVERNMENT |             |
|---------------------------------|------------------|-------------|---|--------------|--------------------------|-------------|
|                                 | SUBNATIONAL DATA |             | LOCAL DATA ONLY                                     |              |                          |             |
| <b>TOTAL EXPENDITURE (2013)</b> | <b>5.3%</b>      | <b>2.1%</b> | <b>38.1%</b>  | <b>16.3%</b> | <b>100%</b>              | <b>100%</b> |
| <b>CURRENT EXPENDITURE</b>      | 2.6%             | 1.7%        | -   | -            | 48.9%                    | 81.5%       |
| <b>STAFF EXPENDITURE</b>        | 1.1%             | 1.2%        | 23.5%   | 27.9%        | 21.0%                    | 58.0%       |
| <b>INVESTMENT</b>               | 2.7%             | 0.4%        | 62.5%   | 9.7%         | 51.1%                    | 18.5%       |

State governments have a large discretionary power over the use of their revenues, and are responsible for a relatively high share of public expenditures (38.1%), in particular regarding investment expenditures (62.5%). On the other hand, because of the lack of effectiveness of the transfer system through the SJLGA, local governments are relatively ineffective, and their room for manoeuvre on spending are very limited. As a result, most of their expenditures relate to current expenditures (81.5% of local expenditures).



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



State governments expenditures are mainly concentrated in the sectors of general public services and administration; economic affairs including primarily agriculture, road maintenance and transportation; education; and to a lesser extent housing and community utilities and health. There is no official data on local governments' functional classification of expenditures.

## REVENUE BY TYPE

### % GDP

### % GENERAL GOVERNMENT (same revenue category)

### % SUBNATIONAL GOVERNMENT

■ SUBNATIONAL DATA □ LOCAL DATA ONLY

| REVENUE BY TYPE      | % GDP | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL<br>GOVERNMENT | % SUBNATIONAL<br>GOVERNMENT |
|----------------------|-------|-------|---|---|-----------------------------|-----------------------------|
| TOTAL REVENUE (2013) | 4.9%  | 2.1%  | 40.0%   | 18.4%   | 100%                        | 100%                        |
| TAX REVENUE          | 0.8%  | 0.03% | -   | -   | 15.3%                       | 1.6%                        |
| GRANTS AND SUBSIDIES | 3.7%  | 1.7%  | -   | -   | 74.3%                       | 82.4%                       |
| OTHER REVENUES       | 0.5%  | 0.1%  | -   | -   | 10.4%                       | 6.0%                        |

In Nigeria, most resources are owned and managed by the federal government, and almost all states and local governments rely on allocations or shares from federal revenues. Around 75% of federal revenues are derived from oil and gas, making all three tiers of governments vulnerable to international fluctuations. Besides, since 2000, each state maintains a special account, the State Joint Local Government Account, gathering funds from the Federation Account and from the government of the state that is to be used to pay all allocations to local government councils. Yet this system is not operating well and funds rarely reach local governments.

**TAX REVENUE.** For the most part, the Federal government has control over setting tax bases and tax rates. Besides, the major part of federal revenues is collected, pooled and then being allocated and shared within state and local governments. Main shared taxes are: company and personal income tax, value-added tax, petroleum profit tax.

**GRANTS AND SUBSIDIES.** Section 162 of the Constitution provides for the funding of local councils through the Federation Account, managed by the State Joint Local Government Account. The 1999 constitution further empowers the Revenue Mobilisation Allocation and Fiscal Commission (RMAFC) to allocate revenue to the three tiers of government. Yet in practice, state governments have taken over most local government functions in order to justify spending funds earmarked for councils in the Joint Revenue Account, and funds from the Federation Account channelled often are credited to State governments and do not reach local level. Most grants are unconditional grants.

**OTHER REVENUES.** State governments and local governments can perceive other sources of revenues to compensate for their lack of autonomy over transfer revenues. These revenues are mainly fees and charges on public services, such as, for federal governments: stamp duties, gambling taxes, road taxes, business registration fees, street naming registration fees, etc; and regarding local governments: motor park levies, domestic animal license fees, cattle tax, radio and television license fees, marriage and death registration fees, etc.

## OUTSTANDING DEBT

### % GDP

### % GENERAL GOVERNMENT

■ SUBNATIONAL DATA □ LOCAL DATA ONLY

| OUTSTANDING DEBT (2013) | % GDP | % GDP | % GENERAL GOVERNMENT | % GENERAL GOVERNMENT |
|-------------------------|-------|-------|----------------------|----------------------|
| OUTSTANDING DEBT (2013) | 2.5%  | -     | 19.8%                | -                    |

Recently, due to the lack of state own revenues other than monthly allocation of oil and gas revenues from the National government (which have declines sharply), Nigerian federal governments' debt has steadily grown, to 2.5% of GDP in 2013, and keeps rising. Besides, a large amount of government borrowing is in the form of high interest loans from domestic banks, and has been done to cover operating expenditures such as salary costs. Subnational debt is highly concentrated within a few States: Lagos State at the top, followed by Kaduna, Cross River and Ogun, which account for about 51 percent of the 36 states' total external debt in 2016. Therefore, prudential measures are being taken: Loans taken must be tied to specific projects and closely monitored, and according to the Fiscal Responsibility Commission (FRC) Act, the states should also adhere to the three percent ceiling in relation to their total annual revenue.

A joint-study of:



Sources: FDA and LGA Finance Statistics of Nigeria, 2016 • Central bank of Nigeria Data and Statistics • E.N Thom-otuya, Nigeria's Federalism: an Exploration of Its Dilemma, IISTE, Working Vol.3, No.5 (2013) • Local government administration in Nigeria: the search for relevance, Commonwealth Journal of Local Governance 2015, 18: 4850, - <http://dx.doi.org/10.5130/cjlg.v0i18.4850> • Local Government Finance in Nigeria: Challenges and Prognosis for Action in a Democratic Era (1999-2013), Journal of Good Governance and Sustainable Development in Africa, Vol. 2, No 1 (2014) • Annual Report and Statement of Accounts, Debt Management Office of Nigeria (2015) • IMF World Economic Outlook (WEO), October 2015 • From Oil to Cities: Nigeria's Next Transformation, The World Bank (2016)



# SENEGAL

UNITARY COUNTRY

## AFRICA

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOW INCOME** Local currency - **Franc CFA ((XOF)**

#### POPULATION AND GEOGRAPHY

AREA: **196 722** km<sup>2</sup>

POPULATION: **14.7** million inhabitants (2014),  
an increase of 3.2 % per year (2010-14)

DENSITY: **75** inhabitants/km<sup>2</sup>

URBAN POPULATION: **43.7** % of national population

CAPITAL CITY: **Dakar** (23.1% of national population)

Sources: World Bank database, UNDP-HDR, ILO

#### ECONOMIC DATA

GDP: **34.2** billion (current PPP international dollars)  
i.e. 2 333 dollars per inhabitant (2014)

REAL GDP GROWTH: **4.7%** (2014 vs 2013)

UNEMPLOYMENT RATE: **9.7%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **343** (BoP, current USD  
millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **26.05%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.466** (low), **rank 177**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL                         | REGIONAL OR STATE LEVEL        | TOTAL NUMBER OF SNGs |
|--|--|--------------------------------|----------------------|
| <b>550</b><br>MUNICIPALITIES<br>(COMMUNES)<br>AVERAGE MUNICIPAL SIZE:<br><b>26 677 INHABITANTS</b> | <b>45</b><br>DEPARTMENTS<br>(DÉPARTEMENTS) | <b>14</b><br>REGIONS (RÉGIONS) | <b>609</b>           |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Senegal is a unitary country with a three-tier decentralization system. Decentralization in Senegal started in the 19th under the former colonial system with the creation of the City of Saint-Louis. The actual framework of governance results from the legislation implemented in 1996 with the creation of the Local Governments Code and the transfer of powers to subnational level of governments. Local governments autonomy has then been strengthened by the 2001 Constitution. Municipalities also have the possibility to form grouping of LGs, such as Dakar urban community (*Communauté Urbaine de Dakar*). The Senegal now accounts 14 regions divided into 45 departments comprising 550 municipalities (151 urban, 353 rural, 46 urban sub-districts), all of the local governments being administered by directly elected bodies, among which the head of executive is nominated. Besides, the State has built a deconcentrated administration system relying on the regions and departments. A Third Act of decentralization was launched in 2014 which reinforced the municipalities and extended this status to all local towns, including the most rural ones, and has given the departments a status of decentralized entity. The second part of this third Act of decentralization will aim to empower the departments by allowing them to raise taxes at their level, extending the LGs areas of competences, reforming the grant and subsidies system and creating synergies between the three tiers of government.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Local governments have been devolved 9 areas of competences by the law of 1996: land registry; natural resources management and environment ; health and social care ; education ; culture, sport and recreation ; planning and territorial development ; urban planning and housing. State institutions keep a large share of responsibility for the provision of infrastructure and services, although the local governments' prerogatives have particularly been increased over the last decade.

### SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>1.7%</b> | <b>5.9%</b>   | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | <b>1.2%</b> | <b>-</b>  | <b>74.0%</b>                |
| <b>STAFF EXPENDITURE</b>        | <b>0.4%</b> | <b>5.8%</b>   | <b>23.4%</b>                |
| <b>INVESTMENT</b>               | <b>0.4%</b> | <b>3.8%</b>   | <b>26.0%</b>                |

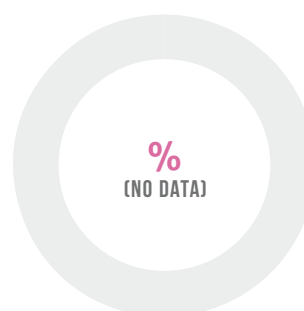
In 2013, the expenditures of local governments in Senegal have increased since 2012. The largest share of expenditures went to current expenditures (74% of subnational expenditures) against capital expenditures (26% of subnational expenditures and 0.4% of national GDP).



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



Laws on decentralization provide for the State to transfer concomitant resources to the transfers of competences, so as to allow the local governments to fulfill their devolved duties. Expenditures are mainly dedicated to general public services, followed by education, youth, sport and education, and health and hygiene.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2012) | 1.9%  | 7.7%  | 100.0%                   |
| TAX REVENUE          | 0.5%  | 2.8%  | 28.2%                    |
| GRANTS AND SUBSIDIES | 0.6%  | -   | 30.0%                    |
| OTHER REVENUES       | 0.8%  | -   | 41.8%                    |

Subnational revenues in Senegal reach 7.7% of total public revenues, which is relatively high compared to other low-income countries. Yet it represents barely 1.9% of the GDP and remains low compared to the needs. Subnational revenues are divided between tax revenues, grants and other revenues, but are very unbalanced between Dakar and the other municipalities.

**TAX REVENUE.** The regions do not have taxation powers, unlike the municipalities, which can raise a high diversity of local taxes : direct taxes (fiscal minimum tax, business tax, tax on property) ; and additional percentage tax perceived through the national taxation. In general, subnational revenues have slightly increased (0.6%), after having decreased in 2012. It must be noted that in 2013, 70% of tax revenues had been realized in the Dakar region. Taxation in local governments is managed by the central State, which is responsible for tax collection, and tax rates and bases are set by the law.

**GRANTS AND SUBSIDIES.** Central governments provide several subsidies to the local governments. The decentralization allocation fund (FDD) aims to compensate for the expenditures induced by the transfer of competences, and is dedicated to the funding of operating expenditures. The 2007 law states that the fund should represent 3.5% of VAT. Its allocation is based on the costs of transferred responsibilities and on the current costs of local administrations. The local government investment fund (FECL), created in 1977, is a capital grant dedicated to the enhancement of LGs investment capability. Its size depends on a percentage of the VAT (around 2%) decided into the annual budget law. Its recipient are the overall subnational governments, and the special purposes investment programmes. These grants represent a relatively modest share of LGs revenue, as not all the competences assigned to local governments have been effectively devolved to them.

**OTHER REVENUES.** Municipalities are also allowed to levy revenues from municipal property ; and for the use of public spaces, e.g. covered market places, road occupancy fees, etc. Charges for municipal public services or fines are another source of revenue.

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

Senegalese local governments are authorized to borrow and issue bonds, on domestic and foreign markets, with approval of the central government and after an examination of their financial capabilities.

A joint study of:



**Sources:** A. Piveteau (2005), *Décentralisation et développement local au Sénégal. Chronique d'un couple hypothétique*, Revue Tiers Monde (n° 181) • B. Dafflon, T. Madies (2013), The local government financing system in Senegal, in "The political economy of decentralization in sub-Saharan Africa. A new implementation model in Burkina Faso, Ghana, Kenya and Senegal", Agence Française de Développement and the World Bank • *Ministère de la gouvernance locale, du développement et de l'aménagement du territoire* • Introduction to the debate on public budgeting, Document de Programmation budgétaire et économique pluriannuelle 2015-2017, Ministry of Economy and Finances (2014)



# SOUTH AFRICA

QUASI-FEDERAL COUNTRY

AFRICA

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **UPPER MIDDLE INCOME**

Local currency - **Rand (ZAF)**

### POPULATION AND GEOGRAPHY

AREA: **1 219 090** km<sup>2</sup>

POPULATION: **54.001** million inhabitants (2014),  
an increase of 1.5% per year (2010-14)

DENSITY: **44** inhabitants/km<sup>2</sup>

URBAN POPULATION: **64.3%** of national population

CAPITAL CITY: **Pretoria** (administrative capital - 3.75% of national population), **Cape Town** (legislative capital - 6.82%) and **Bloemfontein** (judicial capital - 0.93%)

### ECONOMIC DATA

GDP: **704.7** billion (current PPP international dollars)  
i.e. 13 049 dollars per inhabitant (2014)

REAL GDP GROWTH: **1.5%** (2014 vs 2013)

UNEMPLOYMENT RATE: **24.9%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **5 741** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **20%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.666** (medium), **rank 116**

Sources: World Bank, UN World Urbanisation Prospects, <http://publications.europa.eu>

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|--|--------------------|-------------------------|----------------------|
| <b>278</b><br>8 METROPOLITAN MUNICIPALITIES (CATEGORY A)<br>226 LOCAL MUNICIPALITIES (CATEGORY B)<br>44 DISTRICT MUNICIPALITIES (CATEGORY C) | <b>-</b>           | <b>9</b><br>PROVINCES   | <b>287</b>           |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** South Africa is a quasi-federal country as it is a unitary state with federal tendencies and specific governance arrangements, based on a system of co-operative governance. Following the adoption of the 1993 Interim Constitution, the number of provinces increased from four to nine. The integration process also resulted in a drastic reduction of municipalities from more than 1 000 before 1990 to 830 just after 1993 and further down to 278 following the 2011 municipal elections. Metropolitan municipalities (category A) are found in urban areas and have a single-tier form. The other local governments are found in areas which are primarily rural and have a two-tier organisation: district municipalities (category C), the main division of provinces, which are in turn subdivided into local municipalities (category B). The latter share authority with the district municipality under which they fall. Metropolitan and local municipalities are also divided into wards (4 277 as of 2011), with each ward electing a councillor to the municipal council.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Provinces: social services (education, health and social development including housing), economic functions (agriculture and roads) and provincial governance and administration (legislature, provincial treasury, local government and human settlements). Municipalities: basic services (water and sanitation, electricity distribution, refuse removal), storm water management, municipal transport and roads, community services (parks, sport and recreation, street lighting). Local and provincial governments provide free or subsidised services for poor households.

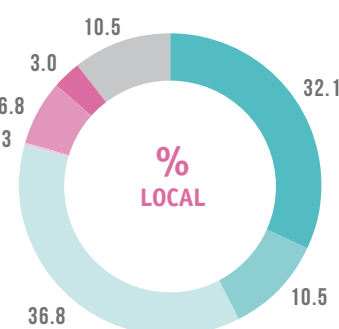
| EXPENDITURE                     | % GDP            |             | % GENERAL GOVERNMENT<br>(same expenditure category) |              | % SUBNATIONAL GOVERNMENT |             |
|---------------------------------|------------------|-------------|---|--------------|--------------------------|-------------|
|                                 | SUBNATIONAL DATA |             | LOCAL DATA ONLY                                     |              |                          |             |
| <b>TOTAL EXPENDITURE (2013)</b> | <b>21.4%</b>     | <b>8.8%</b> | <b>49.4%</b>  | <b>20.4%</b> | <b>100%</b>              | <b>100%</b> |
| <b>CURRENT EXPENDITURE</b>      | 19.0%            | 7.4%        | -   | -            | 88.9%                    | 83.1%       |
| <b>STAFF EXPENDITURE</b>        | 9.6%             | 2.1%        | 65.4%   | 14.0%        | 44.8%                    | 23.2%       |
| <b>INVESTMENT</b>               | 2.4%             | 1.5%        | 71.4%   | 44.8%        | 11.1%                    | 16.9%       |

Following the significant decentralisation process undertaken with the Constitution (of 1996), SNGs have become key economic and social actors, reflected by the level of their expenditure in GDP and public spending, which is well above the OECD average (being at the level of countries such as the USA, Germany or Spain). SNGs employ a large share of public staff, especially in the provinces, and are key investors, both at provincial and municipal levels.



## EXPENDITURE BY FUNCTION

### % SUBNATIONAL GOVERNMENT EXPENDITURE



At the subnational level, the main spending items are education, economic affairs and transport, health and general public services. Health, education, and social development services account for over three-quarters of provincial spending. These are labour-intensive services and as a result, around 60% of provincial budgets are allocated to employee compensation.

## REVENUE BY TYPE

### % GDP

### % GENERAL GOVERNMENT (same revenue category)

### % SUBNATIONAL GOVERNMENT

■ SUBNATIONAL DATA □ LOCAL DATA ONLY

|                             | % GDP        | % GDP       | % GDP        | % GDP        | % SUBNATIONAL GOVERNMENT | % SUBNATIONAL GOVERNMENT |
|-----------------------------|--------------|-------------|--------------|--------------|--------------------------|--------------------------|
| <b>TOTAL REVENUE (2013)</b> | <b>20.8%</b> | <b>8.2%</b> | <b>56.5%</b> | <b>22.1%</b> | <b>100%</b>              | <b>100%</b>              |
| <b>TAX REVENUE</b>          | 1.5%         | 1.3%        | 5.3%         | 4.4%         | 7.4%                     | 15.4%                    |
| <b>GRANTS AND SUBSIDIES</b> | 14.9%        | 2.6%        | -            | -            | 71.3%                    | 31.8%                    |
| <b>OTHER REVENUES</b>       | 4.4%         | 4.3%        | -            | -            | 21.3%                    | 52.9%                    |

**TAX REVENUE.** Provinces are allowed to raise certain taxes, levies and duties but their ability to do so is very limited. The bulk of their tax revenue comes from motor vehicle licences and casino taxes. Municipalities collect local taxes and exercise total control over their tax base. The principle tax is property rates (reformed in 2014. NB. District municipalities do not collect property rates), with significant disparities in municipal tax bases.

**GRANTS AND SUBSIDIES.** Transfers to provinces and local governments are made through the equitable share and conditional grants:

- Equitable shares are determined by formulas that take into account demographic and developmental factors. They represent 80% of provincial transfers and around 45% of municipal transfers, but are higher in rural municipalities which have lower tax revenue raising potential.
- Conditional grants are designed to achieve specific objectives, and provinces and municipalities must fulfil certain conditions to receive them. Almost half of municipal conditional grants are targeted at municipal infrastructure with 25% going to "Urban settlements development" and 16% for public transport infrastructure. Main conditional grants in the provinces, are targeted at human settlements development, comprehensive HIV and Aids, national tertiary services (hospitals), provincial roads and education.

**OTHER REVENUES.** Municipalities raise an important share of their revenue in the form of charges, in particular user charges for water, sanitation, electricity and refuse removal services. The share of these revenues is low in rural and poor municipalities.

## OUTSTANDING DEBT

### % GDP

### % GENERAL GOVERNMENT

■ SUBNATIONAL DATA □ LOCAL DATA ONLY

|                                | % GDP       | % GDP       | % GDP             | % GDP             |
|--------------------------------|-------------|-------------|-------------------|-------------------|
| <b>OUTSTANDING DEBT (2013)</b> | <b>4.8%</b> | <b>4.8%</b> | <b>9.3% (est)</b> | <b>9.3% (est)</b> |

Provinces are not allowed to incur debt - or only in small amounts. Section 230 of the Constitution empowers municipalities to borrow, while the 2003 Municipal Finance Management Act regulates such powers. They can borrow from credit markets to fund capital expenditure (golden rule). In 2013, loans and bonds represented respectively 35% and 10% of SNG outstanding debt while commercial debts ("other accounts payable") accounted for 53% of SNG debt. In 2004, the City of Johannesburg was the first South African metropolitan city to enter the bond market, followed by the City of Cape Town in 2008 and, most recently, by Ekurhuleni in 2010.

A joint study of:



**Sources:** OECD calculations based on IMF Government finance statistics 2014 • South African Reserve Bank Budget Reviews of the South Africa National Treasury in particular 2015 Budget review • <http://www.gov.za/about-government/government-system/local-government> • Johan van den Heever and Michael Adams (2014), Improving public sector debt statistics in South Africa • Thomas A. Koelble & Andrew Siddle (2014) Decentralization in Post-Apartheid South Africa, Regional & Federal Studies • Financial and Fiscal Commission (2012), Report on the Local Government Fiscal Framework Public Hearings: Sustaining Municipal Finance: Making Local Government Work.



# UNITED REPUBLIC OF TANZANIA

UNITARY COUNTRY

AFRICA

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOW-INCOME** Local currency - **Tanzanian shilling (TZS)**

### POPULATION AND GEOGRAPHY

AREA: **947 300** km<sup>2</sup>

POPULATION: **50.8** million inhabitants (2014),  
an increase of 3.2% per year (2010-2014)

DENSITY: **54** inhabitants/km<sup>2</sup>

URBAN POPULATION: **31.6%** of national population

CAPITAL CITY: **Dodoma** (0.45% of national population)

Sources: World Bank, UN World Urbanisation Prospects, ILO

### ECONOMIC DATA

GDP: **127.7** billion (current PPP international dollars)  
i.e. 2 514 dollars per inhabitant (2014)

REAL GDP GROWTH: **7.0%** (2014 vs 2013)

UNEMPLOYMENT RATE: **3.1%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **2 045** (BoP, current  
USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **31%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.488** (low), **rank 159**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|--|--------------------|-------------------------|----------------------|
| <b>160</b><br>MAINLAND: <b>38 URBAN COUNCILS AND 109 RURAL COUNCILS</b><br>ZANZIBAR: <b>4 URBAN COUNCILS AND 9 RURAL COUNCILS</b><br>AVERAGE MUNICIPAL SIZE:<br><b>317 500 INHABITANTS</b> | -                  | -                       | <b>160</b>           |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Tanzania is a unitary country with a single level of sub-national governments. Decentralization by devolution initiatives started in 1982 with the reintroduction of local government administration, and Tanzania is currently implementing decentralization by devolution through the Local Governments Reform Program (LGRP). Art. 145 and 146 of the Constitution of the United Republic of Tanzania state categorically that the National Assembly must provide for local government through legislation. The country is divided between Mainland Tanzania and the archipelago of Zanzibar, which have a separate government. Local authorities are composed of 118 rural councils and 42 urban councils. There are three types of urban councils (city, municipal and town councils), and two types of rural councils (district and villages councils). There are neither city councils nor village councils in Zanzibar. The country is also divided into 30 regions (25 in mainland Tanzania and 5 in Zanzibar), *wards*, *vitongoji* and *mtaa* for administrative purposes. Local governments are enshrined in the Constitution. All councilors are democratically elected; council elections are held every five years.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The specific powers of district and village governments are detailed in the principal local government acts that have been amended since 1999 as part of the LGRP. Most local authorities' competences are shared with the central government. These include primary education, primary healthcare, agriculture and livestock, water supply, local road maintenance. Local authorities' own competences include the establishment and maintenance of recreation grounds, promotion of public health, the construction of drainage works, the administration of markets, etc.

## SUBNATIONAL GOVERNMENT FINANCE, MAINLAND (DATA EXCLUDING ZANZIBAR)

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>3.9%</b> | <b>16.6%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | 3.1%        | -   | 81.3%                       |
| <b>STAFF EXPENDITURE</b>        | 2.3%        | 30.8%   | 59.2%                       |
| <b>INVESTMENT</b>               | 0.7%        | 20.4%   | 18.7%                       |

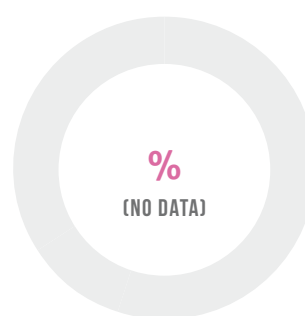
Tanzanian municipalities are in charge of expenditures in public services, including general administration, education, welfare, public health, housing and town planning, transport, environment, culture and economic affairs.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



In Tanzania mainland, a large share of local authorities' expenditure is allocated to education spending and healthcare.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL<br>GOVERNMENT |
|----------------------|-------|---|-----------------------------|
| TOTAL REVENUE (2012) | 4.7%  | 21.8%   | 100%                        |
| TAX REVENUE          | 0.2%  | 1.8%  | 5.3%                        |
| GRANTS AND SUBSIDIES | 4.3%  | -   | 90.6%                       |
| OTHER REVENUES       | 0.2%  | -   | 4.1%                        |

The three government levels receive their finances from national budget allocations through different ministries. Apart from the national budget allocations, local governments can raise funds from different sources, including fees (e.g. on forest products), licenses, property taxes and rents, charges and fines. Generally speaking, the local authorities have a weak revenue base. To strengthen this, the Local Government Finance Act of 1982 was amended in 1999 to appoint local governments to be licensing for commission agents, manufacturers' representatives, brokers, travel agents, motor vehicle sales, import trade, regional trade, and companies' co-operative societies.

**TAX REVENUE.** Local authorities have the ability to levy the taxes, fees and charges established in the Local Government Finances Act. They include the council property tax, a tax on crop cession, a tax on forest produce cession, a guest house tax, a service levy, etc, most of them being difficult to collect. Local governments are not able to create taxes besides those allocated to them by the central government.

**GRANTS AND SUBSIDIES.** Transfers are the main source of revenues for local governments. Transfers to local authorities include earmarked transfers for five national policy priority areas education, healthcare, water, roads and agriculture, as well public administration. These transfers cover recurrent expenditures, including salaries and operating expenses; the charges for operating expenses are estimated through a formula. Most transfers are earmarked for education (around 60%) and healthcare (around 16%); the bulk of recurrent financing is for salaries. 30% of national revenues from the fuel levy are transferred to local authorities for the maintenance of roads, and local governments also receive 20% of the revenue from land rent. In Zanzibar, local authorities may receive transfers from the Revolutionary Government of Zanzibar, in the form of conditional grants, block grants, equalisation grants, state support grants, and in addition donor grants.

**OTHER REVENUES.** Other revenues for local authorities include fees for user services (parking, refuse collection, health facilities, etc), administrative fees (for market stalls, auctions, land surveys, etc), license fees (business and professional licenses for commercial fishing, liquor, etc), fines, permits (building permits, etc), property income, etc. Local governments are only able to levy fees authorised by legislation from the central government.

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

Local authorities are able to borrow with the approval of the Ministry of Finance. Currently, the only approved borrowing mechanism for local authorities is the Local Government Loans Board, a government-supported financial intermediary. They are requested to contribute a minimum compulsory reserve equal to 10% of own-source revenues, which serves as a reserve with the LGLB.

A joint- study of:



**Sources:** Local Government Finances Act (1982) • Tanzania Prime Minister Regional Administration and Local Government Office <http://lginf.pmoralg.go.tz>, Tanzania Ministry of Finance and Planning <http://www.mof.go.tz/> • V. and S. Yilmaz (2010), Decentralization in Tanzania: an Assessment of Local Government Discretion and Accountability, Public Administration and Development Vol. 30, Venugopal • USAID (2010), Comparative Assessment of Decentralization in Africa: Tanzania In-Country Assessment Report • National Bureau of Statistics: 2012 Population and Housing Census • Commonwealth Local Government Forum (2013), Country Profile: The local government system in Tanzania • Zanzibar Local Government Bill (2014)



## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOW-INCOME** Local currency - **Franc CFA (XOF)**

### POPULATION AND GEOGRAPHY

AREA: **56 790** km<sup>2</sup>

POPULATION: **7.115** million inhabitants (2014),  
an increase of 2.7% per year (2010-14)

DENSITY: **125** inhabitants/km<sup>2</sup>

URBAN POPULATION: **40%** of national population

CAPITAL CITY: **Lomé** (13% of national population)

Sources: World Bank Development Indicators, UNDP-HDR, ILO

### ECONOMIC DATA

GDP: **10.2** billion (current PPP international dollars)  
i.e. 1 429 dollars per inhabitant (2014)

REAL GDP GROWTH: **5.7%** (2014 vs 2013)

UNEMPLOYMENT RATE: **7.7%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **292** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **21.3%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.484** (low), rank **162**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL                                      | INTERMEDIATE LEVEL        | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|--|---------------------------|-------------------------|----------------------|
| <b>354</b>   | <b>30</b>                 | <b>6</b>                | <b>390</b>           |
| MUNICIPALITIES (COMMUNES)                            | PREFECTURES (PRÉFECTURES) | REGIONS (RÉGIONS)       |                      |
| AVERAGE MUNICIPAL SIZE:<br><b>20 099 INHABITANTS</b> |                           |                         |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Togo is a unitary state with a three-tier structure of decentralized governance. First tier of local government comprises 354 municipalities among which 21 urban units, and 333 rural. Second tier of subnational government is constituted by 30 prefectures, which gather several municipalities. The prefectures are the divisions of the 6 regions of the country, with the municipality of Lomé also having the status of a region. Regions and prefectures are mainly administrative constituencies of the state authorities without significant financial means. Decentralization is enshrined in the Constitution of 1992 and is backed by the 1998 law on decentralization, further amended by the law of 2007. According to the law, each of the local authority is headed by an elected executive, however, the autonomy of LGs is not fully effective. As of today, head of prefectures (prefets) are directly appointed by the central government and depend from the Ministry of Interior. Globally, the corpus of texts detailing the implementation of laws on decentralization have not been taken yet, then undermining local governments autonomy.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Since the law on decentralization of 13 March 2007, the mandatory responsibilities currently required of urban municipalities in Togo include provision of basic services for the population and managing the internal budget and tax administration. The law on decentralization provides for the competences of local governments and include local development and urban planning; housing; support to the local economy; potable water provision and distribution; waste management; public safety; primary education and primary health care; sport, culture and tourism; transport. Each tier is responsible for the implementation at its level.

## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE              | % GDP | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|--------------------------|-------|---|-----------------------------|
| TOTAL EXPENDITURE (2013) | -     | -   | -                           |
| CURRENT EXPENDITURE      | -     | -   | -                           |
| STAFF EXPENDITURE        | -     | -   | -                           |
| INVESTMENT               | -     | -   | -                           |

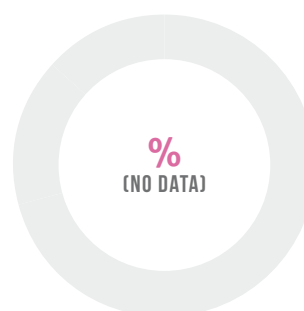
Most local expenditures go to operating costs, even though local public investment is in theory set at 20% of local budgets. To increase accountability in local spending, the political participation of the population is increasing. Budget decisions on expenditures are now publicly displayed, and public meetings of the municipal council are being organized to discuss budgetary matters.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



The ineffective competences and the scarcity of local financial resources have led to a decreasing trend of local capital spendings in the last 10 years, and corresponding decrease in the quality of provision of basic services, such as waste disposal, due to a lack of knowledge and resources. Therefore, municipalities intervene in priority, depending on the resources at their disposal, in the sectors of waste and sanitation, street lighting, infrastructures and roads. The sectors of urban planning, education and health remain highly centralized.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2012) | 0.3%  | 1.0%  | 100%                     |
| TAX REVENUE          | -     | -   | -                        |
| GRANTS AND SUBSIDIES | 0.1%  | -   | 22.0%                    |
| OTHER REVENUES       | -     | -   | -                        |

The Law on decentralization of 2007 has transferred several revenue sources to local governments. Nevertheless, LGs are facing major difficulties to collect resources they have been assigned, and the State appears to be too weak to properly support its decentralized units. Taxes and charges are levied arbitrarily rather than based on actual performance.

**TAX REVENUE.** According to the law, local governments can raise a number of taxes, and set their rates within the limits defined by the law. The fiscal chain is fully controlled by the central government administration, letting few autonomy to the local authorities. Recently, a few towns have set up their own tax registers, and thereby have increased their tax revenues by twice or even three times. The tax handbook improve tax compliance from the citizens through dialogue and transparency.

**GRANTS AND SUBSIDIES.** Due to the decreasing trend of the State financial resources, subsidies have almost disappeared since 1998. Moreover, the allocation criteria are not clearly determined. The FACT (Fonds d'Appui aux Collectivités Territoriales) is taking long to be implemented.

**OTHER REVENUES.** Municipalities have the power to collect fees and charges for public services.

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

According to the law, local governments can contract domestic loans, to fund their municipal development plans. One prefectural and two municipal development plans have already been drafted.

A joint- study of:



Sources: Law on decentralization (2007) • Central Bank of West African States (BCEAO) • F. Yatta (2013), UCLG Survey on decentralization • Web portal on decentralization in Togo, CIEDEL • Union of Local Governments in Togo on [http://www.ucttogo.com/index.php?option=com\\_content&view=article&id=297&Itemid=336](http://www.ucttogo.com/index.php?option=com_content&view=article&id=297&Itemid=336)



# TUNISIA

UNITARY COUNTRY

## AFRICA

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOWER MIDDLE INCOME** Local currency - **Tunisian dinar (TND)**

#### POPULATION AND GEOGRAPHY

AREA: **163 610** km<sup>2</sup>

POPULATION: **11.116** million inhabitants (2014),  
an increase of 1.1% per year (2010-14)

DENSITY: **68** inhabitants/km<sup>2</sup>

URBAN POPULATION: **66.6%** of national population

CAPITAL CITY: **Tunis** (17.8% of national population)

Sources: OECD, World Bank, UNDP, ILO

#### ECONOMIC DATA

GDP: **125.8** billion (current PPP international dollars)  
i.e. 11 312 dollars per inhabitant (2014)

REAL GDP GROWTH: **2.7%** (2014 vs 2013)

UNEMPLOYMENT RATE: **15.3%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **1 005** (BoP, current  
USD millions, 2014)

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

HUMAN DEVELOPMENT INDEX: **0.721** (high), **rank 96**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL * | REGIONAL OR STATE LEVEL                                  | TOTAL NUMBER OF SNGs |
|--|----------------------|--|----------------------|
| <b>264</b><br>162 MUNICIPALITIES<br>(COMMUNES)<br>AVERAGE MUNICIPAL SIZE:<br><b>42 110 INHABITANTS</b> | <b>-</b>             | <b>24</b><br>REGIONAL COUNCILS*<br>(CONSEILS RÉGIONAUX)* | <b>288</b>           |

\* Not yet fully self-governing regions but consultative entities attached to "deconcentrated regions" (governorates). However, a decentralisation process is on-going.

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Tunisia is a constitutional republic with a two-tier system of local government, composed of 24 regional councils and 264 municipalities. The regional councils are not yet fully self-governing regions but consultative entities attached to the 24 State "deconcentrated regions" called "governorates" which are themselves subdivided into 264 delegations. Governors in the deconcentrated system (*walis*) are appointed by the central government, and are at the same time presidents of the regional councils. While governors do not have voting rights in regional councils, in practice their advice tends to be systematically followed. Following the 2011 January Revolution, a new Constitution came into force in Tunisia in January 2014, opening a decentralisation agenda (article 14, Chapter VII) with a strong commitment towards the empowerment of SNGs. Today, the decentralisation process is recognised as a fundamental basis for the organisation and distribution of power. It aims to increase political, administrative and financial competences for elected local and regional governments in order that they become proactive players in planning, implementing and delivering infrastructure and services at regional and local levels. A draft bill on decentralisation and local elections is being discussed.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** To date, regional councils have very few responsibilities. They elaborate regional development and coordinate national programmes that are decided at ministerial level. Municipalities also have limited responsibilities. They are responsible for some administrative services, construction and road maintenance, street cleaning and lightning, waste collection, drainage, environmental protection, urban parks, some cultural and sports facilities, food markets, etc.

### SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>1.6%</b> | <b>4.3%</b>   | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | 0.8%        | -   | 49.7%                       |
| <b>STAFF EXPENDITURE</b>        | 0.5%        | 3.7%  | 29.2%                       |
| <b>INVESTMENT</b>               | 0.8%        | 30.3%   | 50.3%                       |

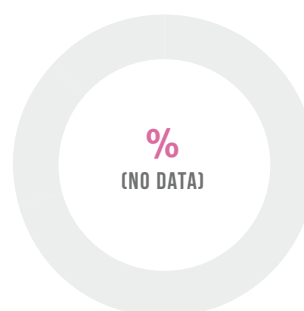
Tunisia is still a centralised state with SNGs playing a minor role in the economy and the provision of public services. Moreover, there has been a downward trend in the relative weight of municipal expenditure between 2002 and 2012. SNGs also have a minor role in investment although investment represents half of their budget and 30% of public investment. In fact, SNGs are more "paying agents", investing on behalf ministries and specialised agencies under their supervision ("*tutelle*" structure).



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



Municipal solid waste and street networks (both construction and maintenance) account for nearly 80% of total municipal spending (recurrent and capital). Little spending in the area of social protection is decentralised.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2012) | 2.1%  | 6.5%  | 100%                     |
| TAX REVENUE          | 0.4%  | 2.0%  | 20.0%                    |
| GRANTS AND SUBSIDIES | 1.6%  | -   | 75.8%                    |
| OTHER REVENUES       | 0.1%  | -   | 4.2%                     |

The main source of funding comes from central government transfers which represented 76% of SNG revenue in 2012 while tax and other non-tax revenues accounted for 24% of SNG revenue. Regional councils have no tax revenue and are mainly funded by transfers. An important reform of subnational finance was undertaken in the framework of the decentralisation process.

**TAX REVENUE.** Municipal taxes include taxes on industrial and commercial activities (53% of tax revenues), property taxes (rental value tax on housing paid by owners and the tax on unbuilt land, both representing 15% of tax revenue i.e. less than 0.1% of GDP), hotel tax and market tax.

**GRANTS AND SUBSIDIES.** Transfers from the central government to SNGs are organised mostly through the Common Fund for Local Authorities (*Fonds Commun des Collectivités Locales* or FCCL), a fund created by the Law 75-36 of May 1975 and funded through the national budget since 1988 to provide annual general purpose grants to support operating budgets. According to the FCCL law, 82% of FCCL resources are transferred to SNGs while the remaining 18% is kept as fund reserves. Municipalities receive 86% of SNG share and the regional councils, 14%. The allocation to municipalities is done annually according to a formula (10% distributed to all municipalities; 45% allocated according to municipal population; 41% allocated according to past years' property tax revenue; 4% aim at equalising municipal revenues). Other transfers to municipalities include capital transfers to finance investments on a case-by-case basis from sectorial ministries. These capital grants are also usually linked to municipal borrowing from the Municipal Development Fund (CPSCS, see below).

**OTHER REVENUES.** Other SNGs revenues include revenue from properties (rents) and from user charges and tariffs (in particular on marketplaces). Municipalities draw around 10% of their current revenue from municipal property.

## OUTSTANDING DEBT

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

In order to finance local investments, municipalities can contract loans from Municipal Development Fund (*Caisse des Prêts et de Soutien aux Collectivités Locales*, CPSCS), a separate entity under the authority of the Ministry of the Interior and the Ministry of Finance which provides SNGs with access to credit but also to central government funding for financing municipal investments (loans and capital grants). Investments projects are analysed from a financial perspective by central authorities before approval.

The financial state of numerous municipalities is considered to be of concern, with high levels of outstanding debt resulting both from the loans contracted from the CPSCS and for non-payments to suppliers. 30 municipalities are in a chronic state of over-indebtedness.

A joint- study of:



**Sources:** IMF (2013) Government Finance Statistics • Institut national de Statistiques de la Tunisie (2013) Annuaire statistique de la Tunisie 2008-2012 • World Bank (2015) Note d'orientation sur le financement des collectivités locales • World Bank (2014) Program Appraisal Document on a Proposed Loan to the Republic of Tunisia for the Urban Development and Local Governance Program • Turki S.Y. and Verdeil E. (2013) La décentralisation en Tunisie, Lebanese Center for Policy Studies • UCLG (2015) Observatory of democratic governance in the Mediterranean, Tunisia • Anja Linder (2013), Key Challenges and Opportunities for Budget Transparency in Tunisia, IBP Policy Note • Portail des collectivités locales de Tunisie : <http://www.collectiviteslocales.gov.tn>.



# TUNISIA

UNITARY COUNTRY

## AFRICA

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOWER MIDDLE INCOME** Local currency - **Tunisian dinar (TND)**

#### POPULATION AND GEOGRAPHY

AREA: **163 610** km<sup>2</sup>

POPULATION: **11.116** million inhabitants (2014),  
an increase of 1.1% per year (2010-14)

DENSITY: **68** inhabitants/km<sup>2</sup>

URBAN POPULATION: **66.6%** of national population

CAPITAL CITY: **Tunis** (17.8% of national population)

Sources: OECD, World Bank, UNDP, ILO

#### ECONOMIC DATA

GDP: **125.8** billion (current PPP international dollars)  
i.e. 11 312 dollars per inhabitant (2014)

REAL GDP GROWTH: **2.7%** (2014 vs 2013)

UNEMPLOYMENT RATE: **15.3%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **1 005** (BoP, current  
USD millions, 2014)

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

HUMAN DEVELOPMENT INDEX: **0.721** (high), **rank 96**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL* | REGIONAL OR STATE LEVEL                                  | TOTAL NUMBER OF SNGs |
|---|---------------------|--|----------------------|
| <b>264</b><br>162 MUNICIPALITIES<br>(COMMUNES)<br>AVERAGE MUNICIPAL SIZE:<br>42 110 INHABITANTS | -                   | <b>24</b><br>REGIONAL COUNCILS*<br>(CONSEILS RÉGIONAUX)* | <b>288</b>           |

\* Not yet fully self-governing regions but consultative entities attached to "deconcentrated regions" (governorates). However, a decentralisation process is on-going.

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Tunisia is a constitutional republic with a two-tier system of local government, composed of 24 regional councils and 264 municipalities. The regional councils are not yet fully self-governing regions but consultative entities attached to the 24 State "deconcentrated regions" called "governorates" which are themselves subdivided into 264 delegations. Governors in the deconcentrated system (*walis*) are appointed by the central government, and are at the same time presidents of the regional councils. While governors do not have voting rights in regional councils, in practice their advice tends to be systematically followed. Following the 2011 January Revolution, a new Constitution came into force in Tunisia in January 2014, opening a decentralisation agenda (article 14, Chapter VII) with a strong commitment towards the empowerment of SNGs. Today, the decentralisation process is recognised as a fundamental basis for the organisation and distribution of power. It aims to increase political, administrative and financial competences for elected local and regional governments in order that they become proactive players in planning, implementing and delivering infrastructure and services at regional and local levels. A draft bill on decentralisation and local elections is being discussed.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** To date, regional councils have very few responsibilities. They elaborate regional development and coordinate national programmes that are decided at ministerial level. Municipalities also have limited responsibilities. They are responsible for some administrative services, construction and road maintenance, street cleaning and lightning, waste collection, drainage, environmental protection, urban parks, some cultural and sports facilities, food markets, etc.

### SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>1.6%</b> | <b>4.3%</b>   | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | 0.8%        | -   | 49.7%                       |
| <b>STAFF EXPENDITURE</b>        | 0.5%        | 3.7%  | 29.2%                       |
| <b>INVESTMENT</b>               | 0.8%        | 30.3%   | 50.3%                       |

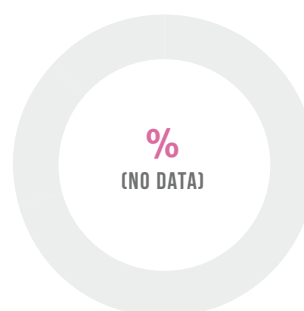
Tunisia is still a centralised state with SNGs playing a minor role in the economy and the provision of public services. Moreover, there has been a downward trend in the relative weight of municipal expenditure between 2002 and 2012. SNGs also have a minor role in investment although investment represents half of their budget and 30% of public investment. In fact, SNGs are more "paying agents", investing on behalf ministries and specialised agencies under their supervision ("*tutelle*" structure).



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



Municipal solid waste and street networks (both construction and maintenance) account for nearly 80% of total municipal spending (recurrent and capital). Little spending in the area of social protection is decentralised.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2012) | 2.1%  | 6.5%  | 100%                     |
| TAX REVENUE          | 0.4%  | 2.0%  | 20.0%                    |
| GRANTS AND SUBSIDIES | 1.6%  | -   | 75.8%                    |
| OTHER REVENUES       | 0.1%  | -   | 4.2%                     |

The main source of funding comes from central government transfers which represented 76% of SNG revenue in 2012 while tax and other non-tax revenues accounted for 24% of SNG revenue. Regional councils have no tax revenue and are mainly funded by transfers. An important reform of subnational finance was undertaken in the framework of the decentralisation process.

**TAX REVENUE.** Municipal taxes include taxes on industrial and commercial activities (53% of tax revenues), property taxes (rental value tax on housing paid by owners and the tax on unbuilt land, both representing 15% of tax revenue i.e. less than 0.1% of GDP), hotel tax and market tax.

**GRANTS AND SUBSIDIES.** Transfers from the central government to SNGs are organised mostly through the Common Fund for Local Authorities (*Fonds Commun des Collectivités Locales* or FCCL), a fund created by the Law 75-36 of May 1975 and funded through the national budget since 1988 to provide annual general purpose grants to support operating budgets. According to the FCCL law, 82% of FCCL resources are transferred to SNGs while the remaining 18% is kept as fund reserves. Municipalities receive 86% of SNG share and the regional councils, 14%. The allocation to municipalities is done annually according to a formula (10% distributed to all municipalities; 45% allocated according to municipal population; 41% allocated according to past years' property tax revenue; 4% aim at equalising municipal revenues). Other transfers to municipalities include capital transfers to finance investments on a case-by-case basis from sectorial ministries. These capital grants are also usually linked to municipal borrowing from the Municipal Development Fund (CPSCS, see below).

**OTHER REVENUES.** Other SNGs revenues include revenue from properties (rents) and from user charges and tariffs (in particular on marketplaces). Municipalities draw around 10% of their current revenue from municipal property.

## OUTSTANDING DEBT

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

In order to finance local investments, municipalities can contract loans from Municipal Development Fund (*Caisse des Prêts et de Soutien aux Collectivités Locales*, CPSCS), a separate entity under the authority of the Ministry of the Interior and the Ministry of Finance which provides SNGs with access to credit but also to central government funding for financing municipal investments (loans and capital grants). Investments projects are analysed from a financial perspective by central authorities before approval.

The financial state of numerous municipalities is considered to be of concern, with high levels of outstanding debt resulting both from the loans contracted from the CPSCS and for non-payments to suppliers. 30 municipalities are in a chronic state of over-indebtedness.

A joint- study of:



**Sources:** IMF (2013) Government Finance Statistics • Institut national de Statistiques de la Tunisie (2013) Annuaire statistique de la Tunisie 2008-2012 • World Bank (2015) Note d'orientation sur le financement des collectivités locales • World Bank (2014) Program Appraisal Document on a Proposed Loan to the Republic of Tunisia for the Urban Development and Local Governance Program • Turki S.Y. and Verdeil E. (2013) La décentralisation en Tunisie, Lebanese Center for Policy Studies • UCLG (2015) Observatory of democratic governance in the Mediterranean, Tunisia • Anja Linder (2013), Key Challenges and Opportunities for Budget Transparency in Tunisia, IBP Policy Note • Portail des collectivités locales de Tunisie : <http://www.collectiviteslocales.gov.tn>.

Publication date: October 2016



# UGANDA

UNITARY COUNTRY

## AFRICA

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOW INCOME** Local currency - **Ugandan shilling (UGX)**

#### POPULATION AND GEOGRAPHY

AREA: **236 860** km<sup>2</sup>

POPULATION: **37.8** million inhabitants (2014),  
an increase of 3.3% per year (2010-14)

DENSITY: **160** inhabitants/km<sup>2</sup>

URBAN POPULATION: **16.1%** of national population

CAPITAL CITY: **Kampala** (5% of national population)

Sources: World Bank database ; UNDP-HDI, ILO

#### ECONOMIC DATA

GDP: **66.9** billion (current PPP international dollars)  
i.e. 1 771 dollars per inhabitant (2014)

REAL GDP GROWTH: **4.8%** (2014 vs 2013)

UNEMPLOYMENT RATE: **3.8%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **1 147** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **27.5%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.483** (low), rank **163**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT COMPETENCES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL           | TOTAL NUMBER OF SNGs |
|--|--------------------|-----------------------------------|----------------------|
| <b>196</b>   | <b>-</b>           | <b>112</b>                        | <b>308</b>           |
| LOCAL GOVERNMENT COUNCILS AND MUNICIPALITIES<br>AVERAGE MUNICIPAL SIZE:<br>192 700 INHABITANTS |                    | 111 DISTRICTS<br>+ 1 CITY COUNCIL |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Uganda is a unitary country with a two-tier level of government. The higher-tier of government is made of 111 districts and 1 City Council, under which there are 174 lower Local Governments Councils and 22 municipalities. Local governments councils have directly elected representatives that are accountable to the citizens, and have legislative and executive powers. Besides, Administrative Units Councils are political advisory bodies on planning and implementation of services, to assist local governments councils. Decentralization in Uganda began in 1986 with the aim to promote people's participation in the democratic process of the State of Uganda, and to improve service delivery and proximity with the citizens. This first took the form of Administrative Units – Resistance Councils (RC) characterizing from the village to district levels. Uganda's 1995 constitution and 1997 Local Government Act gave finally effect to the devolution of functions, specifying five levels of local government – district, county, sub-county, parish and village, among which the districts and local government unites (sub-counties) have political authority and financial autonomy.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Local governments, in particular districts, play a key role in public service provision. They are responsible for major functions and services previously carried out by the central government. However, all decisions and assignment responsibilities remain at the center, in particular regarding healthcare and education. District councils are responsible for functions and services including: primary, secondary, trade, special and technical education; hospitals other than hospitals providing referral and medical training; health centers, dispensaries and aid posts; the construction and maintenance of roads; provision of water supplies; agricultural extension services, land administration and surveying; and community development. Semi-autonomous agencies play an important role in Ugandan service delivery, and include 9 universities, 13 district referral hospitals, missions abroad and the Uganda revenue Authority, among others. Finally, urban councils are responsible for service delivery in urban areas and they enjoy both financial and planning autonomy.

### SUBNATIONAL GOVERNMENT FINANCE

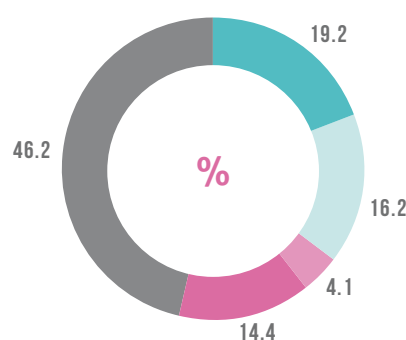
| EXPENDITURE              | % GDP | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL GOVERNMENT |
|--------------------------|-------|---|--------------------------|
| TOTAL EXPENDITURE (2013) | 3.1%  | 16.5%   | 100%                     |
| CURRENT EXPENDITURE      | 2.9%  | -   | 93.0%                    |
| STAFF EXPENDITURE        | 1.6%  | 75.5%   | 52.6%                    |
| INVESTMENT               | 0.2%  | 5.1%  | 7.0%                     |

At the national level there was a decline in public expenditures in 2013 compared to 2012, characterized by a general reduction of capital ("development") expenditures. Yet at the subnational level, the amount of subnational expenditures has increased. Most subnational expenditures were dedicated to recurrent expenditures, in particular the payment of wages and salaries and for use of goods and service.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



In 2013, the Education sector represented the largest component of Local Government expenditure accounting for 46 percent -1.4% of GDP), followed by public administration which accounted for 19% percent of the total Local Government expenditures, economic affairs (16%, mainly on agriculture and roads) and health (14%). Subnational governments, particularly district levels, play an important role in education, health, and housing and community services in terms of public investments (whereas the decisions are still made mainly at the central level).

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 3.1%  | 19.2%   | 100%                     |
| TAX REVENUE          | 0.0%  | 0.4%  | 1.5%                     |
| GRANTS AND SUBSIDIES | 3.0%  |   | 96.3%                    |
| OTHER REVENUES       | 0.1%  |   | 2.2%                     |

Subnational governments total revenues in 2013 accounted for 3.1% of GDP and 19.2% of general government revenue. At the subnational level, around 91% of these revenues were from the level of districts, and only 8% from urban authorities (town councils and municipalities). These revenues are for the major part made of grants and subsidies (96%). It must be noted that this year, at the national level, there was a reduction of external donor grants to the general government budget.

**TAX REVENUE.** Subnational revenues are locally set and raised, and then redistributed to districts and municipalities. In 2013, subnational own-source revenues were declining, compared to the high devolution of responsibilities. Due to the temporary suspension of the former graduated tax in 2005, tax revenues are limited mainly to the property tax, and to a series of additional taxes that need to be approved by the central cabinet, including local government service tax, hotel tax, local motor vehicle tax.

**GRANTS AND SUBSIDIES.** Intergovernmental transfers, the main source of local government revenues, are gaining further importance. A revenue sharing arrangement ensures that all local governments councils share locally-raised revenue that is redistributed by formula as grants. Most transfers are sector-specific, conditional grants (mostly for recurrent expenditures). Other types of transfers include equalisation grants and unconditional grants that are mainly used to cover compulsory administration costs. However this complex system of transfers from the bottom often leads to issues of allocation and political manipulation.

**OTHER REVENUES.** Other revenues include user charges and fees, fees such as parking fees, licences and permits, fines, interest on investments, rent from lease of property, donations, contributions and endowments, market dues, etc. Yet their magnitude is limited by local weak administrative capacities and weak tax collection performance.

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

Local governments in Uganda are allowed to borrow and to issue bonds in Ugandan shillings, and are subjected to the rules under the Local Government Act Cap 243, and with the approval of the Ministry of Local Government and Capital Market Authority. Borrowing is allowed by law, but confined to a maximum of 25 per cent of own-source revenues. Pooled financing is encouraged in the National Guidelines for small and medium local governments. The financial sector is evolving but market financing has yet not been pursued at the municipal level.

A joint-study of:



Sources: IMF-GFS • Ministry of Local Governments of Uganda • R. Kabeba Muriisa (2008), Decentralisation in Uganda: Prospects for Improved Service Delivery, Africa Development, Vol. XXXIII • Secretariat Local Government Reform (2010) Municipal Infrastructure Financing, Innovative Practices from Developing Countries, Commonwealth, Series Number 2 • 2014 and 2015 Statistical Abstracts, Uganda Bureau of Statistics



# ZIMBABWE

UNITARY COUNTRY

## AFRICA

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOW-INCOME** Local currency - **Zimbabwe dollar (ZWD)**

#### POPULATION AND GEOGRAPHY

AREA: **390 757** km<sup>2</sup>

POPULATION: **15.246** million inhabitants (2014),  
an increase of 2.2% per year (2010-2014)

DENSITY: **39** inhabitants/km<sup>2</sup>

URBAN POPULATION: **32.4%** of national population

CAPITAL CITY: **Harare** (9,8% of national population)

Sources: World Bank, UN World Urbanisation Prospects, <http://publications.europa.eu, ILO>

#### ECONOMIC DATA

GDP: **27.3** billion (current PPP international dollars)  
i.e. 1 791 dollars per inhabitant (2014)

REAL GDP GROWTH: **3.8%** (2014 vs 2013)

UNEMPLOYMENT RATE: **11.3%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **545** (BoP, current USD  
millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **13.2%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.509** (low), **rank 155**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL                                 | TOTAL NUMBER OF SNGs |
|--|--------------------|---|----------------------|
| <b>86</b><br>28 URBAN COUNCILS AND<br>58 RURAL DISTRICTS<br>AVERAGE MUNICIPAL SIZE:<br>177 279 INHABITANTS | -                  | <b>10</b><br>8 PROVINCES AND<br>2 METROPOLITAN COUNCILS | <b>96</b>            |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Zimbabwe is a unitary country with two levels of sub-national governments, composed of 10 provinces and metropolitan councils, and 86 local councils. Sub-national governments have been recognised in the new Constitution of 2013, which also introduces a new layer of government between the national and local levels (provinces, which were only administrative units until then). Urban and rural councils are further divided into wards for administrative purposes. Urban Councils have been accorded different status according to the Urban Councils Act, and are divided into 4 local boards, 8 town councils, 10 municipal councils and 6 city councils. Local boards are established in settlements with a very small population, or in centers not able to sustain themselves without central government assistance. Town councils have a sufficient size to stand alone. City Councils have the highest status in the country, and refer to large cities. Differences in status involve differences in the election system for the executive: municipal and city councils have a mayor democratically elected every four years, while local boards and town councils are headed by a chairman elected by councillors. All councillors in urban councils and rural district councils are democratically elected. The new Constitution (2013) provides for a new layer of government: provinces. According to the Constitution, provincial/metropolitan councils are granted more powers and greater independence from the central government, and 10 members of the provincial councils, as well as their chairs, are now democratically elected.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** According to the Constitution, provincial and metropolitan governments are responsible for economic development, the coordination and implementation of government programs, environmental protection, the promotion of tourism, etc. Provincial and local authorities do not have their own budgetary allocation, and are still considered sub-structures of the Ministry of Local Government, Public Works and National Housing. Urban councils' competencies include water supply, healthcare (hospitals, clinics, etc), maternity and child welfare, housing, transport, schools, libraries, sanitation, environment protection, fire brigades and municipal police, street lighting, public spaces, parks, etc. Rural district councils' competences include the provision of social services such as health and education, construction and maintenance of sewage works, roads and dams, etc.

### SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>2.9%</b> | <b>8.8%</b>   | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | 2.5%        | -   | 85.4%                       |
| <b>STAFF EXPENDITURE</b>        | 1.0%        | 5.6%  | 35.0%                       |
| <b>INVESTMENT</b>               | 0.4%        | 14.5%   | 13.9%                       |

Zimbabwe suffers from a lack of infrastructure investments, and this is reflected in local governments' finance and expenditures. Thereby, 85% of subnational expenditures are allocated to current expenditures, against only 14,6% to capital expenditures, representing only 0,4% of national GDP. This relates to a severe lack of local finances. In most local government authorities, revenue sources are generally inadequate to finance council operations, scenarios that impedes upon local authorities' service delivery capacity.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



Sub-national governments' main categories of spending include, by order of magnitude: economic affairs (35.1% of subnational total expenditures), general public services (28.1%), housing and community services (17.9%, representing 35.1% of total public expenditures in this sector) and health (15.7%).

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL<br>GOVERNMENT |
|----------------------|-------|---|-----------------------------|
| TOTAL REVENUE (2012) | 2.4%  | 7.8%  | 100%                        |
| TAX REVENUE          | 2.0%  | 7.4%  | 84.0%                       |
| GRANTS AND SUBSIDIES | 0.1%  | -   | 3.7%                        |
| OTHER REVENUES       | 0.3%  | -   | 12.3%                       |

Urban councils derive the bulk of their revenues from property, receipts from trading accounts, tariffs or fees for services rendered, registration and licensing of motor vehicles, education, health and road grants. The Harare city council also mobilises its revenue from public-private partnerships (PPPs). Rural councils' sources of revenue include taxes on landowners, mining locations, licensed dealers and permit holders.

**TAX REVENUE.** All of urban councils' own tax revenues come from the property tax. According to the Rural District Councils Act, rural district councils' tax revenues include taxes on landowners, mining locations, and licensed dealers and permit holders. Provinces' exact sources of revenues are not explicitly detailed in the Provincial Councils Act, and hence provinces do not benefit from any own tax.

**GRANTS AND SUBSIDIES.** According to the Constitution, 5% of national revenues must be allocated to provincial and local governments (however, in practice this share is not reached). The Constitution does not describe the division of these transfers of revenues between provincial/metropolitan councils and local governments. Transfers to urban/rural districts are sectorised. Local authorities benefit from education and health transfers, as well as road grants. These transfers aim at covering general administrative costs in these sectors, including the payment of recurrent expenditures such as wages.

**OTHER REVENUES.** Charges, licenses and fees represent a major source of revenues for local authorities in Zimbabwe. According to the Urban Councils Act and the Rural District Councils Act, local governments are able to enact by-laws in order to raise revenue through "charges made for any services, amenities or facilities provided by council". These revenues include receipts from the sale of water, registration and licensing of motor vehicles, etc.

## OUTSTANDING DEBT

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

Local authorities are able to borrow on the open market only with the approval of central authorities. However loans from the central government are also available, such as loans for capital expenditures through the National Housing Fund (for housing investments), the General Loan Fund (for other investments in areas such as water, sewerage, roads, etc).

A joint study of:



Sources: National Statistics Agency: "National Accounts 2009-2014 Report" • <http://www.mlg.gov.zw/about-the-ministry>; • Gideon, Z. and C. Alouis (2013), "The Challenges of Self-Financing in Local Authorities: The Case of Zimbabwe", International Journal of Humanities and Social Science, Vol. 3 • ActionAid Denmark (2014), The Dynamics of Devolution in Zimbabwe: A briefing paper on local democracy



# AUSTRALIA

FEDERAL COUNTRY

## ASIA PACIFIC

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **HIGH INCOME: OECD** Local currency - **Australian Dollar (AUD)**

#### POPULATION AND GEOGRAPHY

AREA: **7 703 354** km<sup>2</sup>

POPULATION: **23.663** million inhabitants (2014),  
an increase of 1.6% per year (2010-2014)

DENSITY: **3** inhabitants/km<sup>2</sup>

URBAN POPULATION: **89.3%** of national population

CAPITAL CITY: **Canberra** (1.8% of national population)

Sources: OECD, World Bank, UNDP, ILO

#### ECONOMIC DATA

GDP: **1 077.9** billion (current PPP international dollars)  
i.e. 45 550 dollars per inhabitant (2014)

REAL GDP GROWTH: **2.5%** (2014 vs 2013)

UNEMPLOYMENT RATE: **6.1%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **46 333** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **27%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.935** (very high), **rank 2**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL                       | TOTAL NUMBER OF SNGs |
|--|--------------------|---|----------------------|
| <b>571</b>   | <b>-</b>           | <b>8</b>                                      | <b>579</b>           |
| LOCAL GOVERNMENT AREAS<br>AVERAGE MUNICIPAL SIZE:<br><b>41 005 INHABITANTS</b> |                    | <b>6 STATES AND<br/>2 FEDERAL TERRITORIES</b> |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** The SNG system consists of two government tiers: 6 states (and 2 federal territories) and 571 "local government areas" or councils. While Australia's federal system is entrenched in the Commonwealth Constitution, local governments are not explicitly recognised by the Constitution, despite several referendums with negative outcomes (1974 and 1988) or abandoned (2013). Local governments have no direct relations with federal authorities but depend directly on state and territory governments which have their own constitution and Local Government Act. Consequently, the status, names (cities, shires, county councils, districts, towns, etc.), roles and responsibilities of local governments differ from state to state. The number of municipal-level governments recently fell from 869 in 1980 to 571 following merger policies initiated by several states (South Australia, Tasmania, Victoria, Queensland, New South Wales and Western Australia).

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The Constitution defines the dualist federal structure, setting out expenditure responsibilities. A 2008 Intergovernmental Agreement on Federal Financial Relations (IGAFFR) attempted to better specify responsibilities of the Commonwealth and states for specific sectors. However, there is still significant overlap in mandates between the centre and the states. State responsibilities include education, health care (including hospitals), roads, railways and public transport, environment, agriculture, industrial relations, community services, sport and recreation, consumer affairs, police and emergency services. Local governments in Australia have more limited powers and fewer cost-intensive responsibilities than in most federations, handling community needs and providing property-related services such as waste collection, road maintenance, street cleaning and lighting, storm water drainage and flood control, recreation and cultural facilities and town planning (depending on the state/territory).

| EXPENDITURE                     | % GDP        |   | % GENERAL GOVERNMENT<br>(same expenditure category) |   | % SUBNATIONAL<br>GOVERNMENT |   |
|---------------------------------|--------------|---|---|---|-----------------------------|---|
|                                 |              |   |   |   |                             |   |
| <b>TOTAL EXPENDITURE (2013)</b> | <b>16.9%</b> | - | <b>46.4%</b>  | - | <b>100%</b>                 | - |
| <b>CURRENT EXPENDITURE</b>      | 14.3%        | - | -   | - | 84.8%                       | - |
| <b>STAFF EXPENDITURE</b>        | -            | - | -   | - | -                           | - |
| <b>INVESTMENT</b>               | 2.3%         | - | 71.3%   | - | 13.8%                       | - |

■ SUBNATIONAL DATA □ LOCAL DATA ONLY

NB: for Australia, the breakdown between state and local government levels is not available.

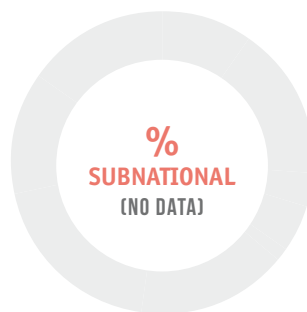
SNG spending is slightly below the OECD average of the nine federal countries (19% of GDP and 49% of public expenditure in 2013). It is similar to that of the United States, Germany and Spain, but less than in Switzerland or Canada. However, SNGs play a key role in public investment in Australia, higher on average than in OECD federal countries where SNG investment represented 1.8% of GDP, 60.2% of public investment and 9.6% of SNG expenditure). Local government spending responsibilities are limited (estimated at around 15% of total SNG spending).



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



Health and education/research represent the two largest areas of expenditure representing respectively 25% (17% for hospitals) and 20% in 2013, followed by infrastructure, transport and planning (15%). Major expenditure items for local government were housing and community amenities (24%) and transport and communications (23%).

## REVENUE BY TYPE

### % GDP

### % GENERAL GOVERNMENT (same revenue category)

### % SUBNATIONAL GOVERNMENT

■ SUBNATIONAL DATA □ LOCAL DATA ONLY

|                             | % GDP        |   | % GENERAL GOVERNMENT<br>(same revenue category) |   | % SUBNATIONAL<br>GOVERNMENT |   |
|-----------------------------|--------------|---|---|---|-----------------------------|---|
| <b>TOTAL REVENUE (2013)</b> | <b>15.3%</b> | - | <b>45.1%</b>                                    | - | <b>100%</b>                 | - |
| <b>TAX REVENUE</b>          | 5.1%         | - | 18.6%   | - | 33.3%                       | - |
| <b>GRANTS AND SUBSIDIES</b> | 6.8%         | - | -   | - | 44.4%                       | - |
| <b>OTHER REVENUES</b>       | 3.4%         | - | -   | - | 22.2%                       | - |

Taxation powers of the Commonwealth and the states are defined in the Constitution as well as in the 2008 IGAFRR agreed with the Council of Australian Governments (CoAG) in 2008. There is a high degree of vertical fiscal imbalance which makes states reliant on transfers from the Commonwealth to finance their activities.

**TAX REVENUE.** SNG tax revenue is lower in Australia than that of several other federations in the OECD (SNG tax revenue represents 8.5% of GDP, 41.4% of public tax revenue and 47.2% of SNG revenue). State revenues mostly comprise of property-related taxes (i.e. around 34% of states' tax revenue, including land property tax and financial and capital transactions), payroll taxes (33%) and motor vehicle (14%). States have the right to set their own tax rates and bases for the taxes they control. The only tax for local governments is the land property tax (shared with the states). Rates accounted for approximately 37% of total local government revenue in 2013 (while it represented just 3.3% of total public tax revenue).

**GRANTS AND SUBSIDIES.** Transfers from the federal government account for 44% of SNG revenue, but around 50% of state revenues and only around 10% of local revenues on average. The system of intergovernmental transfers has been simplified and made more flexible by the 2008 IGAFRR. It has three main components: National Specific Purpose Payments (National SPPs), National Partnership payments for major reforms or projects and "general revenue assistance", including Goods and Services Tax (GST) payments, to be used by the states for any purpose and which includes equalisation mechanisms. The main federal transfer to local governments is the Federal Local Government Financial Assistance Grants (FAGs), which includes a local roads component and a general purpose component. FAGs are paid to state governments for distribution to local government via state grants commissions. Other transfers to local governments include small earmarked grant programmes for infrastructure, capacity building, etc. Local government also receive grants and subsidies from the state or territory governments.

**OTHER REVENUES.** All states bar one collect royalty revenue from mining activities in their state. The majority of royalties are calculated and collected based on the value of minerals produced (only two states collect royalties on the basis of mining profits). In 2013, average royalties represented 8% of states' own-source revenue but these revenues are very unevenly distributed among the States. Other major other sources of revenue for local governments include the sale of goods and services, interest income, dividends, fines, developer charges, contributions, other capital revenues, etc. Over a quarter of total local government revenue comes from user charges.

## OUTSTANDING DEBT

### % GDP

### % GENERAL GOVERNMENT

■ SUBNATIONAL DATA □ LOCAL DATA ONLY

|                                | % GDP |   | % GENERAL GOVERNMENT |   |
|--------------------------------|-------|---|----------------------|---|
| <b>OUTSTANDING DEBT (2013)</b> | 14.6% | - | 35.5%                | - |

The Australian Loan Council is a Commonwealth-state ministerial council that co-ordinates and monitors the aggregate level of borrowings by the Commonwealth and each state and territory. The Council operates on a voluntary basis and emphasises transparency of public sector financing rather than adherence to strict borrowing limits. These arrangements are designed to enhance financial market scrutiny of public sector borrowing and facilitate informed judgements about each government's financial performance. Fiscal rules for state and local governments vary from state to state, and tend to be self-imposed and non-binding. SNG debt is mainly composed by state debt as local government debt is modest despite the fact that local governments in all jurisdictions have access to flexible and cost-effective borrowing arrangements. Insurance pensions represent around one-third of total SNG outstanding debt. SNG financial debt consists primarily of loans.

A joint- study of:



**Sources:** OECD National Accounts Statistics • OECD (2015 and 2016) Subnational Governments in OECD Countries : Key data • Koutsogeorgopoulou, V. and A. Tuske (2015) Federal-State Relations in Australia, OECD Economics Department Working Papers, No. 1198 • Grattan Institute (2014), Budget pressures on Australian governments 2014 • Twomey A. (2013), Local Government Funding and Constitutional Recognition' CRU Report No 3 • Comrie J. (2013), In Our Hands: Strengthening Local Government Revenue for the 21st Century, Australian Centre of Excellence for Local Government, University of Technology, Sydney • Carter M. (2013) Australian Local Government Financial Reform, A Federal Perspective • [http://budget.gov.au/2013-14/content/bp3/html/bp3\\_02\\_part\\_1.htm](http://budget.gov.au/2013-14/content/bp3/html/bp3_02_part_1.htm) • Australian Local Government Association (2013), Facts and figures on local governments in Australia.



# CAMBODIA

UNITARY COUNTRY

ASIA PACIFIC

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOWER MIDDLE INCOME** Local currency - **Cambodian riel (KHR)**

### POPULATION AND GEOGRAPHY

AREA: **181 035** km<sup>2</sup>

POPULATION: **15.238** million inhabitants (2014),  
an increase of 1.6% per year (2010-2014)

DENSITY: **85** inhabitants/km<sup>2</sup>

URBAN POPULATION: **20.7%** of national population

CAPITAL CITY: **Phnom Penh** (11% of national population)

Sources: World Bank Development Indicators, UNDP-HDR, ILO

### ECONOMIC DATA

GDP: **50** billion (current PPP international dollars)  
i.e. 3 282 dollars per inhabitant (2014)

REAL GDP GROWTH: **7.1%** (2014 vs 2013)

UNEMPLOYMENT RATE: **0.4%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **1 730** (BoP, current  
USD millions, 2014)

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

HUMAN DEVELOPMENT INDEX: **0.555** (medium), **rank 143**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL                             | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|---|--|-------------------------|----------------------|
| <b>1 621</b>  | <b>185</b>                                     | <b>24</b>               | <b>1 830</b>         |
| COMMUNES (SANGKAT)<br>AVERAGE MUNICIPAL SIZE:<br><b>9 383 INHABITANTS</b> | <b>159 DISTRICTS<br/>AND 26 MUNICIPALITIES</b> | <b>PROVINCES</b>        |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Cambodia is a unitary country with a three-tier subnational government system. The 1993 Constitution referred to the division into provinces and municipalities. Then, elected commune councils were established through the 2001 law on Commune/Sangkat Administrative Management and Elections. There are 24 provinces, which include the Capital Phnom Penh and 3 municipalities. Lower levels of governments are made of 185 districts and municipalities for the second-tier, and finally 1 621 communes (sangkat). There are also around 14 000 villages. Provinces and districts councils members are elected indirectly by members of communes councils. The country remains historically centralized. An on-going reforms has been launched in 2008, supervised by the National Committee for Democratic Development of Subnational Administrations (NCDD), and with the Law on Administrative Management of the Capital, Provinces, Municipalities, Districts and Khans (2008) that extended local powers to subnational levels.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Provinces are in charge of the most part of subnational service delivery, but remain under the authority of the central level of governments. As the 2008 reform is not fully implemented yet, most provincial and districts still have their budget integrated within state budget. Communes have political autonomy and independent budget, but they are devolved only a few mandatory functions, and financial and human resources. They can jointly deliver services in the following areas: public order and security; management of public services; public welfare; socioeconomic development; environment, natural resources, and culture; consultation with resident and community groups. Commune councils may jointly deliver services. Higher levels of governments can also delegate some additional responsibilities. On-going reforms tend to devolve more functional responsibilities to local governments levels.

## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>0.6%</b> | <b>3.8%</b>   | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | 0.6%        | -   | 82.4%                       |
| <b>STAFF EXPENDITURE</b>        | 0.1%        | 2.0%  | 12.8%                       |
| <b>INVESTMENT</b>               | 0.1%        | -   | 17.6%                       |

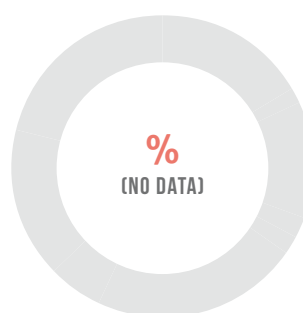
Subnational governments in Cambodia account for a small share of total public spending. The small size of the communes limits their capacities to deliver services and their viability as autonomous government units. Most of the funding of communes are spent on staff expenditures and small capital projects. Regarding the expenditures of provinces and districts, they are mostly dedicated to current expenditures.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



Since recently, local civic participation is encouraged through a broad-based planning forum at all stages of local planning and budgeting, and open access of the population to council meetings. With the progress of decentralization reforms and laws, amount of local spending in some sectors related to provision of basic services are increasing, such as roads and irrigation, education and public transport.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 1.3%  | 7.0%  | 100%                     |
| TAX REVENUE          | 0.8%  | 5.6%  | 63.0%                    |
| GRANTS AND SUBSIDIES | 0.4%  | -   | 33.9%                    |
| OTHER REVENUES       | 0.04% | -   | 3.1%                     |

Communes in Cambodia perceive very minor revenues which rely primarily on fiscal transfers through the Commune Sangkat Fund (CSF). According to the 2001 law, communes are allowed to raise and set up certain taxes and fees, but there is a lack on legislation on types, rates and collection processes for ensuring effective utilization. Provinces have more but limited powers. Current reforms tend to devolve more resources to subnational levels.

**TAX REVENUE.** All taxes are collected and administered by the State (Department of Taxation). According to the Ministerial Order 371 of 2011, the government has authorized the collection of property tax at the provincial level. Taxes assigned to local governments include land tax, real estate tax, hotel beds tax, and rental tax.

**GRANTS AND SUBSIDIES.** Cambodian communes perceive funding from intergovernmental transfers through the Commune Sangkat Fund. Yet until now this fund has a very low capacity. The Fund allocates from 2% to 2.80% of the previous year annual national budget. Two third of the allocation must be dedicated to development components. Some national tax and nontax incomes are also transferred to the local level. Provinces perceives transfers from central government at a rate of 0.96% of current national revenue. Districts also perceive central transfers, 75.57 of which for administrative purpose, and 24.43% of which for development.

**OTHER REVENUES.** Other revenues available to communes are minor fees. They have expanded recently at the provincial and municipal levels with the increase in stamp duty on property transfers.

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

Due to prohibition by law, local governments do not have access to borrowing.

A joint- study of:



Source of Statistics: IMF-GFS • Ministry of Economy and Finance of Cambodia • Cambodia organic decentralization law • Cambodian National Budget • Cambodia Inter-censal Economic Survey 2014, National Report on Final Results • P. Smoke (2015), Quality Support Facilities in the field of decentralization, Local Governance & Local Development, The European Union's ADM Multi Programme



# CHINA

UNITARY COUNTRY

## ASIA PACIFIC

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **UPPER MIDDLE INCOME**

Local currency - **Chinese Yuan (CNY)**

#### POPULATION AND GEOGRAPHY

AREA: **9 596 961** km<sup>2</sup>

POPULATION: **1 401.587** million inhabitants (2014),  
an increase of 0,5% per year (2010-2014)

DENSITY: **146** inhabitants/km<sup>2</sup>

URBAN POPULATION: **55.6%** of national population

CAPITAL CITY: **Beijing** (1.4% of national population)

Sources: WB, UN, ILO

#### ECONOMIC DATA

GDP: **18 017.1** billion (current PPP international dollars)  
i.e. 12 855 dollars per inhabitant (2014)

REAL GDP GROWTH: **7.3%** (2014 vs 2013)

UNEMPLOYMENT RATE: **4.7%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **289 097**  
(BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **46%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.727** (high), **rank 90**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL   | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|---|----------------------|-------------------------|----------------------|
| <b>2852</b>   | <b>334</b>           | <b>31</b>               | <b>3217</b>          |
| COUNTRY LEVEL<br>AVERAGE MUNICIPAL SIZE:<br>491 267 INHABITANTS | PREFECTURAL<br>LEVEL | PROVINCIAL LEVEL        |                      |

These statistics cover mainland China only, without the two special administrative regions.

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** China is a unitary country. Provincial level includes: Province, autonomous region, municipality, and special administrative region. On the other end of the spectrum, townships and villages are sub-municipal levels of administration, lowest level of administration, known as a sub-district in urban areas of prefectural-level cities, and as a town or township elsewhere. Villages (rural areas) and neighborhoods (urban areas) are units below the township level. They have no official administrative role but serve as a channel of communication to the population.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Intergovernmental changes in China have occurred mostly through economic reform, and not directly through national law that clarifies the functions of each level of local government, nor constitutional or dedicated legal basis for decentralization. The Comprehensive Fiscal Reform (1994), Budget Law (1995), and Tax Sharing System (1994) have helped define the role of subnational governments. In the interest of economic efficiency, most of the public service delivery responsibilities are decentralized to subprovincial governments. Allocation of responsibilities and expenditure assignments to various tiers of sub-national government is uneven and unclear, and vary according to provinces, which have considerable regulatory control over lower levels. Main focus on deconcentration to provinces and larger cities, although lower levels have larger public expenditure role and elements of de facto devolution have emerged in some areas. In practice, multiple levels perform many functions concurrently.

### SUBNATIONAL GOVERNMENT FINANCE

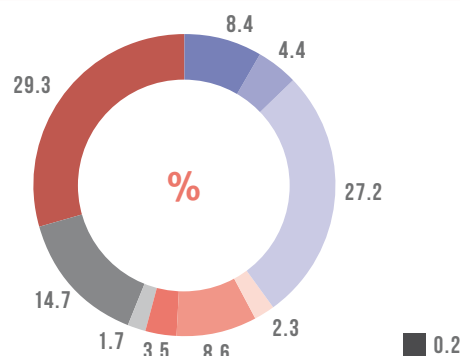
| EXPENDITURE                     | % GDP        | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|--------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>21.1%</b> | <b>85.4%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | 14.2%        | -   | 67.6%                       |
| <b>STAFF EXPENDITURE</b>        | -            | -   | -                           |
| <b>INVESTMENT</b>               | 6.8%         | 51.6%   | 32.4%                       |

Over the past decade, the share of spending undertaken by local authorities has increased in particular prefectural and county levels. From 2012 to 2013, local expenditures increased of 11.7%. This reflected a major change in the orientation of public expenditures towards spending in service delivery to people rather than economic services. Yet, the system remains highly centralized and local governments are agents acting on behalf of the State, spending as directed by the central government.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



Higher-level governments have been increasingly devolving assignments to lower local levels of government, as it was approved in central budgets by the National People's Congress. Lower-level of governments has been devolved not only pre-determined sub-national responsibilities, such as urban maintenance and construction, but also the incremental part of service provision for education and healthcare spending.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 12.1% | 53.4%   | 100%                     |
| TAX REVENUE          | 9.5%  | 48.8%   | 78.1%                    |
| GRANTS AND SUBSIDIES | 0.8%  | -   | 6.5%                     |
| OTHER REVENUES       | 1.9%  | -   | 15.4%                    |

China has a multi-level government structure that shares national tax revenues through a system of tax sharing and transfers. The current tax system was put in place in 1994. In 2013, local revenues increased of 13% compared to 2012, contributing to a large extent to overall increase of public revenues in China. China subnational funding model is based mostly on taxation, through tax sharing arrangements with the Central State, and on land sales (it constitutes the main part of prefecture-level cities' revenues.). This tends to be a major source of social instability, and whereas local governments' revenues have been increasing steadily for more than a decade, it is expected to slow down in the coming years with the downturn in land sales.

**TAX REVENUE.** In China, local governments have no discretionary power to raise taxation. Local government own taxes are mainly property and land-based taxes: property tax (2.3% of local revenues), urban and township land use tax (2.5%), land appreciation tax (4.8%). A reform of the residential property tax is under consideration to tax the wealthiest part of the population. Residential property taxes would be a significant and transformational reform for local governments, by reducing local governments' reliance on faltering land sales which have hitherto been a key source of revenue. Through shared taxes, Chinese provinces should retain 25% of the added-value tax, 40% of the income tax, and 50% of security and exchange tax. Because of the extensive sharing of the main taxes among subnational levels, the same six taxes top the list of revenue sources for the province, prefecture and county levels. On average, the largest share of all local taxes goes to the prefectural governments. Property and resource taxes, on the other hand, mainly accrue to county and township levels of government.

**GRANTS AND SUBSIDIES.** Most transfers are conditional grants; dominated by social security, wage increase, and fiscal stimulus grants. In China transfers have grown since 1994, to compensate for the amounts spent for public services provided in Chinese cities. The transfer system has three parts: general transfers, which aim to lessen fiscal disparities, earmarked transfers, and compensation transfers to provinces that lost revenue as a result of the 1994 reform.

**OTHER REVENUES.** Sub-national governments have non-tax revenue from fees, levies, penalties and the profit from the sale of land-use rights. In the past, fees were major part of non-tax revenue. Today, sub-national governments raise significant amounts from the sale of land-use rights (most of non-tax revenues) for periods of between 30 and 70 years. The net revenue from land sales is concentrated on the county and prefecture governments, but they are constrained as to the use of such revenues, limited to the creation new physical assets for the government.

| OUTSTANDING DEBT        | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 30.4% | 59.1%                |

China NAO defines, as local governments' debt, debt that government has guarantee responsibility for, and debt that government has possible governmental rescue responsibility for. From NAO figures, local debt is increasing. Yet this estimate may be underestimated as in the recent past, as subnational governments (provinces) had more expenditure responsibilities than revenue-raising authority, subnational borrowing and off-budget financing vehicles have been widely used, supported by explicit or implicit guarantees from the central government. In 2013, local debt is split between about 14.4% for the provincial level, about 17.4% for the city (district) level, and about 26.6% for county-level governments, indicating a more remarkable increase among lower-level governments. As a consequence, a new budgetary law passed in January 2015 dedicated to restore local governments finance. With this law, the only way for local governments to access borrowing is through bonds, limited to 1 600 billion CNY per year. A few wealthier municipalities are allowed direct access to capital markets under central government supervision.

A joint- study of:



**Sources:** China National Audit Office • French Development Agency Office in China Man J. Y. Man, China's Property Tax Reform, Lincoln Institute of Land Policy (2012) • East Asia Decentralizes, Making local government work, World Bank (2005) • Xiao Wang and Richard Herd (2014): "The system of revenue sharing and fiscal transfers in china economics department" By OECD, Working paper No. 1030 • OECD Urban Review – China • 2014 China Statistical Yearbook • Policy Research Institute, Ministry of Finance, Japan, Public Policy Review, Vol.11, No.1, March 2015

With the participation of the French Development Agency Country Office in China



### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOWER MIDDLE INCOME**

Local currency - **Indian rupee (INR)**

#### POPULATION AND GEOGRAPHY

AREA: **3 287 263** km<sup>2</sup>

POPULATION: **1 295.291** million inhabitants (2014),  
an increase of 1,3% per year (2010-2014)

DENSITY: **394** inhabitants/km<sup>2</sup>

URBAN POPULATION: **32.7%** of national population

CAPITAL CITY: **New Delhi** (1.93% of national population)

Sources: WB, UN World Urbanisation Prospects, ILO

#### ECONOMIC DATA

GDP: **7 384** billion (current PPP international dollars)  
i.e. 5 701 dollars per inhabitant (2014)

REAL GDP GROWTH: **7.3%** (2014 vs 2013)

UNEMPLOYMENT RATE: **3.5%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **33 871** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **31.6%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.609** (medium), **rank 130**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL                    | TOTAL NUMBER OF SNGs |
|--|--------------------|--|----------------------|
| <b>250 671</b>   | <b>-</b>           | <b>35</b>                                  | <b>250 706</b>       |
| LOCAL BODIES (MUNICIPALITIES)<br>AVERAGE MUNICIPAL SIZE:<br><b>5 167 INHABITANTS</b> |                    | <b>28 STATES +<br/>7 UNION TERRITORIES</b> |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** India is a federal country with a two-tier local government structure. Since the constitution that came into force on 26 January 1950, Divisions in Indian Administration have existed between the centre and the state level. India has in total 28 states and 7 union territories, as well as 250 671 local bodies. Each of the regional administrative divisions has an elected government headed by a chief minister. Over the past two decades, several initiatives have been taken to strengthen local government in India and provide urban local bodies with substantial autonomy and legitimacy, mainly the 74th Constitution Amendment Act 1992 and the Jawaharlal Nehru National Urban Renewal Mission (JNNURM, 2005), a central government initiative designed to impart greater efficiency and transparency in the functioning of urban local governments. Since the 75th Amendment, municipalities have been designed according to their size: Municipal Corporations for large urban areas (205), Municipal Council for small urban areas (877), and Nagar Panchayat for areas in transition from rural to urban.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Responsibilities have been mostly devolved to historically weak state governments or to intermediary-tier governments, rather than to cities and municipalities, through an asymmetric decentralization system in favour of State governments. The power and functions of Union and states are specifically laid out in the Schedule VII of the Indian Constitution, according to the principle of separation. State governments are responsible for public order, local governments, public health, agriculture; land rights, police, irrigation, industries and minerals other than those on the Union government list. On the other hand, Schedule XII only defines 18 illustrative functions which may be entrusted to the municipal level, which only derive their powers from state-level statutes, and mandates States to constitute every 5 years a finance commission to review and make recommendations on municipal finances. As a result, the States Governments devolved functions to local level with wide variation (some cases with no devolution, some cases with additional transfer of functions). In addition, there is a lack of transparency and accountability of local finance data, and no consolidated data on urban local bodies are available at the national level yet.

| EXPENDITURE                     | % GDP            |   | % GENERAL GOVERNMENT<br>(same expenditure category) |   | % SUBNATIONAL GOVERNMENT |   |
|---------------------------------|------------------|---|---|---|--------------------------|---|
|                                 | SUBNATIONAL DATA |   | LOCAL DATA ONLY                                     |   |                          |   |
| <b>TOTAL EXPENDITURE (2013)</b> | <b>14.8%</b>     | - | <b>53.9%</b>  | - | <b>100%</b>              | - |
| <b>CURRENT EXPENDITURE</b>      | 12.7%            | - | -   | - | 86.1%                    | - |
| <b>STAFF EXPENDITURE</b>        | -                | - | -   | - | -                        | - |
| <b>INVESTMENT</b>               | 2.1%             | - | 56.8%   | - | 13.9%                    | - |

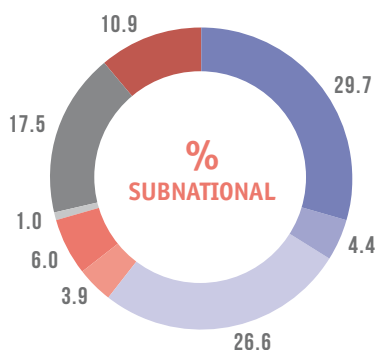
**NB: for India, the breakdown between state and local government levels is not available.**

Public expenditure in India is broadly categorised as developmental and non-developmental expenditure. The discretion and autonomy of states in determining the responsibilities of municipal bodies explain the lack of reliable data on urban local bodies' expenditures, which are very diverse. Local governments' functioning is further complicated by shortage of competent staff in finance and accounts departments.



## EXPENDITURE BY FUNCTION

### % SUBNATIONAL GOVERNMENT EXPENDITURE



Indian State governments allocate a large part of their revenues to economic affairs (26.6%), including agriculture and transport and communication, and general public services (29.7%). They also contribute to a large part of total spending on housing, education, social protection and health sectors.

## REVENUE BY TYPE

| REVENUE BY TYPE      | % GDP            |   |   |   |                          |   |
|----------------------|------------------|---|---|---|--------------------------|---|
|                      |                  |   | % GENERAL GOVERNMENT<br>(same revenue category) |   | % SUBNATIONAL GOVERNMENT |   |
|                      | SUBNATIONAL DATA |   | LOCAL DATA ONLY                                 |   |                          |   |
| TOTAL REVENUE (2013) | 13.0%            | - | 64.5%   | - | 100%                     | - |
| TAX REVENUE          | 10.1%            | - | 56.6%   | - | 77.9%                    | - |
| GRANTS AND SUBSIDIES | 2.0%             | - | -   | - | 15.3%                    | - |
| OTHER REVENUES       | 0.9%             | - | -   | - | 6.7%                     | - |

States are still heavily favored fiscally, while local bodies have a relatively weak weight in public finance compared with data in other BRIC countries (India's city governments or municipalities record revenues in the range of 1-2% of India's GDP, and a large majority do not have balance sheets). More than two thirds of the revenues of State governments come from tax revenues, while urban local bodies rely substantially on revenues received from the central government to meet their expenditure requirements.

**TAX REVENUE.** State governments perceive shared taxes and own sources subnational taxes. Shared taxes include the personal income tax (State receive 42% of the Central Government receipts), and service and good taxes (that are being reformed into a single tax). State own-source subnational taxes include Stamp Duty and duties of excise on medicinal and toilet preparation. Both are levied by the Union but collected and appropriated by the States, except for Union Territories, where they are collected and appropriated by the Union. For instance, Delhi's major sources of tax revenue are the value added tax or VAT, state excise, stamp and registration fees, and taxes on vehicles. The Municipal level may be authorized by the legislature of a State to levy, collect and appropriate taxes, duties, tolls and fees but the municipal revenue base (property taxes and user charges) continues to suffer from substantial inefficiencies and low collection. On the other hand, States may also assign to a Municipality such taxes, duties, tolls and fees levied and collected by the State Government for such purposes and subject to such conditions and limits. (PART IXA, Article 243X, Indian Constitution).

**GRANTS AND SUBSIDIES.** The 14th Finance Commission of State Governments' has increased the share in central taxes from 32% to 42% of the national tax revenues in 2015. The Union Government was making direct transfers to State-level implementing agencies until 2013-14; these are being channelised through the State budgets from 2014-15. Independent grants commissions in the states also provide fiscal advice on state-local government relations. Regarding "Union Territories," they do not perceive the financial transfers provided to the states in India, but they received discretionary grants instead.

**OTHER REVENUES.** Other revenues come from land-based finance mechanisms, including are based development charges, transferable development rights.

## OUTSTANDING DEBT

| OUTSTANDING DEBT        | % GDP            |   | % GENERAL GOVERNMENT |   |
|-------------------------|------------------|---|----------------------|---|
|                         | SUBNATIONAL DATA |   | LOCAL DATA ONLY      |   |
| OUTSTANDING DEBT (2013) | 21.5%            | - | 32.5%                | - |

The Constitution of India assigns borrowing powers to both the central and the state governments. States may borrow freely, without debt ceiling limits, unless they hold outstanding loans from (or guaranteed by) the central government. The 1914 Local Authorities Loans Act allows municipal corporations to borrow, with prior approval of their state government to acquire debt and an amendment to the Income Tax Act 1961 allows municipalities to issue tax-free bonds. Additionally some municipal councils (as well as municipal corporations) have raised loans with state approval, through both taxable and tax-free municipal bonds, with and without state guarantees. The Ministry of Urban Development has finally introduced a State-Level Pooled Finance Development Fund (PFDF) Scheme to provide credit enhancement to Urban Local Bodies (ULBs) to access market borrowings. Ratings are mandatory for local governments in India, when the issue maturity is more than 18 months.

A joint- study of:



**Sources:** Nagai, Mekrairait, Funatsu (2008), Local Government in Thailand, Analysis of the Local Administrative Organization Survey, Institute of Developing Economies • Indian Department of Local Administration • World Bank (2005) , East Asia Decentralizes, Making local government work • Bureau of Tax Policy : Fiscal Policy Office • Phichitchai Kingphuang (2013), The system of Local Government Borrowing: Case study of Uttaradit • MOI internal instruction letter date 23Nov 2011: 0808.3/4715 • Reserve Bank of India • <http://finmin.nic.in/reports/IPFStat201415.pdf>

With the participation of the French Development Agency Country Office in India



# INDONESIA

UNITARY COUNTRY

ASIA PACIFIC

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - LOWER MIDDLE INCOME

Local currency - Indonesian rupiah (IDR)

### POPULATION AND GEOGRAPHY

AREA: **1 910 930** km<sup>2</sup>

POPULATION: **254.454** million inhabitants (2014), an increase of 1.3 % per year (2010-2014)

DENSITY: **133** inhabitants/km<sup>2</sup>

URBAN POPULATION: **53%** of national population

CAPITAL CITY: **Jakarta** (4% of national population)

Sources: World Bank World Development Indicators, UN World Urbanisation Prospects, ILO

### ECONOMIC DATA

GDP: **2676.1** billion (current PPP international dollars) i.e.10 517 dollars per inhabitant (2014)

REAL GDP GROWTH: **5%** (2014 vs 2013)

UNEMPLOYMENT RATE: **5.9%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **25 889.7** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **35%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.684** (medium), **rank 110**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL              | TOTAL NUMBER OF SNGs |
|---|--------------------|--------------------------------------|----------------------|
| <b>508</b><br>REGENCIES (KABUPATEN)<br>AND CITIES (KOTA)<br>AVERAGE MUNICIPAL SIZE:<br><b>500 894</b> INHABITANTS | <b>-</b>           | <b>34</b><br>PROVINCES<br>(PROVINSI) | <b>542</b>           |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Indonesia is a unitary country with two levels of sub-national governments composed of 34 provinces and 508 local governments (regencies and cities) in 2015. Indonesia also counts over 83 000 villages (desa and kelurahan), which have gained some autonomy since the new 2014 Village Law. Sub-national governments in Indonesia have gained considerable power, responsibilities and autonomy over the last two decades. The number of districts has grown significantly since the late 90s (there were 292 districts in 1999), in a bottom-up process which was halted in 2010. Local governments are democratically elected parliaments since 1999 (Law 22/ 1999), and democratically elected heads since 2005. Law 32/2004 has led to well-established district and provincial autonomy, which were no longer subordinate to provincial governments. Yet, recent legislative reforms tend toward rearranging decentralization for more effective public sector. Whereas provincial governments used to be the most powerful level of sub-national government, central government's authority is now stronger and more assertive, with mandates to dismiss renegade regional government leaders.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Following Law 22/1999, local governments gained wide responsibilities, making Indonesia one of the largest decentralized countries in the world. Most competences were delegated to local governments, with the central government retaining responsibility only for areas of national security, foreign and monetary policy, justice, governance and planning, religious affairs. Competences for public works, healthcare, education, cultural and social affairs, labor, environment protection, land, citizenship and investment are devolved to local governments. In particular, municipalities are responsible for education, healthcare, labor, public works, spatial planning, youth and sport, telecommunication, housing, transport, etc. Yet, the fragmentation of local jurisdictions leads to conflicting and overlapping laws and regulations across levels of government.

## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>6.8%</b> | <b>36.4%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | 5.5%        | -   | 80.9%                       |
| <b>STAFF EXPENDITURE</b>        | 3.0%        | 56.4%   | 44.2%                       |
| <b>INVESTMENT</b>               | 1.3%        | 40.8%   | 19.1%                       |

Because of issues of democratic accountability and clarity of responsibilities, the largest share of subnational expenditures goes to current expenditures compared to the share allocated to investment and provision of public goods and services.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



Sub-national main categories of expenses include general public services (32.2% of total sub-national expenditure), education (27.1%) and housing (16.4%). Part of the high average spending on administration may be due to the continued proliferation of new districts in Indonesia.

| REVENUE BY TYPE                | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|--------------------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013)           | 7.2%  | 42.6%   | 100.0%                   |
| "REGIONALLY-GENERATED" REVENUE | 1.2%  | 9.7%  | 16.8%                    |
| GRANTS AND SUBSIDIES           | 5.4%  | -   | 75.0%                    |
| OTHER REVENUES                 | 0.6%  | -   | 8.1%                     |

Despite the shift in the responsibility for providing public services introduced by law 25/1999, the task of revenue collection remains primarily in the hands of the central government. To ensure that the regional and local governments had sufficient resources to undertake their new responsibilities, a new system of intergovernmental funds transfer was introduced, guaranteeing at least 26% of net domestic revenues to local governments, of which 90% to districts and municipalities, plus a share of natural resource revenues in the form of intergovernmental transfers.

**TAX REVENUE.** The Law No. 28 of 2009 details the fiscal revenues allocated to sub-national governments. Provincial taxes include a vehicle tax, a vehicle ownership transfer tax, a vehicle fuel tax, a surface water tax, a cigarette tax. Local taxes include a hotel tax, a restaurant tax, an advertisement tax, a public lightning tax, a non-metal and stone minerals tax, a parking tax, a land and building tax, a land and building acquisition tax, etc. Property taxes (land and building tax, land and building acquisition tax) were only decentralized recently; local governments started collecting them between 2011 and 2014, and the central government stopped collecting it in 2014. Maximum tax rates are set by the central government, and sub-national governments are not able to collect taxes other than those set by law by central authorities or impose any surtax.

**GRANTS AND SUBSIDIES.** The high share of intergovernmental transfers make for a high budget dependence of the local government to the central government, and makes local government vulnerable to political intervention. Transfers from the central government consist of three major components: the general allocation fund, the revenue-sharing fund and the specific purpose fund. The general allocation fund (*Dana Alokasi Umum*, DAU) is an equalization transfer system aiming at reducing fiscal imbalances between sub-national governments. Transfers are formula-based, consisting of a base allocation (equal to the amount of spending on personal) and a fiscal gap allocation (which can be positive or negative). This fund is allocated to the provinces (10%) and districts and municipalities (90%); it accounts on average for 50% of local revenues. The shared revenue fund (*Dana Bagi Hasil*, DBH) is sub-divided in two categories. The DBH from taxes is a shared tax system, based on receipts from the personal income tax, etc. The DBH from natural resources is based on revenues derived from forestry, mining, oil, etc. Last, the special allocation fund (*Dana Alokasi Khusus*, DAK) is a transfer system to fund responsibilities that are considered as national priorities.

**OTHER REVENUES.** Other sources of sub-national revenues include service fees for healthcare, education, cleaning, parking, waste processing, etc, licenses, property revenues, etc.

## OUTSTANDING DEBT

|                         | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 0.2%  | 0.8%                 |

Sub-national debt must not exceed 75% of the previous year's budget revenues. Sub-national governments are not allowed to borrow internationally; those with outstanding arrears on government loans are prohibited from borrowing. A cumulative lending limit for sub-national loans is set by the ministry of finance.

A joint- study of:



**Sources:** IMF Government Finance Statistics • Crawford School of Economics and Government Working Paper No. 2010/14 • Pal, S. and Z. Wahhaj (2012), "Fiscal Decentralisation, Local Institutions and Public Goods Provision: Evidence from Indonesia" • Asian Development Bank (2012), "Republic of Indonesia: Local Government Finance and Governance Reform" • B. Prasertiamartati (2013), "Policy and Participatory Local Governance in Indonesia", UNDP Indonesia • Suharnoko Sjahrir, B., et al (2014), "Administrative Overspending in Indonesian Districts: The Role of Local Politics", World Development Vol. 59 • Bank of Indonesia: 2014 Economic Report on Indonesia • World Development Vol. 59, pp. 166–183, 2014 • Ministry of Home Affairs Regulation no.56/ 2015.



# JAPAN

UNITARY COUNTRY

## ASIA PACIFIC

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **HIGH INCOME: OECD** Local currency - **Japanese Yen (JPY)**

#### POPULATION AND GEOGRAPHY

AREA: **373 530** km<sup>2</sup>

POPULATION: **127.120** million inhabitants (2014),  
a decrease of -0.2% per year (2010-2014)

DENSITY: **340** inhabitants/km<sup>2</sup>

URBAN POPULATION: **93%** of national population

CAPITAL CITY: **Tokyo** (29.8% of national population)

Sources: OECD, World Bank, UNDP, ILO

#### ECONOMIC DATA

GDP: **4 655.5** billion (current PPP international dollars)  
i.e. 36 623 dollars per inhabitant (2014)

REAL GDP GROWTH: **-0.1%** (2014 vs 2013)

UNEMPLOYMENT RATE: **3.5%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **9 070** (BoP, current  
USD millions, 2014)

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

HUMAN DEVELOPMENT INDEX: **0.891** (very high), **rank 20**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL            | TOTAL NUMBER OF SNGs |
|---|--------------------|------------------------------------|----------------------|
| <b>1 741</b>  | <b>-</b>           | <b>47</b>                          | <b>1 788</b>         |
| <b>1 718 MUNICIPALITIES (SHI) AND<br/>23 SPECIAL WARDS WITHIN TOKYO</b><br>AVERAGE MUNICIPAL SIZE:<br><b>72 715 INHABITANTS</b> |                    | <b>PREFECTURES<br/>(TODOJUKEN)</b> |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Japan has two tiers of local government with no hierarchical link. The prefectural level consists of one metropolitan district (Tokyo), two urban prefectures (Kyoto and Osaka), one “district” or “circuit” (Hokkaidō), and rural prefectures. Regionalisation plans have been considered for decades, the prefectures being almost 150 years old. New regionalisation projects were proposed in the 2000s, under the term Doshusei but reorganisation has not been scheduled yet. The municipalities are not uniform, being subdivided into 20 designated cities, 42 core cities, 40 special cities, and 688 other cities. They also include 745 towns (*machi*) and 183 villages (*mura*). The 20 designated cities (*shitei toshi*) and the 23 Metropolitan Tokyo special wards enjoy more administrative and fiscal autonomy than the other municipalities, whose major differences are population size. Several waves of mergers (Great Shōwa from 1953 to 1999, Great Heisei consolidation, new “Basic Policy for Promoting Municipal Mergers” since 2006) have drastically reduced the number of municipalities, from 9 868 in 1953 to 1 718 today, a division by almost 6. In the 1990s and 2000s, several decentralisation reforms took place in Japan encompassing changes to SNG’ functions, an increase in their autonomy and a revision of their financing.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** There is no clear-cut separation between the responsibilities of prefectures and municipalities. The prefectures have considerably stronger administrative powers than the municipalities. Prefectures are responsible for a range of functions in the fields of economic development, public infrastructure (roads, some national highways, rivers, and harbours), public housing, education (secondary schools), social assistance policies, public health, agriculture, environment and employment. The municipalities also have extensive responsibilities for urban planning, local roads, local harbours, public housing, education (pre and primary schools), social welfare (child welfare, elderly, national health insurance, and ageing insurance), water, waste and fire-fighting.

### SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP        | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|--------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>16.7%</b> | <b>39.6%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | 13.2%        | -   | 78.8%                       |
| <b>STAFF EXPENDITURE</b>        | 4.6%         | 77.1%   | 27.5%                       |
| <b>INVESTMENT</b>               | 2.9%         | 76.7%   | 17.2%                       |

As a unitary country, Japan stands out in the weight of SNG spending in GDP and in overall public spending, being in line with the OECD average (16.6% and 40.0% in 2013), and significantly above the OECD average for unitary countries (13.4% and 29.0% in 2013). SNG share in public staff spending is particularly high, compared to the OECD average (63% for all OECD countries and 45% for unitary countries) while the SNG share in public investment is also noteworthy, compared to the OECD average (59%), representing 2.9% of GDP vs 1.9% in the OECD. However, the level of decentralisation should not be overstated as SNG spending autonomy can be limited in certain areas delegated by central government. SNGs may be more paying “agents” of the central government implementing policies designed by the different ministries.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



SNGs are responsible for principal spending areas in social protection (child, elderly, public assistance and disaster relief), education (primary, secondary and high school), economic affairs (notably transport infrastructure) and general public services. In addition, SNGs are responsible for the large majority of total public spending in the areas of environmental protection, recreation and culture as well as housing and community amenities.

| REVENUE BY TYPE                | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL<br>GOVERNMENT |
|--------------------------------|-------|---|-----------------------------|
| TOTAL REVENUE (2013)           | 16.7% | 49.2%   | 100%                        |
| "REGIONALLY-GENERATED" REVENUE | 7.4%  | 42.1%   | 44.5%                       |
| GRANTS AND SUBSIDIES           | 7.7%  | -   | 46.2%                       |
| OTHER REVENUES                 | 1.6%  | -   | 9.3%                        |

SNGs depend on central government transfers for almost half of their revenue which are based on a tax sharing system established by the 2004 Trinity Reform. However, the share of taxes in SNGs revenues has increased significantly thanks to fiscal reforms.

**TAX REVENUE.** The primary SNG tax by far is the resident tax which is a combined prefectural and municipal tax levied both on individuals and businesses (around 40% of their tax revenue). It is calculated on the basis of the income earned in the previous year. The tax rate is 10% of income, regardless of the amount of income. For the prefectures only, other local taxes include enterprise tax (18% of prefectural tax revenue), a local consumption tax (18%) and the automobile tax. For the municipalities, the second highest tax is the fixed asset tax (property tax on land and buildings i.e. around 40% of municipal tax revenue), followed by a city planning tax. They each accounted for around 2% of GDP in 2013.

**GRANTS AND SUBSIDIES.** Major central government transfers are based upon the sharing of national taxes. The most important one is the Local Allocation Tax Grant (LAT) based on revenues from the five major national taxes (PIT, CIT, consumption tax, liquor tax and tobacco tax), SNGs receiving between 25% and 34% of the receipts. The LAT is broken down into an "ordinary" LAT (94% of funds) and a "special" LAT (6%). The former guarantees local services and has also an equalisation function. The special LAT is dedicated to extraordinary and emergency expenses such as damages from natural disasters. Another transfer is the Local Transfer Tax (LTT) which is made up of the local gasoline transfer tax and other national taxes redistributed to SNGs as general grant. The National Treasury Disbursements include transfers on the basis of cost allotment, mandatory cost sharing, consignment costs and subsidies for the promotion of specific policies and support for public finances. Other transfers include for example the Special Grants to Local Governments and transfers for reconstruction after the Great East Japan Earthquake. In 2013, around one-quarter of all grants was for capital expenditure.

**OTHER REVENUES.** Other revenues include charges and fees (around 6% of SNG revenue), revenues from property (sales of assets, rents, dividends) and social contributions.

## OUTSTANDING DEBT

|                         | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 37.3% | 15.6%                |

The 2009 Act on Assurance of Sound Financial Status of Local Governments established new deficit and debt ratios to monitor the financial soundness of SNGs. In addition, the 2010 Fiscal Management Strategy introduced numerical targets for the short, medium and long term to reduce the primary budget deficit of the central and local governments. SNGs may borrow freely but only to finance capital expenditure. A consultation system with the central government replaced a prior approval system in 2006 for the issuance of local bonds. SNG borrowing is very high by international standards, well above OECD averages in terms of GDP (23.7% for all OECD and 15.1% for unitary countries only). The SNG share in public debt is however below the OECD average (20.2%), the level of Japanese public debt being significant, 236% of GDP in 2013). Outstanding debt is made up of loans (60%) and bonds (40%). Other accounts payable are negligible.

A joint- study of:



**Sources:** • OECD National Accounts Statistics • OECD (2015 and 2016), Subnational Governments in OECD Countries: Key data • Chatry I., Hulbert C. (2016), "Multi-level governance reforms: Overview of OECD country experiences" OECD publishing • OECD (2016), OECD Territorial Reviews: Japan 2016 • Japanese Ministry of Internal Affairs and Communications (2015) White Paper on Local Public Finance • Tokyo Metropolitan Government (2013): "Tokyo's Financial System" • UN-Habitat (2012), Fiscal decentralization in Japan.



# KOREA

UNITARY COUNTRY

## ASIA PACIFIC

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **HIGH INCOME: OECD** Local currency - **South Korean Won (KRW)**

#### POPULATION AND GEOGRAPHY

AREA: **99 461** km<sup>2</sup>

POPULATION: **50.424** million inhabitants (2014),  
an increase of 0.5% per year (2010-14)

DENSITY: **507** inhabitants/km<sup>2</sup>

URBAN POPULATION: **82.4%** of national population

CAPITAL CITY: **Seoul** (19.7% of national population)

Sources: OECD, World Bank, UNDP, ILO

#### ECONOMIC DATA

GDP: **1 683.9** billion (current PPP international dollars)  
i.e. 33 395 dollars per inhabitant (2014)

REAL GDP GROWTH: **3.3%** (2014 vs 2013)

UNEMPLOYMENT RATE: **3.5%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **9 899** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **29%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.898** (very high), **rank 17**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL        | TOTAL NUMBER OF SNGs |
|--|--------------------|--------------------------------|----------------------|
| <b>228</b><br>1 718 MUNICIPALITIES<br>AVERAGE MUNICIPAL SIZE:<br>224 440 INHABITANTS | -                  | <b>17</b><br>REGIONAL ENTITIES | <b>245</b>           |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Korea has a two-tier local government system with no hierarchical link, and a very diverse and complex structure. The regional level consists of nine provinces (*do*), six metropolitan cities (*gwangyeoksi*), Sejong Self-governing City and Seoul capital city (*teukbyeolsi*) which have a special status. The municipal level includes cities (*si*), counties (*gun* mostly rural) and autonomous districts (*gu*), an organisation which resulted from a "municipal annexation" process which took place in 1995. The municipal level is further divided into 3 496 sub-municipal localities: 218 *eup* (urban division of the country), 1 195 *myeon* (rural division of the country), and 2 083 *dong* (within autonomous districts and lower-tier cities). The local government sector also comprises 17 educational offices which are independent elected entities according to the Local Education Government Act. The decentralisation process is relatively recent having, started in 1987 with the "Declaration for Democratisation". It gained momentum in 1988 with the Local Autonomy Act and the Local Finance Act, and with the first local elections held in 1991 for local councillors and then in 1995 for local executives.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The functions of SNGs are not clearly defined by law. The Local Autonomy Act (Article 9) distinguishes SNG functions between those delegated by the central government and those which are local by nature. The Act identifies six categories of SNG functions: administrative and management functions; welfare, economic development (promotion of industry, agriculture, trade, etc.); regional development and environmental protection; education (however, this falls under the responsibility of independent educational offices), sport and culture; public order and safety (firefighting). The Act stipulates that the central government can use its own power and control over any function. In addition, both SNG levels have the same functions but at different scales. Regions are also responsible for vertical co-ordination between the national government and lower level of government. As a result, there is a large degree of overlap in the division of responsibilities across levels of government.

### SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP        | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|--------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>13.7%</b> | <b>43.1%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | 9.8%         | -   | 71.3%                       |
| <b>STAFF EXPENDITURE</b>        | 3.7%         | 55.0%   | 27.1%                       |
| <b>INVESTMENT</b>               | 3.1%         | 57.4%   | 22.9%                       |

SNG expenditure as a share of public spending is above the OECD average (40%), especially the OECD average for unitary countries (29%). As a share of GDP, SNG spending has increased from 9.8% in 1995 to almost 14% in 2013, reflecting transfers of spending responsibilities. SNGs represent more than half of public staff spending (10 points above the OECD unitary country average) which results partly from the payment of teacher salaries (educational offices). SNG investment is particularly high in GDP (3.1% vs 1.9% in the OECD) and in local expenditure while the share in overall public investment is in line with the OECD average (58.5% in 2013).



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



SNGs' main categories of spending include education (by educational offices), economic affairs and transport, general public services and social protection. SNGs are responsible for the large majority of total public spending in the areas of housing and community amenities and environmental protection, despite their small share in local spending.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL<br>GOVERNMENT |
|----------------------|-------|---|-----------------------------|
| TOTAL REVENUE (2013) | 13.9% | 42.1%   | 100%                        |
| TAX REVENUE          | 3.9%  | 21.4%   | 27.9%                       |
| GRANTS AND SUBSIDIES | 8.6%  | -   | 61.6%                       |
| OTHER REVENUES       | 1.5%  | -   | 10.4%                       |

The 1988 Local Finance Act, which determines SNG financing, has been amended several times in 2005, 2009 and 2011, in order to increase fiscal decentralisation and reform the tax and grants systems. In 2013, SNGs still depended heavily on central government transfers whose share in total SNG revenue is well above the OECD average (61.6% vs 37.3%). There is a special account for educational offices separate from that of other SNGs.

**TAX REVENUE.** The tax system for Korean SNGs was reformed in 2011, in order to simplify the tax mix. The number of taxes allocated to local authorities declined from 16 to 11, 9 of which are ordinary taxes and 2 are earmarked (a Regional Resource & Facilities tax and a Local Education tax). Most rates are determined by the central government. The highest taxes are the acquisition tax levied on persons acquiring real estate, motor vehicles, heavy equipment, boats, etc. either through purchase or inheritance (it benefits only the upper level and represent 26% of all SNG tax revenue), the local income tax (both levels, 19%), the property tax (mainly for the lower level, 15%), the automobile tax (both levels, 12%) and a local consumption tax. Metropolitan cities can levy both provincial and municipal own taxes. Taxes on properties represent in total 30% of SNG tax and 1.2% of GDP.

**GRANTS AND SUBSIDIES.** Transfers from the central government to local authorities mostly include transfers from revenue sharing between levels of government and categorical grants. Revenue sharing is divided between *Regular Revenue Sharing* (RRS) and *Revenue Sharing for Decentralisation* (RSD). The RRS consists of 18.3% of national tax revenue. 96% of receipts are non-earmarked allocated to SNGs according to an equalising formula based on assessment of standard fiscal needs and revenues. The remaining 4% is earmarked (natural disaster recovery, construction of public facilities, national project, etc.). The RSD system, financed through a decentralisation tax, was introduced in 2006 in order to finance the decentralisation of administrative functions. Categorical grants are very diverse and are aimed at helping local governments to provided services otherwise too costly, finance delegated tasks and policy projects, provide financial assistance and compensation, etc.

**OTHER REVENUES.** Other revenues include user charges and fees (8% of revenue) and revenue from property (sales of assets, leasing, dividends, etc.).

| OUTSTANDING DEBT        | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 1.1%  | 3.2%                 |

According to the Local Autonomy Act, SNGs must maintain a balanced budget. They are free to borrow to fund investment projects (golden rule). Since 2006, they have been able to issue bonds without prior approval from the central government if their debt levels are under debt ratios (Total Debt Limits). SNG debt is well below OECD averages, especially that of unitary countries (5.1% of GDP and 12% of public debt). In 2013, a large majority of outstanding debt (62%) was made up of "other accounts payable" while financial debt accounted for 38% of debt (29% of loans and 9% of bonds).

A joint- study of:



**Sources:** OECD National Accounts Statistics • OECD (2015 and 2016) Subnational Governments in OECD Countries: Key data • Chatry I., Hulbert C. (2016) "Multi-level governance reforms: Overview of OECD country experiences" OECD publishing • Ahn Y. (2015) Local Autonomy And Local Finance in Korea, Korea Domestic Economic Situation and Government's Effort, Korea Research Institute for Local Administration (Krila) • Local Government Officials Development Institute (2013) Local Government and Public Administration in Korea • Ministry of Strategy and Finance of Korea (2014) the Budget System of Korea • OECD/Korea Institute of Public Finance (2012) Institutional and Financial Relations across Levels of Government, OECD Fiscal Federalism Studies.



# MALAYSIA

FEDERAL COUNTRY

## ASIA PACIFIC

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - UPPER MIDDLE INCOME

Local currency - Malaysian ringgit (MYR)

#### POPULATION AND GEOGRAPHY

AREA: **330 800** km<sup>2</sup>

POPULATION: **29.9** million inhabitants (2014),  
an increase of 1.61% per year (2010-2014)

DENSITY: **90** inhabitants/km<sup>2</sup>

URBAN POPULATION: **74.7%** of national population

CAPITAL CITY: **Kuala Lumpur** (22.2% of national population)

Sources: WB, UN World Urbanisation Prospects, <http://publications.europa.eu> ; ILO

#### ECONOMIC DATA

GDP: **766.6** billion (current PPP international dollars)  
i.e. 25 639 dollars per inhabitant (2014)

REAL GDP GROWTH: **6.0%** (2014 vs 2013)

UNEMPLOYMENT RATE: **2.9%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **10 609** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **25%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.779** (high), rank **62**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|--|--------------------|-------------------------|----------------------|
| <b>149</b>   | <b>-</b>           | <b>13</b>               | <b>162</b>           |
| MUNICIPALITIES<br>AVERAGE MUNICIPAL SIZE:<br>200 671 INHABITANTS |                    | STATES                  |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Malaysia is a federal country with two tiers of sub-national governments, composed of 149 municipalities and 13 states. Malaysia remains relatively centralized compared to other federations, with most of the authority concentrated in the hands of the federal government. Local governments are under the supervision of the state governments. The States of Sabah and Sarawak became part of the Federation in 1963, and retain since then a higher degree of local autonomy. Local governments consist of city councils, municipal councils and district councils; smaller types of governments have fewer responsibilities (see below). Criteria for determining the type of a local authority rely on population size and financial turnover. City councils correspond to large urban centers, municipal councils to urban areas, while districts councils correspond to rural areas with sparse population. Local elections have been discontinued in 1965, and mayors and municipal councilors are appointed by the state government.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** States' own responsibilities include agriculture and forestry, fishery, state works and water, boarding houses, cemeteries, markets, etc. Sabah and Sarawak are in addition responsible for ports and harbours, cadastral land surveys, among others. In general, state governments have limited power to decide their own investment priorities. The functions of local authorities are governed by the Local Government Act (1976) and the Town and Country Planning Act (1976). Responsibilities shared between states and municipalities include social welfare, urban planning, healthcare, fire safety, housing, culture and sports, drainage and irrigation, etc. In Sabah and Sarawak shared functions also include water supply, charities, etc. Municipalities' own responsibilities include gas supply, environmental protection, etc. The Malaysian government is currently in the process of reforming the budgeting system with the adoption of OBB, in order to achieve efficient allocation of resources and implementation of programmes and ensure more transparent and flexible fiscal management in the public sector through a result-based approach.

| EXPENDITURE              | % GDP            |      | % GENERAL GOVERNMENT<br>(same expenditure category) |      | % SUBNATIONAL GOVERNMENT |       |
|--------------------------|------------------|------|---|------|--------------------------|-------|
|                          | SUBNATIONAL DATA |      | LOCAL DATA ONLY                                     |      |                          |       |
| TOTAL EXPENDITURE (2013) | 3.0%             | 0.9% | 9.9%  | 2.7% | 100%                     | 100%  |
| CURRENT EXPENDITURE      | 2.0%             | 0.7% | -   | -    | 68.4%                    | 83.1% |
| STAFF EXPENDITURE        | -                | -    | -   | -    | -                        | -     |
| INVESTMENT               | 0.9%             | 0.1% | 17.3%   | 2.5% | 31.6%                    | 16.9% |

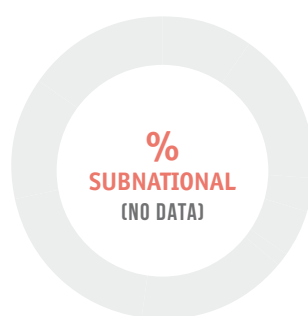
Among subnational entities, local governments' expenditures account for less than 3% of total government expenditures in 2013, compared to almost 10% for state governments' expenditures. 31.6% of state expenditures are allocated to capital expenditures, compared to 16.9% for local governments.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



As explained above, the bulk of income of local governments is spent on recurrent items such as staff expenditures, charges and utilities, most often they have little resources to undertake development programs in specific sectors. In general, Malaysia has one of the largest civil service among other countries of similar population and size.

## REVENUE BY TYPE

### % GDP

### % GENERAL GOVERNMENT (same revenue category)

### % SUBNATIONAL GOVERNMENT

|                             |             |             | SUBNATIONAL DATA | LOCAL DATA ONLY |             |             |
|-----------------------------|-------------|-------------|------------------|-----------------|-------------|-------------|
| <b>TOTAL REVENUE (2013)</b> | <b>3.3%</b> | <b>0.7%</b> | <b>12.6%</b>     | <b>3.4%</b>     | <b>100%</b> | <b>100%</b> |
| <b>TAX REVENUE</b>          | 2.7%        | 0.7%        | -                | -               | 82.4%       | 85.8%       |
| <b>GRANTS AND SUBSIDIES</b> | 0.6%        | 0.1%        | -                | -               | 17.6%       | 14.2%       |
| <b>OTHER REVENUES</b>       | 0.0%        | 0.0%        | -                | -               | 0.0%        | 0.0%        |

Taxes can only be levied under federal law; thereby, the federal government concentrates most tax receipts and the proportion of total revenue collected by local governments is relatively small, at 3.4%. The Ministry of Housing and Local Government classifies the sources of income for the local authorities into six groups, namely: assessment rates or tax (inclusive of contribution in-lieu-of rates); licenses; rentals; government grants (inclusive of road grants); car park charges, planning fees, compounds, fines and interests; loans (from government and/ or financial institutions).

**TAX REVENUE.** Tax bases are set by central authorities, and sub-national governments have limited authority for setting rates. State taxes include export duties on timber (Sabah), excise duties (Sarawak), a land tax, taxes on mines, an entertainment tax, an excise duty on liquor, etc. Municipal taxes include a self-assessed income tax, which is the main source of own revenues for local authorities. The self-assessed income tax is a property tax collected on the basis of the annual assessment of rental value or the value-added, and limited to 35% of annual value or 5% of value-added of a holding. Often, the problem of uncollected revenue make their situation precarious.

**GRANTS AND SUBSIDIES.** The system of intergovernmental transfers is enshrined in the Constitution. There are three main types of grants for states: tax-sharing grants, general purpose grants, and specific purpose grants. Tax sharing grants include 10% of exports duties on tin, 10% of exports duties on iron and 10% of exports duties on tin. General purpose grants provide general-purpose funds to state governments; they are formula-based according to population size and GDP per capita. Economic Development Grants are intended to compensate for state inequalities and promote the development of less developed states. On average, they represent 7.8% of federal grants. Last, specific purpose grants aim at funding specific expenditure in economically backward states. General and specific transfers to municipalities are made by state and federal governments to local authorities. They include annual grants from the Ministry of Housing and Local Government, an infrastructure service fund, etc.

**OTHER REVENUES.** Other revenues for states include royalties from petroleum, gas and forestry, sales of goods and services, dividends and interests, fees from licenses and services, property revenues, etc. Other local revenues include licence payments, trade and investment profits, fines, service fees, etc. Yet in the National accounts, there were no mentions of revenues from other sources in 2013.

## OUTSTANDING DEBT

### % GDP

### % GENERAL GOVERNMENT

|                                |   |   | SUBNATIONAL DATA | LOCAL DATA ONLY |
|--------------------------------|---|---|------------------|-----------------|
| <b>OUTSTANDING DEBT (2013)</b> | - | - | -                | -               |

Sub-national governments are able to borrow from the federal government, from a bank or other approved financial sources, for purposes determined by the federal government, for a period not exceeding five years. Most sub-national loans come from the federal government, and terms and conditions are set by federal authorities and the federal government debt must not exceed 55% of national GDP. Yet, through consistently providing loans to state governments, the Malaysian federal government has led to a situation of unsustainable deficit of state governments.

A joint- study of:



**Source of Statistics:** <http://www.treasury.gov.my> • OBB – A Way Forward Ministry of Finance (2010) • CLGF (2013), The local government system in Malaysia • J. Abd Ghani (2014), Market Preserving Federalism: Implications For Malaysia, PhD Thesis • Asian Public Governance Forum (2015), Trends and challenges of local finance management in Malaysia, by National Budget Office • N. Alam Siddiquee(2013), Public Management and Governance in Malaysia: Trends and Transformations, Routledge



# MONGOLIA

UNITARY COUNTRY

ASIA PACIFIC

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - LOWER MIDDLE INCOME

Local currency - Mongolian tögrög ( MNT)

### POPULATION AND GEOGRAPHY

AREA: **1 564 120** km<sup>2</sup>

POPULATION: **2.923** million inhabitants (2014), an increase of 1.49% per year (2010-2014)

DENSITY: **2** inhabitants/km<sup>2</sup>

URBAN POPULATION: **72%** of national population

CAPITAL CITY: **Ulaan Baatar** (45.6% of national population)

Sources: World Bank World Development Indicators, UN World Urbanisation Prospects, ILO

### ECONOMIC DATA

GDP: **34.8** billion (current PPP international dollars)  
i.e. 11 892 dollars per inhabitant (2014)

REAL GDP GROWTH: **7.8%** (2014 vs 2013)

UNEMPLOYMENT RATE: **7.3%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **384** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **32%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.727** (high), rank **90**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL                 | REGIONAL OR STATE LEVEL                 | TOTAL NUMBER OF SNGs |
|--|------------------------------------|---|----------------------|
| <b>1 744</b>   | <b>339</b>                         | <b>22</b>                               | <b>2 105</b>         |
| COMMUNITIES/NEIGHBORHOODS<br>(BAG/KHOROS)<br>AVERAGE MUNICIPAL SIZE:<br><b>1 676 INHABITANTS</b> | REGIONS/DISTRICTS<br>(SUM/DUUREGS) | PROVINCES<br>(AIMAGS)<br>≠ CAPITAL CITY |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Mongolia is a unitary country with a three-tier government system, divided into 21 aimags (provinces) and the capital city; Aimags are divided into 330 soums and 1592 baghs; the capital city has a different status, it is divided into 9 duuregs (districts) and 152 khoros - the lowest formal administrative and territorial unit. To address the issue of fragmentation, a regional development program has been introduced, but this program is not effective in practice in 2016. The legal status of town and villages situated on territories of administrative divisions are defined by law. Parliaments of the capital city and provinces are elected for a four years period. Governors of provinces and capital city are appointed by the Prime Minister; Those of regions and districts are appointed by governors of provinces.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The system of intergovernmental fiscal relation is based on the Constitution, the law on Administrative and Territorial Units (LTAU), and the Public Sector Finance and Management Law (PSFML, 2002). After a process of decentralisation of most social services to the sub-national level until 2002, The PSFML assigned most social services back to the central government, and the service provision tasks were delegated to the local governments. Services were then recentralized again until the introduction of the Integrated Budget Law in 2013, that marks a new trend towards effective fiscal decentralization. Pure local responsibilities are local administration, pasture management, local public infrastructure, waste management, and public areas. All other functions are shared among different levels of government (for instance, for health and education). There is a responsibility mismatch at the subnational level as the governor (executive branch) is appointed by the central government, whereas the khural (legislative branch) is elected locally. Even though the Constitution and the Budget Law require uniform treatment for the capital city and other aimags, the Municipality of Ulan Bator, as main urban area of the country has been delivering an increasing scope of additional services.

## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>9.4%</b> | <b>29.0%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | <b>7.2%</b> | <b>-</b>  | <b>77.3%</b>                |
| <b>STAFF EXPENDITURE</b>        | <b>3.7%</b> | <b>45.8%</b>  | <b>39.2%</b>                |
| <b>INVESTMENT</b>               | <b>2.1%</b> | <b>27.4%</b>  | <b>22.7%</b>                |

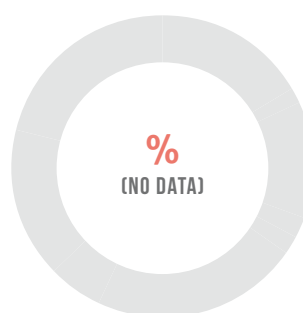
The share of local expenditures dropped sharply after the 2003 reform, and has increased since then to come back to the previous level, approximately 30% of total public expenditures. Yet the expenditure responsibilities and investments is very unequal among the provinces. In 2013, the total expenditures of the capital city Ulaanbaatar, economic center of the country, accounted for almost 75% of local expenditures.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



Local governments in Mongolia do not use Classification of Local Governments Expenditures by Functions of Government. Yet, since the introduction of the IBL in 2013, discretionary spending by local governments is set to increase significantly in the coming years.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL<br>GOVERNMENT |
|----------------------|-------|---|-----------------------------|
| TOTAL REVENUE (2013) | 9.9%  | 31.3%   | 100.0%                      |
| TAX REVENUE          | 3.2%  | 13.3%   | 32.1%                       |
| GRANTS AND SUBSIDIES | 5.9%  | -   | 59.2%                       |
| OTHER REVENUES       | 0.9%  | -   | 8.7%                        |

Mongolian local governments budget revenues comprise transfers from central level, own-source tax revenue, non tax revenue, including shared taxes between the regions and municipalities, and capital revenue. Tax revenues have been decreasing widely since 2003, and local governments have a very limited fiscal capacity. Non budget revenues also consists of funding from international organizations and donations from citizens and enterprises. The Integrated Budget Law (IBL) of Mongolia that came into effect in 2013 is the first law that specifically prescribes public consultations and inputs to government budget-related decision-making.

**TAX REVENUE.** Local councils' main taxes include the property tax, personal income tax (PIT) and levies (local taxes on business activities, such as the grain levy for farmers). Local governments have little autonomy on their tax revenues, as any change to tax rates or base requires the approval of central authorities. The capital-city Ulaanbaatar benefits from additional local taxes such as the Capital city tax, user fees and land and real estate transfer taxes, on which they may have some flexibility and autonomy. Other smaller fiscal revenues may include for instance the pole levy (charged on electricity poles), charcoal levy, bicycle levy, etc.

**GRANTS AND SUBSIDIES.** Local governments in Mongolia are dependent upon transfer from the central government, which constituted close to 60% of their revenues in 2013. The Integrated Budget Law also introduced in 2013 the Local Development Fund (LDF), monetary assistance provided directly to local governments for projects that improve the living standards of local residents.

**OTHER REVENUES.** Other revenues for local councils include user charges (such as market fees, transport fees, refuse collection fees, etc), licenses (business permits), and various charges for registration (fire registration, marriage registration, etc).

| OUTSTANDING DEBT        | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 1.8%  | 3.8%                 |

According to the Local Government Act, local councils are able to borrow in order to finance their expenditures. All local long term loans are acquired through the Ministry of Finance and National Planning. However, they are not allowed to borrow internationally. In the case of Ulaanbaatar, the capital city is allowed to borrow since 2011, but remains obstructed to do so because the debt limit of 56% of GDP has already been reached at the national level. To counter this limit, the city has created a SPV, the Ulaanbaatar Development Corporation (UBDC), to be able to contract with private sector to fund investments.

A joint study of:



Sources: <http://www.mlgh.gov.zm> • A. Lkhagvadorj (2010), Fiscal Federalism and Decentralization in Mongolia • 2013 Mongolian integrated budget performance outcome statement • P. Blunt (2013), Rural Mongolia's Early Experience with local Development Fund Utilisation under the Integrated Budget law: Findings and Recommendations • UCLG Committee on Local Finance (2016), The conditions for mobilizing sustainable local resources, case study of Ulaanbaatar • Ulan Bator Economic Development Agency.



# NEW ZEALAND

UNITARY COUNTRY

ASIA PACIFIC

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **HIGH INCOME: OECD** Local currency - **New Zealand Dollar (NZD)**

### POPULATION AND GEOGRAPHY

AREA: **264 944** km<sup>2</sup>

POPULATION: **4.534** million inhabitants (2014),  
an increase of 1.0% per year (2010-2014)

DENSITY: **17** inhabitants/km<sup>2</sup>

URBAN POPULATION: **86.3%** of national population

CAPITAL CITY: **Wellington** (8.4% of national population)

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

### ECONOMIC DATA

GDP: **169.9** billion (current PPP international dollars)  
i.e. 37 477 dollars per inhabitant (2014)

REAL GDP GROWTH: **3.0%** (2014 vs 2013)

UNEMPLOYMENT RATE: **5.8%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **4 454** (BoP, current  
USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **24%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.913** (very high), **rank 9**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|--|--------------------|-------------------------|----------------------|
| <b>67</b>  | <b>-</b>           | <b>11</b>               | <b>78</b>            |
| TERRITORIAL AUTHORITIES<br>AVERAGE MUNICIPAL SIZE:<br>68 590 INHABITANTS |                    | REGIONAL COUNCILS       |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** New Zealand is a unitary country with a two-tier system of local government, composed of 11 regional councils and 67 territorial authorities, including 11 city councils, 50 district councils and 6 unitary councils (territorial authorities with regional council responsibilities). This organisation results from a major territorial reform which took place in 1989 which consolidated a fragmented and disparate local government sector (800 old historical structures, including around 200 local authorities with different statuses and numerous elected "special purpose bodies"). The reform also created a sub-municipal level of community or local boards, also elected and operating in both urban and rural areas, to carry out functions delegated to them by their councils (116 community boards and 21 local boards). In 2010, a new territorial reform merged eight independent municipalities into the new Auckland Council.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The Local Government Act 2002 redefined SNG responsibilities and greatly increased their autonomy regarding the activities they undertake, by providing them with a general power of competence. As SNG activities are approved through consultation with their communities, they can differ widely from one council to another. The 2002 LGA was amended in 2014, in line with the Better Local Government New Zealand reform with the aim, among others, to clarify responsibilities between regional councils and territorial authorities. Regional council responsibilities include resource management, flood control, air and water quality, pest control, public transport, regional parks, water supply, etc. Municipal responsibilities include local roads, water supply and sewerage, waste, culture (libraries, museums, etc.), parks, recreation services and sport, local regulations, community and economic development, tourism, town planning, social housing, etc.

## SUBNATIONAL GOVERNMENT FINANCE

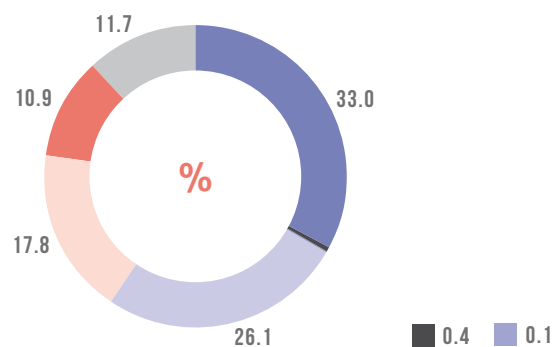
| EXPENDITURE              | % GDP | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|--------------------------|-------|---|-----------------------------|
| TOTAL EXPENDITURE (2013) | 4.6%  | 11.3%   | 100%                        |
| CURRENT EXPENDITURE      | 3.0%  | -   | 64.8%                       |
| STAFF EXPENDITURE        | 0.8%  | 8.6%  | 17.9%                       |
| INVESTMENT               | 1.5%  | 39.6%   | 33.7%                       |

New Zealand is among the most centralised countries in the OECD with regard to spending responsibilities. SNG expenditure share in GDP and public expenditure is well below the OECD average for unitary countries (13% of GDP and 29% of public spending), close to countries such as Chile, Greece, Ireland, Luxembourg or Turkey. However, SNGs enjoy a certain level of autonomy in terms of spending. The level of staff spending is particularly low, SNGs having no responsibilities involving major human resources such as education, social protection or health. SNGs play a significant role in public investment, especially compared to their low level of spending decentralisation. One-third of SNG expenditure is dedicated to investment (roads, transport, and utilities).



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



Main categories of SNG spending include general public services, economic affairs and transport, environmental protection (waste and waste water), recreation and culture as well as housing and community amenities (including water distribution). SNGs play no role in healthcare, education or social protection.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 4.1%  | 10.3%   | 100%                     |
| TAX REVENUE          | 2.2%  | 6.9%  | 52.4%                    |
| GRANTS AND SUBSIDIES | 1.0%  | -   | 23.8%                    |
| OTHER REVENUES       | 1.0%  | -   | 23.8%                    |

While being a centralised country regarding the share of SNG in public spending and revenue, SNGs enjoy a certain level of autonomy in terms of revenue. More than half of their revenue comes from taxation over which they have great autonomy.

**TAX REVENUE.** SNG tax revenue comes most exclusively from a single tax, property tax (88% of SNG tax revenue and 1.9% of GDP). Although rates on property are the primary source of income for both regional councils and territorial authorities, the percentage of income from rates can vary substantially between councils. SNGs have a large degree of discretion over tax. Councils have a wide range of choices in how they apply that tax, as it can take the form of general rates (based on the land, capital or rental value of a property), targeted rates (calculated based on a particular feature of a property and used to fund a specific service) or uniform annual general charges (UAGC i.e. a standard cost per property, unrelated to property value). There are also water rates, some councils metering water consumption and charging accordingly. Other minor tax revenues include a small share of the fuel tax collected by oil companies and redistributed to city and district councils.

**GRANTS AND SUBSIDIES.** The main source of central government transfers is the local government share of road taxes. Local roads are jointly funded by local and central governments, through the New Zealand Transport Agency. The National Land Transport Fund covers an average of 53% of the cost of all local transport programmes. SNGs may receive co-funding of up to 75% of the costs of a given project. Development contributions (around 2% of SNG revenue) are contributions that councils require from developers as part of granting consent for development in order that developers bear the costs of new infrastructure (roads, water and wastewater infrastructure, and community facilities). Half of grants and subsidies are for capital expenditure.

**OTHER REVENUES.** Other sources of SNG revenue are high and diverse, including service charges and fees (swimming pool charges, parking fines and infringements, regulatory services fees for example for issuing permits and licences or undertaking inspections i.e. 19% of local revenue) and property income (interest earned from investments and dividends, i.e. 5% of local revenue). The latter is an important source of income for regional councils, which may have significant profitable assets, such as ports.

## OUTSTANDING DEBT

### % GDP

### % GENERAL GOVERNMENT

#### OUTSTANDING DEBT (2013)

5.6

-

According to the 2002 LGA, SNGs must set financial strategies based upon quantified limits on rates, rate increases and borrowing. As councils traditionally borrow to fund capital-expenditure programs, they must adopt "revenue and financing" stipulating the funding of capital expenditure as well as "liability management" policies setting approached to interest rate exposure, liquidity, credit exposure and debt repayment. New financial prudence requirements were introduced by the Local Government (Financial Reporting and Prudence) Regulations 2011 and 2014. The Local Government Funding Agency (LGFA) was created in 2011 under the initiative of local and central governments. This is a debt vehicle which regroups around 50 member councils to raise bonds on financial markets and lend to their members at competitive interest rates.

A joint- study of:



**Sources:** • OECD National Accounts Statistics • Statistics New Zealand (COFOG) • OECD (2015 and 2016) Subnational Governments in OECD Countries : Key data • Chatry I., Hulbert C. (2016) "Multi-level governance reforms: Overview of OECD country experiences" OECD publishing • Department of Internal Affairs of New Zealand (2015), Local government in New Zealand, <http://www.localcouncils.govt.nz/lqip.nsf> • Local Government New Zealand (2015), Local Government Funding Review • Reid Michael (2015) Decentralisation does the New Zealand local government system measure up?, Policy Quarterly, Institute for Governance and Policy Studies (VUW), Victoria University of Wellington.



# PHILIPPINES

UNITARY COUNTRY

ASIA PACIFIC

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOWER MIDDLE INCOME** Local currency - **Philippine peso (PHP)**

### POPULATION AND GEOGRAPHY

AREA: **300 000** km<sup>2</sup>

POPULATION: **101.803** million inhabitants (2014), an increase of 1.6% per year (2010-2014)

DENSITY: **339** inhabitants/km<sup>2</sup>

URBAN POPULATION: **44.4%** of national population

CAPITAL CITY: **Manilla** (12.5% of national population)

Sources: World Bank Development Indicators, UNDP-HDR, ILO

### ECONOMIC DATA

GDP: **690.9** billion (current PPP international dollars)  
i.e. 6 969 dollars per inhabitant (2014)

REAL GDP GROWTH: **6.1%** (2014 vs 2013)

UNEMPLOYMENT RATE: **6.6%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **6 202** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **20.9%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.668** (medium), **rank 115**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL                                 | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|---|--|-------------------------|----------------------|
| <b>42 028</b><br>VILLAGES<br>(BARANGAYS)<br>AVERAGE MUNICIPAL SIZE:<br><b>2 359 INHABITANTS</b> | <b>1 594</b><br>1 489 MUNICIPALITIES<br>105 CITIES | <b>81</b><br>PROVINCES  | <b>43 703</b>        |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** The Philippines is a unitary country with a highly decentralized system of government. As of 2015, the government system is made of three tiers of decentralization: 81 provinces, 1489 municipalities and 105 cities, and 42 028 barangays. The province is the highest tier of local governance, and is made up of a cluster of municipalities and/or cities. Some cities are considered as highly urbanized cities, which are independent from the province. Municipalities and cities are made of barangay, or villages, which is the lowest tier of decentralization. In addition to these jurisdictions, the Philippines also comprises the Autonomous Region of Muslim Mindanao. All local chief executives and bodies are directly elected by the population, and Decentralization has been enshrined in the 1987 Constitution and guarantees the local governments autonomy, as legal and regulatory provisions for the local governments operating framework has been set by the 1991 Local Government Code. LGUs autonomy is combined with a supervision of higher level of government, especially regarding the budget approval process and LGUs legal accountability.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** According to the Constitution and to the local government code, LGUs are mainly responsible for basic public services provision. Provinces are mostly responsible for competences that imply inter-municipal services provision, e.g. tertiary health care services and maintenance of hospital covering several municipalities; social housing; social welfare services; etc. Municipalities and barangay have been assigned with proximity services as primary health care; primary school building and maintenance; waste collection; or cultural centres. Due to their importance cities are responsible for both inter-municipal and municipal competences. Nevertheless, despite the specifications enclosed into the local governments code in terms of devolution of powers, other public agencies can also provide public services, public works or infrastructure that are insufficiently provided for by LGUs. This situation frequently induces overlapping of competences between the different actors of local public service provision.

## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP        | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|--------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>12.3%</b> | <b>16.2%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | 11.3%        | -   | 92.1%                       |
| <b>STAFF EXPENDITURE</b>        | -            | -   | -                           |
| <b>INVESTMENT</b>               | -            | -   | -                           |

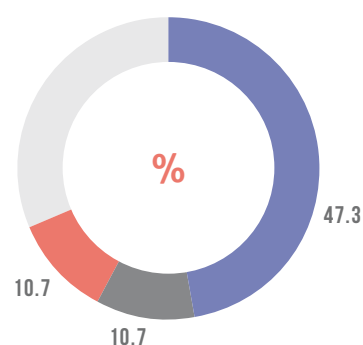
The share of LGUs expenditures in total GDP rose to 12.3% in 2013. It confirms that many devolved competences continue to be shared with the central government in a significant way.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

■ GENERAL PUBLIC SERVICES  
■ SOCIAL SERVICES  
■ ECONOMIC SERVICES



Most local expenditures are dedicated to general public services expenditures, which includes general administration costs for the most part, public order and safety spendings, and subsidies to other levels of government. Social services category is covering education and culture, health, social security and housing. Economic affairs refers to agriculture, natural resources and environmental management, tourism, trade, communications, etc., which are for a significant part under the realm of provincial and cities decentralized functions.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL<br>GOVERNMENT |
|----------------------|-------|---|-----------------------------|
| TOTAL REVENUE (2013) | 14.8% | 22.7%   | 100%                        |
| TAX REVENUE          | 3.6%  | 6.3%  | 24.7%                       |
| GRANTS AND SUBSIDIES | 9.6%  | -   | 65.3%                       |
| OTHER REVENUES       | 1.5%  | -   | 10.0%                       |

Despite a share of local governments revenues in GDP that has grown over the last years to reach almost 15%, the proportion of total revenues collected by local governments in the Philippines is relatively small. Moreover, the majority of LGUs revenues is structured around intergovernmental transfers and shared revenues from national tax collection. Thus it could be considered that LGUs financial autonomy is limited by this framework, even if differences exist between the different categories of local governments.

**TAX REVENUE.** Principal LGUs tax revenue includes basic real property tax (42.8% of tax revenues in 2013), business tax (51.3%), and a few other local tax such as the special education tax. Provinces and cities have to share some of their revenues with the municipalities and barangays and are restricted on the set of taxes they can collect.

**GRANTS AND SUBSIDIES.** In addition to this local taxes, local governments also receive a share of national tax collection through a formula-based grant, the Internal Revenue Allotment – IRA, which varies according to the type of local government: 23% to provinces, 23% to cities, 34% to municipalities and 20% to Barangays. The IRA is calculated according population, land area and equal sharing formula. The intergovernmental transfer system also includes shares from government corporations (PAGCOR/PCSO), ECOZONE, EVAT, and tobacco and excise tax. Shared taxation represents the major part of overall LGUs revenues (between 75% and 85%). LGUs may also receive inter-local transfers, extraordinary resources, grants and donations, although this type of revenues remains a very small part of total revenues.

**OTHER REVENUES.** Other revenues include regulatory fees; receipts from economic enterprises, and diverse fees and charges.

## OUTSTANDING DEBT

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

LGUs can access borrowing, through government operated mechanisms, to finance local infrastructures based on the approved local development plan and public investment program, and local debt shall not exceed 20% of the regular income of the local government unit concerned. The Bureau of Local Government Finance BLGF certifies debts service ceiling and net borrowing capacity of LGUs.

A joint- study of:



**Sources:** P.Smoke (2015), Decentralization in Philippines, Quality Support Facilities in the field of decentralization, Local Governance & Local Development, The European Union's ADM multi-programme • Department of Budget and Management, on [http://www.dbm.gov.ph/?page\\_id=10197](http://www.dbm.gov.ph/?page_id=10197) • UN-Habitat (2011), Fiscal decentralization in Philippines, The Global Urban Economic Dialogue Series, Nairobi • Local Taxation and Revenue Practices (2015), Philippine Bureau of Local Government Finance (BLGF), Department of Finance, available on <http://blgf.gov.ph/>



# THAILAND

UNITARY COUNTRY

ASIA PACIFIC

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **UPPER MIDDLE INCOME** Local currency - **Thai baht (THB)**

### POPULATION AND GEOGRAPHY

AREA: **513 120** km<sup>2</sup>

POPULATION: **67.723** million inhabitants (2014),  
an increase of 0.4% per year (2010-2014)

DENSITY: **132** inhabitants/km<sup>2</sup>

URBAN POPULATION: **50.4%** of national population

CAPITAL CITY: **Bangkok** (13.4% of national population)

Sources: World Bank Development Indicators, UNDP-HCR, ILO

### ECONOMIC DATA

GDP: **964.5** billion (current PPP international dollars)  
i.e. 14 242 dollars per inhabitant (2014)

REAL GDP GROWTH: **0.9%** (2014 vs 2013)

UNEMPLOYMENT RATE: **0.8%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **3 719** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **24.1%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.726** (high), rank **93**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL  | REGIONAL OR STATE LEVEL   | TOTAL NUMBER OF SNGs |
|---|---|---|----------------------|
| <b>2 232</b>  | <b>209</b>  | <b>76</b>   | <b>2 517</b>         |
| SUB-DISTRICT MUNICIPALITIES<br>AVERAGE MUNICIPAL SIZE:<br><b>30 341</b> INHABITANTS | 30 CITY MUNICIPALITIES<br>178 TOWN MUNICIPALITIES<br>PATTAYA CITY COUNCIL | 75 PROVINCES<br>(PAO -CHANGWAT)<br>+ METROPOLITAN CITY OF BANGKOK |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** The Kingdom of Thailand Is a unitary country with a strong tradition of centralization. Thailand's sub-national administrative structure is organized into a dual system of local administration (decentralized) and local autonomous self-government (decentralized). The local administration consists in 75 deconcentrated entities or Provinces - Changwat, with a governor and head officials appointed directly by the Ministry of Interior. These Provinces are divided into districts and subdivided into sub-districts. Local autonomous governments have both directly elected councils and mayors at their head. However, they still placed under the control and supervision of provincial governors, district officers and the Minister of the Interior, who all along have the authority to approve their annual budget plans and local regulations, dissolve local councils, and dismiss local councilors. They consist in three types of municipalities: City municipalities (over 50 000 inhabitants), town municipalities and sub-district municipalities. Thailand local governments system also comprises two special status cities: Bangkok autonomous local government and Pattaya City, according to the Municipal Act of 1953, the Pattaya City Administrative Organization Act of 1999, and the Bangkok Metropolitan Administration Act of 1985. The 2007 constitution, supported by the 1999 legislation, states for the key principles of decentralization and guarantees local governments autonomy especially in matter of policy formulation, administration, finance and human resources management. A draft for a new Constitution has been completed in April 2016, following the 2014 coup, and is to be implemented within the following months.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The 2007 constitution states for a strict delineation of responsibilities and taxation resources between central and local governments and among local authorities, without setting the outlines of this division. Division of responsibilities is thus defined in the 1999 Decentralization Plan and Procedure Act. According to this text first level governments and Pattaya are responsible for a number functions including city planning ; transportation ; social welfare service and protection of the vulnerable ; maintenance of public infrastructures (markets, transportation means, ports) and public spaces ; education ; environment protection and natural resources management ; public security. The city of Bangkok has the same responsibilities as the Provinces and is responsible for the implementation of local development plan and coordination between local authorities in its area ; liquid and solid waste management ; inter-municipal transportation means and infrastructures ; commerce and tourism ; local culture, arts and traditions protection and promotion.

## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>3.9%</b> | <b>17.7%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | <b>2.3%</b> | <b>-</b>  | <b>60.4%</b>                |
| <b>STAFF EXPENDITURE</b>        | <b>1.0%</b> | <b>15.8%</b>  | <b>26.8%</b>                |
| <b>INVESTMENT</b>               | <b>1.5%</b> | <b>49.8%</b>  | <b>39.6%</b>                |

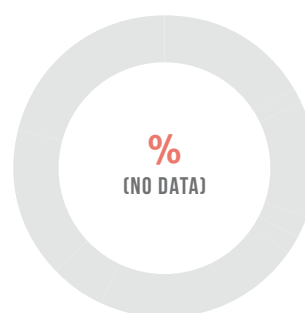
As Thailand's growth rate since the global financial crisis has fallen behind those of its neighbors and below its pre-crisis performance, public investment has been weakened over the last years. In addition, political turbulence contributed to the drop of spendings at least until 2015. Local investments are thus low in terms of GDP's share.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



Most of the local spendings is dedicated to operating budget as around 40% of local expenditure is centrally mandated, with the largest proportion going through administrative costs such as personnel expense.

| REVENUE BY TYPE                | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL<br>GOVERNMENT |
|--------------------------------|-------|---|-----------------------------|
| TOTAL REVENUE (2013)           | 4.2%  | 18.7%   | 100%                        |
| "REGIONALLY-GENERATED" REVENUE | 1.4%  | 7.6%  | 34.2%                       |
| GRANTS AND SUBSIDIES           | 2.6%  | -   | 63.3%                       |
| OTHER REVENUES                 | 0.1%  | -   | 2.5%                        |

Local public sector revenues have been impacted as the country's fiscal position is still weakened by this slowdown economy. However, the share of local revenues into general governments revenue has grown constantly since the implementation of the decentralisation plan and now represents almost 20% of the general government income, and more than 4% as a share of GDP.

**TAX REVENUE.** Local governments in Thailand can perceive both shared and own taxes. Subnational authorities can get a share of 1/9th of the VAT collected in its province ; an additional 10% collected by the State on the specific business tax ; an additional 10% collected on excise and alcohol tax; full amount collected on real estate registration ; as well as a part of mineral and petroleum tax. Along with this shared taxes income, local governments collect property and building tax, a local development tax which base is set on the median of appraisal value of occupied land ;and signage tax (depending on language and size of advertisement signages).

**GRANTS AND SUBSIDIES.** Local governments receive both general operation grants and block sectorial grants dedicated to the enhancement of a specific public service provision. According to the decentralization Act of 1999, the grant must serve as an equalizer to ensure that the subnational government revenue represents no less than 25% of national government net revenue. 94,1% of the grants are current grants, and 5,9% are capital grants.

**OTHER REVENUES.** Other local governments revenues include duty and fees such as animal slaughtering duty and animal butchering, waste collection fees, driving licenses deliverance, and building permit deliverance.

| OUTSTANDING DEBT        | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 3.7%  | 7.8%                 |

Local governments have the possibility to borrow to implement three main types of projects: (1) Purchase of land and/or construction of governmental buildings, (2) Projects to improve and/or develop infrastructure, and (3) Purchase of durable goods. Until 1997, local governments were restrained to borrow from the Local Development Fund, which is controlled by the Ministry of Interior who gives approbation for the amount of deficit a local government can carry. With the local governments being authorized to contract debt from financial institution with approval granted by the provincial governor, local borrowing increased significantly, before to be slow down after 2011 with the implementation of a new approval process implying the Ministry of Interior.

A joint- study of:



**Sources:** IMF-GFS database ; • Department of Local Administration, Decentralisation plan and procedure act of 1999 • Phichitchai Kingphuang (2013), The system of Local Government Borrowing: Case study of Uttaradit • Bureau of Tax Policy : Fiscal Policy Office • S. Amornvivat (2004), Fiscal decentralization: The case of Thailand, Thailand Ministry of Finance • UCLG Country profiles and Study on Decentralization (2010) • Nagai, Mektrairat, Funatsu (2008), Local Government in Thailand—Analysis of the Local Administrative Organization Survey—, Joint research program series n°147, IDE-JETRO



# VIETNAM

UNITARY COUNTRY

## ASIA PACIFIC

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOWER MIDDLE INCOME** Local currency - **Vietnamese dong (VND)**

#### POPULATION AND GEOGRAPHY

AREA: **331 041** km<sup>2</sup>

POPULATION: **93.387** million inhabitants (2014),  
an increase of 0.95% per year (2010-2014)

DENSITY: **289** inhabitants/km<sup>2</sup>

URBAN POPULATION: **33.6%** of national population

CAPITAL CITY: **Ha Noi** (3.72% of national population)

Sources: World Bank World Development Indicators, UN World Urbanisation Prospects, ILO

#### ECONOMIC DATA

GDP: **510.7** billion (current PPP international dollars)  
i.e. 5 629 dollars per inhabitant (2014)

REAL GDP GROWTH: **6%** (2014 vs 2013)

UNEMPLOYMENT RATE: **1.9%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **9 200** (BoP, current  
USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **27%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.666** (medium), **rank 116**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL                                     | INTERMEDIATE LEVEL          | REGIONAL OR STATE LEVEL                      | TOTAL NUMBER OF SNGs |
|---|-----------------------------|--|----------------------|
| <b>11 145</b>                                       | <b>700</b>                  | <b>64</b>                                    | <b>11 909</b>        |
| COMMUNITIES   | DISTRICTS<br>(CITIES/TOWNS) | PROVINCIAL LEVEL<br>(INCL. 5 CITY-PROVINCES) |                      |
| AVERAGE MUNICIPAL SIZE:<br><b>8 379 INHABITANTS</b> |                             |  |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Viet Nam is a unitary country; local government system was established in 1945, and subnational levels are part of national governments. Vietnamese provinces, districts and communes are governed by People's Council and the Executive People's Committee since 2003 (regarding authority of budgeting levels in deciding budgeting issues). In addition to the 58 Provinces, 5 Municipalities are centrally-run. This committee has a provincial planning department in charge of coordination between levels of government. The country is working on a project of regionalization that would divide the country into 3 regions, but the creation of concrete regional governments was rejected in 2013.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The 1996 State Budget Law (SBL) established clear and generally sound "rules of the game" for resource allocation and resource use. A revised State Budget Law was approved by the National Assembly in December 2002 that allocates more responsibility to provinces and promotes more transparency through an enforcement mechanism to make communes post their budgets outside offices. Yet, the nested budgeting system complicates budget preparation and monitoring. The repartition of competences is not very clear, with some local responsibilities that are still being exercised by the central level, or some that are not being compensated with adequate financial resources.

### SUBNATIONAL GOVERNMENT FINANCE

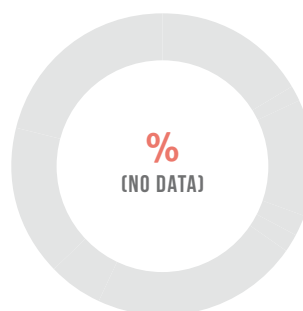
| EXPENDITURE                     | % GDP        | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|--------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>19.9%</b> | <b>54.3%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | 9.4%         | -   | 47.4%                       |
| <b>STAFF EXPENDITURE</b>        | 3.2%         | 89.8%   | 16.0%                       |
| <b>INVESTMENT</b>               | 5.5%         | 73.9%   | 27.8%                       |

Vietnamese provinces assign local functions, and can themselves spend on responsibilities not reserved to the central level, while the norms are still set by the central government. In 2012, around 54.3% of public spending was done at the subnational level. Subnational governments were responsible of 73.92% of capital expenditures, and 89.8% of staff expenditures, while local staff are selected upon central government's approval.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



According to SBL 2002 Art.33, local expenditures include development investment, recurrent expenditures and payments for the principal, and interest that shall be mobilized for investment at lower-level budgets. However, decentralization is still unclear, and most expenditures assignments are concurrent. There are an additional variety of expenditures specified for commune levels in Art34, and over-detailed regulations on minimum allocation to certain areas (e.g., no less than 20% of total spending on education) have constraining impact on local governments' autonomy.

| REVENUE BY TYPE                | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|--------------------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013)           | 19.7% | 55.3%   | 100.0%                   |
| "REGIONALLY-GENERATED" REVENUE | 7.8%  | 38.7%   | 39.9%                    |
| GRANTS AND SUBSIDIES           | 6.6%  | -   | 33.4%                    |
| OTHER REVENUES                 | 5.2%  | -   | 26.7%                    |

The Provincial People's Council decides revenue sources for each budgeting levels of the local governments. Vietnamese LGs have three main sources of revenue:

- Revenue retained 100% by local authorities, such as taxes and fees related to lands, local fees and charges...
- Revenue shared between local authorities and central government, such as VAT (except on imports), CIT (except on enterprises with uniform accounting) or PIT; excise tax on domestic goods...
- Transfers from upper levels of government.

Shared revenues constitute the bulk of revenues at all levels.

**TAX REVENUE.** Local own revenues are made of small taxes and fees, including land and housing taxes; yet, tax base and rates are set by the National Assembly. Shared taxes include the value-added tax, enterprise (corporate) income tax, personal income tax, special consumption taxes, gasoline and oil fees, environmental protection tax, special consumption tax on domestic goods and services. There is one state budget for all levels of government. Revenue sharing is defined according to a "sharing rate" defined for 3 to 5 years Stability Period. In the period 2011-2015, among all the provinces, 13 kept a portion of shared taxes, and 50 provinces retained 100% of the shared taxes collected within their jurisdiction.

**GRANTS AND SUBSIDIES.** There are two types of intergovernmental transfers: balancing transfers (48% of total transfers in 2012), and targeted transfers (52%) to implement specific National priorities. Balancing transfers are kept constant during the 5-years Stability period, without taking into account inflation. On the other hand, targeted transfers lack predictability and linkage with local needs of funding.

**OTHER REVENUES.** Local authorities have limited powers in setting fees and charges within the ceiling set by the central authorities. Law on fees and charges is under discussion and it is expected that more power will be given to local authorities.

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

Local governments are legally allowed to mobilize capital through issuing local government bonds and from other legal borrowing, but in practice this is very limited, depending upon central government approval and unclear regulations. They are allowed to borrow (but regulations on local deficit are not mentioned) up to 30% of their capital budget (increased to 150% for HCMC and 100% for Hanoi). Borrowing cannot cover the debt service of local governments.

A joint- study of:



Sources: Ministry of Finance • Ministry of Interior • National Institute for Finance (2015), Fiscal decentralization and local budget management in Vietnam • SBL 2002 Art.32 • World Bank (2013), Assessment of the financing framework for municipal infrastructure in Vietnam • P. Smoke (2015), Quality support facilities in the field of decentralization, local governance and local development, Overview of the Asia Decentralization Case Studies



# REPUBLIC OF ALBANIA

UNITARY COUNTRY

EURO-ASIA

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - UPPER MIDDLE INCOME Local currency - Albanian lek (ALL)

### POPULATION AND GEOGRAPHY

AREA: **28 750** km<sup>2</sup>

POPULATION: **3.2** million inhabitants (2014),  
an increase of 0.30 % per year (2010-2014)

DENSITY: **111** inhabitants/km<sup>2</sup>

URBAN POPULATION: **57.4%** of national population

CAPITAL CITY: **Tirana** (13.9 % of national population)

Sources : World Bank Development Indicators, IMF-GFS, UNDP-HDR, ILO

### ECONOMIC DATA

GDP: **32.2** billion (current PPP international dollars)  
i.e. 10 057 dollars per inhabitant (2014)

REAL GDP GROWTH: **2.17%** (2014 vs 2013)

UNEMPLOYMENT RATE: **17.5 %** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **1 149** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **25%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.733** (high), rank 85

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL        | TOTAL NUMBER OF SNGs |
|---|--------------------|--------------------------------|----------------------|
| <b>61</b><br>MUNICIPALITIES (BASHKITË) AND<br>COMMUNES (KOMUNË)<br>AVERAGE MUNICIPAL SIZE:<br><b>52 459 INHABITANTS</b> | <b>-</b>           | <b>12</b><br>REGIONS<br>(QARK) | <b>73</b>            |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** The Republic of Albania is a unitary country, divided into 12 regions (*Qark*), with limited role, and 61 urban and rural municipalities (*bashkitë* and *komunë*). Following its application for EU membership, the Republic of Albania launched a new initiative to further the decentralization and reform the country's territorial organization in 2011. In 2014, the Law No. 115/2014 "On Administrative-Territorial Division of the Local Government Units in the Republic of Albania" reduced the number of local governments' unites from 373 to 61. The communes and municipalities to be eliminated after this division function as constituent administrative units of the new municipalities. Future objectives are (1) administrative and financial consolidation of the municipalities and institutional and (2) infrastructure support to the 12 regions and 61 new municipalities.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Local governments' autonomy has been consecrated by the decentralization laws. According to this principle and legislation, their competences and resources are clearly defined in coherence with a prevailing subsidiarity principle. Local governments have few social sector responsibilities. They share responsibilities with the central government on matters such as social services, health care and education. Their own competences are : infrastructure, water supply and sewerage, cleaning and waste removal.

## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE              | % GDP | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|--------------------------|-------|---|-----------------------------|
| TOTAL EXPENDITURE (2013) | 4.1%  | 14.6%   | 100%                        |
| CURRENT EXPENDITURE      | 3.1%  | -   | 75.7%                       |
| STAFF EXPENDITURE        | 0.9%  | 12.9%   | 22.4%                       |
| INVESTMENT               | 1.0%  | 23.0%   | 24.3%                       |

Despite the progresses allowed by the decentralization reform, the fiscal autonomy of local governments has regressed over the past years, and the relative weight of local budget expenditures in the state budget remains relatively low. Investment is a key function of SNGs representing 24.3% of their expenditure, yet the share of local investment in public investment, at 23.0%, remains below the EU average.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



In 2013, most of the budget were dedicated to operating expenditures: the primary sector of SNG spending are social protection and general public services. However they do spend very limited or none resources on health, environmental protection, recreation and culture, and education.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 3.7%  | 15.5%   | 100%                     |
| TAX REVENUE          | 0.6%  | 3.5%  | 16.5%                    |
| GRANTS AND SUBSIDIES | 2.8%  | -   | 76.5%                    |
| OTHER REVENUES       | 0.3%  | -   | 7.1%                     |

Local governments revenues are divided between grants (conditionnal and unconditional national transfers) for the most part, and own revenues. The concept of unconditional transfer for local governments was adopted in the State Budget Law of 2001, and developed further with the - fiscal reform package adopted by Parliament in December 2002 that increased the autonomy of municipalities and communes to generate revenues from local taxes and fees and determine their rates. Albania has the smallest local government sector in terms of public revenues of the NALAs region.

**TAX REVENUE.** Own tax revenues include property tax, small business tax and other local taxes. According to the ongoing decentralization reform, small business tax shall be assessed, collected, controlled, gathered and transferred to the accounts of the local government budget by the General Directorate of Taxes through its regional departments. The basis of taxation and the calculation key of the taxes are specifically listed in the law, as well as judicial remedies available for contributors. Yet for now 60% of local government taxes revenue comes from income tax for small business, and 40% from local taxes and tax on property (buildings). Albanian LGU's are also, according to Albania's Organic Law, able to receive shared taxes : 18% of the taxes on motor vehicles, but in 2013 this resource has been greatly reduced, and has not been implemented yet.

**GRANTS AND SUBSIDIES.** Grants and subsidies represent in total up to 76.5% of subnational revenues in 2013. The share of unconditional transfers increased with the decentralization reform and almost doubled to reach 46% of LGU's revenues in 2012. However, this progress has been hampered by the difficulties encountered to redefine the formula used to allocate the grant. Competitive grants were also introduced in 2006 as a mechanism to increase performance and objectivity in funding local government investments. In 2010, the Regional Development Fund was established to manage these conditional grants.

**OTHER REVENUES.** In addition to these taxes, local governments can collect fees and charges for public services. Revenues from local fees have grown extremely rapidly, almost doubling since 2005 and representing more than 16 percent of own-source revenues in 2014.

| OUTSTANDING DEBT        | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 1.6%  | 2.3%                 |

Local borrowing appears to be very low in Albania, as the Ministry of finance imposes limitations, and due to the country national level of public debt, which exceeded 70% of GDP in late 2013.

A joint- study of:



**Sources:** IMF-GFS • Law no. 9632/2006 • Law no. 9896/2008 on local governments' borrowing • Ministry of finance and USAID • Ministry of local government (2014), Analysis on the local government situation in Albania • The National Crosscutting Strategy for Decentralization and Local Governance (NCSDLG) 2015-2020 • Open data Albania • Law no. 181/2013 available on <http://www.reformaterritoriale.al/en/> • Network of Associations of Local Authorities of South-East Europe (2016), Fiscal Decentralization Indicators for South-East Europe: 2006-2014



# ARMENIA

UNITARY COUNTRY

EURO-ASIA

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - LOWER MIDDLE INCOME Local currency - Armenian Dram (AMD)

### POPULATION AND GEOGRAPHY

AREA: **29 740** km<sup>2</sup>

POPULATION: **2.989** million inhabitants (2014),  
an increase of 0,4% per year (2010-2014)

DENSITY: **101** inhabitants/km<sup>2</sup>

URBAN POPULATION: **62.7%** of national population

CAPITAL CITY: **Yerevan** (35.1% of national population)

Sources: IMF, World Bank Development Indicators, UNDP-HDI,ILO

### ECONOMIC DATA

GDP: **24.3** billion (current PPP international dollars)  
i.e. 8 115 dollars per inhabitant (2014)

REAL GDP GROWTH: **3.5 %** (2014 vs 2013)

UNEMPLOYMENT RATE: **16.2 %** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **404** (BoP, current USD  
millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **21%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.733** (high), rank **85**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|---|--------------------|-------------------------|----------------------|
| <b>915</b><br>COMMUNITIES<br>("HAMAYNQ")<br>(49 CITIES AND 866 VILLAGES)<br><br>AVERAGE MUNICIPAL SIZE:<br><b>3 266 INHABITANTS</b> | -                  | -                       | <b>915</b>           |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Armenia is a unitary country with a one-tier decentralization system, as the 10 regions are deconcentrated entities under the authority of central government. Local governments were established in 1996. The only level of devolution consists of 915 communities divided into 49 cities (urban centers) and 866 villages (rural settlements). The Capital-city has switched from region to specific community-status in 2015, and is made of 12 districts. Armenia ratified the European Charter on Local Self Government in 2001, and since then the country has made significant efforts to implement the provisions of the Charter. Constitutional changes has been made in 2005 and followed up by the adoption of the Law on Local Self-Government of Yerevan in 2008. Since 2013 the Ministry of Territorial Administration has initiated Community Enlargement process, aiming to promote mergers of small municipalities, and to minimize disparities between the regions of Armenia and the capital Yerevan.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Functions of local self-government bodies are stipulated by the "Law on local self-government" and divided into own competences (divided into mandatory and optional ones) and delegated competences. Some state functions can also be transferred as delegated competences. Although legislation provides that municipalities are responsible for matters that are of a local interest, there is no clear definition of local authorities' competences and delegated powers. Most local services are managed by the central level. Despite the great variety of communities' sizes, population and levels of development they all have the same responsibilities, resulting for many small-size municipalities in limited service delivery capacity.

## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2012)</b> | <b>2.1%</b> | <b>8.9%</b>   | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | 1.9%        | -   | 87.2%                       |
| <b>STAFF EXPENDITURE</b>        | 0.4%        | 8.3%  | 18.8%                       |
| <b>INVESTMENT</b>               | 0.3%        | 8.4%  | 12.3%                       |

The share of local expenditures in the public expenditures reach 8.9% and 2.14% of the national GDP, way below the average of European Union countries. After a slow increase since the establishment of Armenian local governments systems, these ratio are stables since 2011.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



The share of municipal budgets in the expenses of the consolidated budget and GDP remains very small in 2012, and a large part of these expenditures are dedicated to municipalities operating budgets. The main sectors of expenditures are education (32%), general public services (24%), economic affairs (14%), environment (11%) and housing (9.9%).

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2012) | 2.1%  | 9.2%  | 100%                     |
| TAX REVENUE          | 0.4%  | 2.6%  | 21%                      |
| GRANTS AND SUBSIDIES | 1.1%  | -   | 51%                      |
| OTHER REVENUES       | 0.6%  | -   | 28%                      |

Local revenues are made of taxes, state duties, charges, transfers and other revenues such as land and property rent, but local governments do not have local fiscal autonomy. The share of local revenue compared to the national GDP remains very low, Armenian municipalities have limited resources and relies mostly on intergovernmental transfers, reaching half of local total revenues, which are not clearly regulated. Moreover, it must be noted that the capital-city accounts for more than half of the total local revenues.

**TAX REVENUE.** Municipalities main sources of local own revenues are property taxes and land taxes since the 2010 reform of tax law. Taxes rates are determined by the central government. Significant share of own revenues is attributed to property taxes from buildings, structures and vehicles. Local governments receive a share of environmental mandatory payments from the State. According to the law, local governments may also perceive shares from income tax and profit tax, but this is not yet effective in practice. Local self-government units can set tax reliefs for land tax and property tax up to 10% of planned local budget revenues of the year, including tax allowances and tax credits.

**GRANTS AND SUBSIDIES.** Around half of municipalities revenues are constituted by grants. The latter are divided between: equalization grants designed to compensate the new charges and expenditures implied by the devolution of powers ; targeted State subventions, mainly to the capital city Yerevan ; capital grants. Calculation criteria determining the equalisation mechanisms is not regularly reviewed, and does not comprise the real needs and expenditures specificities of municipalities.

**OTHER REVENUES.** Local charges and fees and other revenues make a large part of local revenues, as set and regulated by the separate law on local charges and fees. Local governments perceive user charges, from both delegated services (civic acts, notary services) and local services (charges for local transportation, construction, entertainment and lottery, etc). They also perceive local fees, and revenues from local property leasing. Within a given range, local community councils take the final decision of setting the charge/fee rates.

## OUTSTANDING DEBT

### % GDP

### % GENERAL GOVERNMENT

### OUTSTANDING DEBT (2012)

-

-

Armenian local governments may borrow only with prior approval of the state designated agency (Ministry of Territorial Administration and Emergency Situations). Credit expenditures cannot exceed 20% of total local budget. Communities can borrow only after paying back the previous loan and revenues can be allocated to the capital budget only. Yet, in practice, only a few communities have capacities to borrow, and the environment is not favorable for Armenian municipalities to issue bonds. On the other hand, local authorities may borrow from another municipality respectively when agreed with each other and state designated agency, but these loans are to be allocated to current expenditures.

A joint- study of:



Sources: IMF-GFS • Performance report of the Ministry of Territorial Administration, on [www.mta.gov.am](http://www.mta.gov.am) (2011) • Ministry of finance: <http://minfin.am/index.php?cat=206&lang=1> • Community finance officers association of Armenia • Congress of Local and Regional Authorities • Council of Europe (2014), 26th Session Chamber of Local Authorities • Council of Europe (2015), Strengthening institutional frameworks for local governance, LFB: Armenia



# AZERBAIJAN

UNITARY COUNTRY

EURO-ASIA

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **UPPER MIDDLE INCOME** Local currency - **Azerbaijan Manat (AZN)**

### POPULATION AND GEOGRAPHY

AREA: **86 600** km<sup>2</sup>

POPULATION: **9.535** million inhabitants (2014),  
an increase of 1.3 % per year (2010-14)

DENSITY: **110** inhabitants/km<sup>2</sup>

URBAN POPULATION: **54.6%** of national population

CAPITAL CITY: **Baku** (24.3% of national population)

Sources: IMF, World Bank, UNDP-HDI, ILO

### ECONOMIC DATA

GDP: **167.1** billion (current PPP international dollars)  
i.e. 17 525 dollars per inhabitant (2014)

REAL GDP GROWTH: **2%** (2014 vs 2013)

UNEMPLOYMENT RATE: **4.9%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **4 430** (BoP, current  
USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **25.8%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.751** (high), **rank 79**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL                                     | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL           | TOTAL NUMBER OF SNGs |
|---|--------------------|-----------------------------------|----------------------|
| <b>1 607</b>  | <b>90</b>          | <b>1</b>                          | <b>1 698</b>         |
| MUNICIPALITIES                                      | CITIES ± DISTRICTS | NAKHCHIVAN AUTONOMOUS<br>REPUBLIC |                      |
| AVERAGE MUNICIPAL SIZE:<br><b>5 933</b> INHABITANTS |                    |                                   |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Azerbaijan is a unitary state, made of cities and districts, and consisting of municipalities. Local government is exercised both through local bodies of state administration and through municipal governments. • The country is divided into 10 economic regions (not an administrative division), including an autonomous Republic of Nakhichevan. According to the Azerbaijan Republic Law on «Territorial structure and administrative territorial division», municipalities are granted the status of city, settlement or village according to population and economic criteria. Municipalities can be distinguished as the only local self-government as the others are local executive bodies representing the central State at a local level. The city of Baku itself consists of 52 municipalities. Only two cities are divided into districts: Baku and Ganja. As municipalities have been created in 1999, several reforms were entrenched in the past few years, mostly to allow and promote merging of cities and municipalities. Devolution of powers also progressed over these years, although the scale of local self-governments competences remains unclear. Azerbaijan ratified the European Charter on Local Self-Government on 15 April 2002, which entered into force in its respect on 1 August 2002.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The Constitution of Azerbaijan recognizes local self-government and provides for the organization and scope of responsibility of municipalities as well on guarantees of their independence. Also, the Law on the Status of Municipalities provides that “local self-government in the Republic of Azerbaijan is a system of managing the citizens’ activity that grants to its citizens the ability to resolve important local issues independently and freely.” Nonetheless, this definition still ambiguous on the scope of local powers and competences, as local governments are designated as being outside the State and the public administration. In theory, municipalities must use the power given to them in the fields of local economic development, social protection and social development, cultural and ecological issues, and to implement state programs. Yet, relations and division of powers between municipalities and local executive bodies are not governed by legal mechanisms, and capital investments are financed either from deconcentrated local executive committee budgets, directly from state budget, or through private sector.

## SUBNATIONAL GOVERNMENT FINANCE

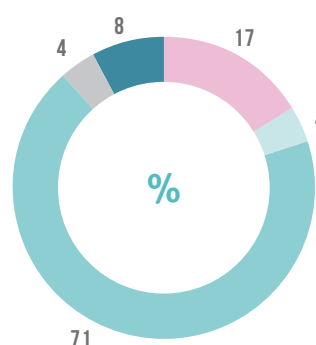
| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>1.1%</b> | <b>3.0%</b>   | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | 0.6%        | -   | 55.9%                       |
| <b>STAFF EXPENDITURE</b>        | 0.2%        | 5.8%  | 17.0%                       |
| <b>INVESTMENT</b>               | 0.5%        | 3.2%  | 44.1%                       |

Azeri municipalities expenditures seems to be mostly used to fund operating expenditures. Yet we lack local data on investment policies and capital expenditures. They are responsible for 3% of total public expenditures, total amount reaching only 1.1% of the national GDP. These shares have increased since 2008. Yet they are responsible for 44.1% of overall subnational expenditures.



## EXPENDITURE BY FUNCTION

### % SUBNATIONAL GOVERNMENT EXPENDITURE



Local revenues are spent, by order of magnitude, on housing and community amenities (71% of local expenditures and 39.4% of general governments' expenditures in this sector), economic affairs (17%), social protection (8%), and environmental protection (4%) and recreation, culture and religion (4%).

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 0.6%  | 1.5%  | 100%                     |
| TAX REVENUE          | 0.1%  | 0.9%  | 19.3%                    |
| GRANTS AND SUBSIDIES | 0.5%  | -   | 77.5%                    |
| OTHER REVENUES       | 0.0%  | -   | 3.2%                     |

Municipalities revenues in Azerbaijan appear to be relatively low in comparison to other countries of the region. In 2013, their revenues represented less than 1.5% of the State consolidated budget, putting municipalities into a weak financial position.

**TAX REVENUE.** Revenue sources are balanced between taxation and grants from the central government. Taxes which can be levied are : tax on private individuals, property tax on private individuals, mining tax on construction materials of local importance, tax on the profits of municipally owned enterprises and organisms. Municipalities also have the possibility to collect charges on street advertisements, on disposal of municipal property, on mobile businesses, on hotels and parking. This type of resources represents a 19.3% of LGs revenue, but they still very limited in terms of weight to the GDP.

**GRANTS AND SUBSIDIES.** The Law on Budget System states that municipalities can receive grants and subsidies from central government in subsidiarity of local budget to fund social-economic development programmes. Criterias used to allocate intergovernmental transfers are not included in this legal provisions and thus remain unclear. In addition to these, central government may also allocate targeted grants for specific purposes. All grants are current grants, and they compose the most (77.5%) of subnational revenues.

**OTHER REVENUES.** The figures provided show that they are the seconde sources of funding for the local entities. Local governments non-tax revenues include fees for advertising, hotel fees, parking fees and other local taxes or duties stipulated by the law, payment for fixed or mobile trade, revenue from privatization or lease of municipal property, income from lotteries, etc.

## OUTSTANDING DEBT

### % GDP

### % GENERAL GOVERNMENT

#### OUTSTANDING DEBT (2013)

-

-

There is no in theory legal restriction for the municipal borrowing, yet in practice, borrowing is not accessible for municipalities with low fiscal capacity, and the government is not responsible for municipal borrowing.

A joint- study of:



Sources: IMF-GFS • Regional development center in Azerbaijan • S. Yusifov, Local government structure, functions and revenues in azerbaijan, Committee of the Regions • Council of Europe • S. Yusifov (2015), Finance Benchmarks: areas and options for assessing local financial resources and financial management in Azerbaijan, Strengthening institutional frameworks for local governance programme 2015-2017.



### BASIC SOCIO-ECONOMIC INDICATORS

Income group **LOWER MIDDLE INCOME** Local currency **Georgian Lari (GEL)**

#### POPULATION AND GEOGRAPHY

AREA: **69 700** km<sup>2</sup>

POPULATION: **4.305** million inhabitants (2014),  
a decrease of 1.3 % per year (2010-2014)

DENSITY: **62** inhabitants/km<sup>2</sup>

URBAN POPULATION: **53.6%** of national population

CAPITAL CITY: **Tbilisi** (26.7% of national population)

Sources : IMF-GFS, World Bank, UNDP – HDI, ILO

#### ECONOMIC DATA

GDP: **34.1** billion (current PPP international dollars)  
i.e. 7 921 dollars per inhabitant (2014)

REAL GDP GROWTH: **4.8%** (2014 vs 2013)

UNEMPLOYMENT RATE: **12.4%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **1 647** (BoP, current  
USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **29.8%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.754** (high), **rank 76**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT COMPETENCES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL  | TOTAL NUMBER OF SNGs |
|---|--------------------|--|----------------------|
| <b>76</b><br><b>12 MUNICIPALITIES</b> ("TVITMMARTVELI QALAQI") <b>64 COMMUNITIES</b> ("TVITMMARTVELI TEMI")<br><br>AVERAGE MUNICIPAL SIZE:<br><b>56 644 INHABITANTS</b> | -                  | <b>2</b><br><b>AUTONOMOUS REPUBLICS OF ADJARA AND ABKHAZIA</b> (AVTOMNOY RESPUBLIKI) | <b>78</b>            |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Georgia is a unitary country with a one-tier-system of decentralization. While the capital-city of Tbilisi enjoys a special status, local level comprises 12 self-governing municipalities and 64 communities. Each of these entities can be divided in sub-municipal administrative units. The municipalities are groups into nine regions (Mkharebi) which are deconcentrated levels of governments. Tbilisi itself is divided into ten districts (raioni). The decentralization process in Georgia started in 1997 with the adoption of an Organic Law on Local Self-Government and Government. The revision of this law in 2006 led to territorial consolidation but without adequate financial and political emancipation of the local units. Later in 2013, the constitutional reform enshrined self-governments' autonomy in the Constitution, and a new law on Local Self-Government Code was later adopted in February 2014, reinforcing local participation and elections mechanism through calling for directly elected mayors in 12 cities and gamgebelis for 59 municipalities (in contrast to the previous legislation that limited direct mayoral elections to Tbilisi).

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Municipal exclusive competences are clearly defined in the body of laws dedicated to local-government system, and self-governing entities are completely autonomous in planning their budgets. Nonetheless, the lack of fiscal and financial municipalities own resources let this devolution of powers unachieved. Due to the negotiation based on the assignment of functions there is a lack of a basic and endorsed criteria for the allocation of responsibilities and revenue sources between the regions, their respective LGUs, and the central state.

### SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL GOVERNMENT |
|---------------------------------|-------------|---|--------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>5.9%</b> | <b>20.3%</b>  | <b>100%</b>              |
| <b>CURRENT EXPENDITURE</b>      | <b>4.7%</b> | -   | <b>79.4%</b>             |
| <b>STAFF EXPENDITURE</b>        | <b>0.8%</b> | <b>14.9%</b>  | <b>13.2%</b>             |
| <b>INVESTMENT</b>               | <b>1.2%</b> | <b>32.0%</b>  | <b>20.6%</b>             |

The per-capita spending varies greatly across the regional levels, and show a strong concentration of public expenditures in the Autonomous Republic of Adjara and the city of Tbilisi. In comparison to other former soviet republics, countries the share of the local government expenditures is relatively high. But the burden of delegated functions restrains the autonomy at the local level. The principle of expenditure assignment in the Autonomous Republic of Adjara might serve as a model for other regions.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



LGs budgets represent an important share of GDP in Georgia compared to other countries of the region. Most of the expenditures are dedicated to operating activities, with a moderate weight of staff charges. Capital expenditures have been growing over the last years, with a number of investment projects focusing on local economic development.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 6.2%  | 22.4%   | 100%                     |
| TAX REVENUE          | 1.4%  | 5.6%  | 22.3%                    |
| GRANTS AND SUBSIDIES | 4.0%  | -   | 64.1%                    |
| OTHER REVENUES       | 0.8%  | -   | 13.6%                    |

The Budget Code of Georgia includes a precise definition of local self-government resources and charges. Regarding LGs revenues, this code is dividing the public revenue assignment into nation-wide taxes, that municipalities perceive through tax sharing, local taxes and fees.

**TAX REVENUE.** Local taxation can be perceived on : income and profits, payroll and workforce, property, goods and services, international trade, among others. Nonetheless, the small share of taxation among total revenues reveals the limited autonomy of local self-governments, as the fiscal decentralization is still an on-going process in Georgia. Other tax revenues mainly consist in shared taxes, which revenue is coming from personal income tax collected at national level. Local governments have no influence over the tax base, tax rate or tax administration.

**GRANTS AND SUBSIDIES.** Georgian local governments remain highly dependent on the central budget. A majority of municipal resources relies on intergovernmental transfers, mainly for investment programs funding, but also for operating budget funding as the definition of the main grants (equalizing grant and special grants) became unclear in the last years.

**OTHER REVENUES.** Other LGs non-tax revenues mostly consist in user fees, although there are few available data on their distribution and base.

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

Generally, the Georgia Constitution limits indebtedness to 10 percent of the assessed value of all taxable property located within a municipality. Counties and school districts have their own 10 percent limitation.

A joint- study of:



Sources: IMF – GFS • EU Committee of the Regions • Constitution of Georgia • Georgia Municipal Association – Handbook for Mayor and Councilors • Local Self-Government code • Report on Fiscal Decentralization in Transition Economies: Case Studies from the Balkans and Caucasus, UNDP, 2005 • M. Zaborowski, (2014), Georgia's Local Government Reform: How to Escape from the Soviet Past (and How Poland Can Help), PISM



# KAZAKHSTAN

UNITARY COUNTRY

EURO-ASIA

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **UPPER MIDDLE INCOME** Local currency - **TENGE**

### POPULATION AND GEOGRAPHY

AREA: **2 724 900** km<sup>2</sup>

POPULATION: **16.606** million inhabitants (2014),  
an increase of 1.45% per year (2010-14)

DENSITY: **6** inhabitants/km<sup>2</sup>

URBAN POPULATION: **53.3%** of national population

CAPITAL CITY: **Astana** (4.5% of national population)

Sources: OECD, World Bank, UNDP, ILO

### ECONOMIC DATA

GDP: **418.9** billion (current PPP international dollars)  
i.e. 25 223 dollars per inhabitant (2014)

REAL GDP GROWTH: **4.4%** (2014 vs 2013)

UNEMPLOYMENT RATE: **5.1%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **7 598** (BoP, current  
USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **24%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.788** (high), rank **56**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT COMPETENCES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL  | REGIONAL OR STATE LEVEL  | TOTAL NUMBER OF SNGs |
|---|---|--|----------------------|
| <b>2 445</b>  | <b>215</b>  | <b>16</b>  | <b>2 676</b>         |
| 47 "CITIES OF DISTRICT<br>SIGNIFICANCE" AND 2 398 VILLAGES<br>AND RURAL COMMUNITIES | 38 "CITIES OF REGIONAL<br>SIGNIFICANCE" AND 177 DISTRICTS<br>(RAYONS) | 14 REGIONS (OBLASTS)<br>AND 2 "CITIES OF REPUBLICAN<br>SIGNIFICANCE" |                      |
| AVERAGE MUNICIPAL SIZE:<br><b>5 933</b> INHABITANTS                                 |   |  |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** The second constitution of independent Kazakhstan, adopted in 1995, recognises the system of local government which is composed of organs of local government (*Akimats*) and organs of local self-government (*Maslikhats*). In 2001, the Law on Local Public Administration and Self-Government established a complex system of SNGs which can be considered as a three-tier system. At the upper level, there are 14 *oblasts* (regions) and two Republican cities of Almaty and Astana which have a special status. They are headed by a regional governor (regional/city *akim*) appointed by the president but have a regional/city council elected by universal suffrage (regional *maslikhat*). At the intermediate level, there are 38 cities of regional significance and 177 districts, of which 17 are city districts and the rest rural. Their executives (*akim*) are appointed by the regional governor (or by the mayor in the case of city districts) while they have a directly elected council (city or district *maslikhat*). The local level includes 47 "cities of district significance" and 2 398 villages and rural communities recognised as local self-governments (*aul*). It also comprises around 4 325 rural settlements. A 2013 law, amending the 2001 Law, introduced some elements of decentralisation, most importantly the election of local *akims* through indirect suffrage by local level councils. Direct election by citizens is planned instead at some point in the future. The law has also expanded their financial and economic independence.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The 2001 law on Local Public Administration and Self-Government broadly defines the general division of competences across levels of government but there are many duplications and overlaps. Local government competencies include education (pre-school, primary, basic and secondary education, vocational training), healthcare, social assistance, transport and local roads, environmental protection, public sanitation, fire protection, public order, culture and local libraries, water supply and sewerage. Kazakhstan considers decentralisation reform to be a high priority (cf. the Strategy Kazakhstan-2050, 2012 Concept for Development of Local Self-Government). A new division of powers and responsibilities between the central government and SNGs is currently being developed.

## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>9.4%</b> | <b>46.3%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | <b>6.8%</b> | <b>-</b>  | <b>72.3%</b>                |
| <b>STAFF EXPENDITURE</b>        | <b>2.0%</b> | <b>61.9%</b>  | <b>20.9%</b>                |
| <b>INVESTMENT</b>               | <b>2.6%</b> | <b>63.7%</b>  | <b>27.7%</b>                |

SNG expenditure represents 9.4% of GDP and more than 46% of public expenditure, but there is much deconcentrated spending. SNGs are key investors: SNG investment is relatively high as a share of GDP, public investment and SNG spending, but SNGs act as paying agents.



## EXPENDITURE BY FUNCTION

### % SUBNATIONAL GOVERNMENT EXPENDITURE



The largest SNG expenditure function is by far education (almost 30% of total SNG spending and 75% of public spending on education). Other large categories of expenditure include health, economic affairs (transports) and housing and community amenities.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 9.5%  | 37.2%   | 100%                     |
| TAX REVENUE          | 3.7%  | 17.8%   | 38.7%                    |
| GRANTS AND SUBSIDIES | 5.6%  | -   | 59.4%                    |
| OTHER REVENUES       | 0.2%  | -   | 1.9%                     |

Central government transfers are the main source of SNG funding while tax revenue, which come mainly from tax sharing arrangements, represent almost 40% of SNG revenue.

**TAX REVENUE.** According to the Budget Code, most of SNG tax revenues are shared taxes: PIT (40% of SNG tax revenue) and social tax based on payroll (30%). Land and property taxes represent 15% of SNG tax revenue while excises taxes represent 7%. In addition, there are some minor other taxes e.g. on transport or environmental emissions. SNGs have very little taxing power over rate or base. They can only revise the land tax rate within a margin of 20%, depending on the characteristics of the land and fix the rate of minor local taxes. All taxes are collected centrally. Redistribution of shared taxes is made through an equalisation mechanism. In the context of the current decentralisation programme, it is foreseen to enhance the financial autonomy of lower-level governments by assigning new shared taxes and own-source tax revenues.

**GRANTS AND SUBSIDIES.** Transfers to SNGs include funds coming from the equalisation of oblast tax revenues to reduce disparities. The system is done during the annual budget process based on oblasts' projected expenditures and revenues. When expenditure exceeds revenues, additional funds (subsidies) are allocated to oblasts in deficit. Conversely, in the case of surplus, oblasts are subject to withdrawals, retaining only the amounts they need in order to finance their expected expenditure. Estimates are largely derived from historical trends and inflation. Transfers also comprise a variety of other earmarked transfers, the largest being the targeted investment transfer to fund regional and local infrastructure and exceptional expenditures (e.g. hosting a large international sporting event). All in all, capital grants accounted for 28% of transfers in 2013 and current grants, 72%.

**OTHER REVENUES.** SNGs can collect local administrative fees on which they have some leeway and charge for their services (37% of other revenues). They can also impose fines and penalties (30%) and benefit from property income (sale of capital assets, dividends from local public companies).

| OUTSTANDING DEBT        | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 0.5%  | 4.1%                 |

The two Republican cities of Almaty and Astana are able to borrow through bond issuance to cover their budget deficits and to finance the construction of public social housing. Since April 2016, the Budget Code allows the 14 oblasts to issue bonds, under strict control of the Ministry of Finance (including the exact use of borrowed funds). Other SNGs are able to borrow in order to cover fiscal deficits and finance investments but only from the central government or from another SNG at a higher level (oblast). Quotas for annual local borrowing and total local debt are fixed annually by the Budget Law. In addition, the Government has determined new SNG borrowing limits in 2009 (in a given fiscal year, annual payment and debt servicing costs should not exceed 10% of local budget revenue and total debt should not exceed 75%). SNG total liabilities remain very limited.

A joint study of:



Publication date: October 2016

**Sources:** IMF Government Finance Statistics • OECD (2016, forthcoming), Territorial Review of Kazakhstan • OECD (2014), Kazakhstan: Review of the Central Administration OECD Public Governance Reviews • Committee on Statistics of Kazakhstan (2013) Kazakhstan in figures 2013 • Bhuiyan S. (2013), Decentralisation and Local Governance in Kazakhstan in Public Sector Reform in Developing and Transitional Countries: Decentralisation and Local Governance, Edited by C. Rees and F. • Hossain. Amagoh F. and Bhuiyan S. (2010) Public Sector Reform in the Republic of Kazakhstan, Central Asia Business Journal, Vol. 3 • World Bank (2006) Kazakhstan: Reforming Intergovernmental Fiscal Relations, lessons from international experiences, Report No. 33709-KZ • Meruert Makhmutova (2001) Local Government in Kazakhstan.



# KYRGYZSTAN

UNITARY COUNTRY

EURO-ASIA

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOWER MIDDLE INCOME** Local currency - **Kyrgyzstani som (KGS)**

### POPULATION AND GEOGRAPHY

AREA: **199 900 km<sup>2</sup>**

POPULATION: **5.835** million inhabitants (2014),  
an increase of 1.7 % per year (2010-2014)

DENSITY: **29** inhabitants/km<sup>2</sup>

URBAN POPULATION: **35.7%** of national population

CAPITAL CITY: **Bishkek** (14.7% of national population)

Sources: World Bank Development Indicators, UNDP - HDI, ILO

### ECONOMIC DATA

GDP: **19.4** billion (current PPP international dollars)  
i.e. 3 324.8 dollars per inhabitant (2014)

REAL GDP GROWTH: **3.6%** (2014 vs 2013)

UNEMPLOYMENT RATE: **8.2%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **211** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **34.8%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.655** (medium), **rank 120**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL  | REGIONAL OR STATE LEVEL   | TOTAL NUMBER OF SNGs |
|--|---|---|----------------------|
| <b>459</b><br>AYIL OKHMOTUS<br>AVERAGE MUNICIPAL SIZE:<br>12 712 INHABITANTS | <b>63</b><br>40 RAYIONS +<br>12 CITIES OF OBLAST SIGNIFICANCE +<br>11 CITIES OF RAYION SIGNIFICANCE | <b>9</b><br>7 REGIONS (OBLASTS)<br>+ MUNICIPALITIES OF BISHKEK<br>AND OSH | <b>531</b>           |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Kyrgyzstan is a unitary State with 3 levels of local governments. Local self-government system is made up of 459 local communities gathering groups of villages, towns and districts for the first tier: 440 ayil districts and 19 township councils. Second tier consists in the rayon level, including 40 rayions together with 12 cities of oblast significance and 11 cities of rayon significance. Third tier of government are oblasts (regions) and the cities of Bishkek and Osh which enjoy a special status. Local budgets are subjected to the approval of local councils (keneshs).

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** LGs in Kyrgyzstan have been devolved a list of 23 competences of local importance by the Law on LSG and Local State administration of 2008, covering all public utilities (potable water provision, sewerage and public sanitation, transportation and roads maintaining, waste collection, etc.) as well as establishing the rules of land use and house building at the respective territory, culture, emergency and local security services, and economic development. Besides, the law states a list of functions that can be delegated to local governments (administrative acts, pre-school education, environment protection, etc. However, the 2008 law does not state for a clear definition of function and their division between tiers of local government and central State government, inducing overlapping competences. LGs bodies are often obliged to fulfill additional tasks without corresponding financial resources, so as sometimes local governments bodies are unable of fulfilling their core functions to use their own resources to fund other, delegated but unfunded, state functions. This issue is to be addressed in the next decentralization reform that should be designed after the adoption of the new Constitution in 2010. Drafts have been done but this is still not implemented.

## SUBNATIONAL GOVERNMENT FINANCE

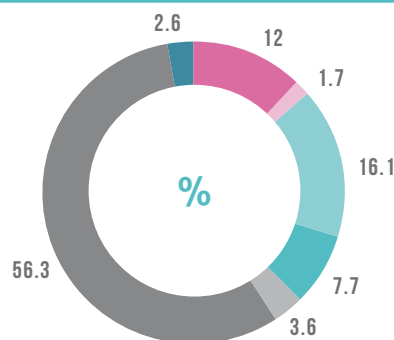
| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>5.8%</b> | <b>19.8%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | <b>5.4%</b> | <b>-</b>  | <b>93.3%</b>                |
| <b>STAFF EXPENDITURE</b>        | <b>3.0%</b> | <b>29.1%</b>  | <b>51.9%</b>                |
| <b>INVESTMENT</b>               | <b>0.4%</b> | <b>8.5%</b>   | <b>7.3%</b>                 |

The legal basis for fiscal policy and administration in the Kyrgyz Republic is still in the process of formation. The Draft Law on Local Self Government attempts to make improvements to the issue of delineation of functions and responsibilities, and emphasizes the requirement for provision of corresponding finances. Local governments spend almost all their budget on current expenditures, which can be explained by their important role in the sector of education. Only 7.3% of subnational budget was spent on investment expenditures in 2013.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



Local governments in Kyrgyzstan have been delegated important responsibilities, in particular related to education. This put a high fiscal burden on local authorities, as education spending, on average for all subnational government units, take up to 56% of local budgets, which leaves little resources to cover other responsibilities, such as housing (16%), health (8%), recreation, culture and religion (4%).

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 5.9%  | 20.7%   | 100%                     |
| TAX REVENUE          | 2.9%  | 14.3%   | 49.4%                    |
| GRANTS AND SUBSIDIES | 2.4%  | -   | 40.6%                    |
| OTHER REVENUES       | 0.6%  | -   | 10.0%                    |

The law does not permit the central governments to interfere in the budget decisions of local governments, however “de facto” state provides influence on local governments budgets. Tax Service bodies and authorized tax officers from the local government bodies collect local taxes and fees.

**TAX REVENUE.** Local taxes encompass the land and property taxes. The parliament introduced the Law on “Local Taxes and Fees” in 1994. This law has later been reorganized to become section VIII of the Tax Code of 1996. Thus, the Tax Code of 1996, and then the New Taxation Code in 2009, has put order but also limits on what was devolved to local governments. Local governments are not permitted to introduce new taxes, but they can set tax rates for some taxes. Local councils are allowed to set benefits as well as exemptions from some local taxes and duties up to 30% (for instance, the land tax, for lands unsuitable for agriculture – according to a climatic zoning coefficient).

**GRANTS AND SUBSIDIES.** Local governments benefit from conditional intergovernmental transfers to cover for expenditures delegated from the State. Mainly, categorical grants must provide the local budget with the deficient amount of finances required for education calculated upon the minimum standards of educational expenditures per 1 student. The central governments also reallocate subnational individual income taxes and subnational VAT taxes. Local governments also perceive unconditional equalization grants, allocated monthly, according to an amount adopted each financial year, as well as conditional incentive grants (sponsorship) for priority social infrastructure projects.

**OTHER REVENUES.** In addition to the property and land taxes that make up most of local own revenues, local governments may collect various fees and taxes.

| OUTSTANDING DEBT        | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 0.4%  | 0.9%                 |

Local governments in Kyrgyzstan are allowed to access financial markets, as well as to borrow to municipal banks (Aiyl bank, rural bank), with the necessary consent of the corresponding local kenesh and the Ministry of Finance of Kyrgyz Republic. Local debt is limited to 20% of previous debt obligations of the local government annual revenue.

A joint- study of:



Sources: IMF-GFS • Закон Кыргызской Республики “О местном самоуправлении и местной государственной администрации” от 29 мая 2008 №99 • Association of municipalities of the Kyrgyz Republic • INTRAC (2011) , Decentralisation in Kyrgyzstan • T. Moldogaziev (2012), Fiscal Decentralization and Revenue Stability in the Kyrgyz Republic, 1993-2010, Eurasian Journal of Business and Economics, 5 (9), 1-20



# REPUBLIC OF MOLDOVA

UNITARY COUNTRY

EURO-ASIA

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOWER MIDDLE INCOME** Local currency - **Moldovan Leu (MDL)**

### POPULATION AND GEOGRAPHY

AREA: **33 700** km<sup>2</sup>

POPULATION: **3.437** million inhabitants (2014), stable over the period (2010-14)

DENSITY: **102** inhabitants/km<sup>2</sup>

URBAN POPULATION: **45%** of national population

CAPITAL CITY: **Chisinau** (21.0% of national population)

Sources: World Bank Development Indicators, UNDP-HDI, ILO

### ECONOMIC DATA

GDP: **17.7** billion (current PPP international dollars) i.e. 5 150 dollars per inhabitant (2014)

REAL GDP GROWTH: **4.6%** (2014 vs 2013)

UNEMPLOYMENT RATE: **3.9%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **350** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **26%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.693** (high), rank **107**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL   | TOTAL NUMBER OF SNGs |
|---|--------------------|---|----------------------|
| <b>898</b><br>32 TOWNS ("ORASE")<br>AND 864 VILLAGES ("SATE")<br>AVERAGE MUNICIPAL SIZE:<br>3 827 INHABITANTS | -                  | <b>34</b><br>32 DISTRICTS ("RAIONS"),<br>2 MUNICIPALITIES ("MUNICIPII") | <b>932</b>           |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Moldova is a unitary State with a two-tiers decentralization system. The country also accounts 5 administrative regions, among which 1 autonomous territorial unit (UTA Gagauzia), and 1 unrecognised territorial unit (Transnistria) which does not consider itself subject to the jurisdiction of Moldova. Decentralization and local governments autonomy is enshrined in the 1994 Constitution of Moldova. As for budget and powers division, several laws and decrees have set a legal and regulating framework within the next decade, most important of them being Law on the Budgetary System and the Budgetary Process of 1996; Law on Local Public Finance of 2003 and Law on Local Public Administration of 2006. In 2012, Moldova launched a National Decentralization Strategy and its Action Plan for 2012-2015. Based on the principles of the European Chart of Local Self Governance approved by the Republic of Moldova in 1997, this reform aims to address the fiscal, financial and management consequences induced by high fragmentation of first-level governments units. A pilot implementation started in 2014, before to be enlarged to the whole country in 2015.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The Law no. 436 of 28 December 2006, on Local Public Administration provides for the division of powers between tiers of government. This law stipulates that villages or towns/municipalities exercise general or special powers on their territory with the purpose of promoting the interests of the local community and addressing local issues. For second-level territorial authorities, competences consist in general or special powers with the purpose of promoting the interests and resolving the problems of the population. Subnational governments enjoy financial autonomy in all matters concerning local administration. However in practice, the repartition of competences often overlaps between diverse levels of governments, interventions from the central state or from state-owned enterprises.

## SUBNATIONAL GOVERNMENT FINANCE

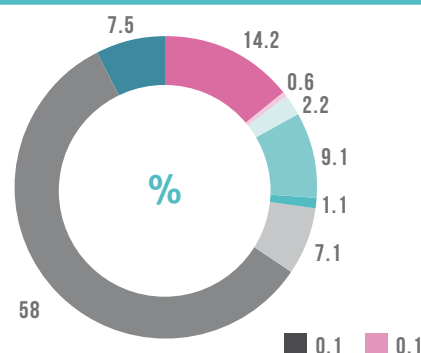
| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL GOVERNMENT |
|---------------------------------|-------------|---|--------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>9.5%</b> | <b>24.6%</b>  | <b>100%</b>              |
| <b>CURRENT EXPENDITURE</b>      | 7.4%        | -   | 77.8%                    |
| <b>STAFF EXPENDITURE</b>        | 4.4%        | 53.3%   | 46.4%                    |
| <b>INVESTMENT</b>               | 2.1%        | 57.9%   | 21.9%                    |

As central government expenditures decreased between 2009 and 2013, subnational expenditures declined from 10.8 percent to 9.5 percent of GDP. Operating expenditures (mostly wages and consumption of goods and services) account for a large share of total expenditures (78%), as capital expenditures remains limited, which can be explained by the high fragmentation of territorial units and thereby weak financing capacity.



## EXPENDITURE BY FUNCTION

### % SUBNATIONAL GOVERNMENT EXPENDITURE



Local governments' main field of expenditure is education (58% of local expenditures), and they are responsible for 74% of total public investments in this field.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 9.4%  | 25.6%   | 100%                     |
| TAX REVENUE          | 4.4%  | 19.4%   | 47.0%                    |
| GRANTS AND SUBSIDIES | 4.5%  | -   | 47.6%                    |
| OTHER REVENUES       | 0.5%  | -   | 5.4%                     |

Local governments own-source revenues of local governments) have been declining over the past decade. As a result, local governments are relying on grants and other transfers from the central government, which is limiting de facto their financial autonomy.

**TAX REVENUE.** LGs can perceive taxes and fees (property and land taxes), as well as shared taxes (from national taxes collected on the territory of the recipient LG). In 2014 local own budget revenues represented 13% of total for 1st level units, and 6% for 2d level units, as shared taxes and fees raised respectively 14% and 24%. Local taxation thus represents around a third of total revenues of the 1st and 2d levels of governments, but it remains very low.

**GRANTS AND SUBSIDIES.** LG units are mostly fund by grants, coming from the central State : intergovernmental transfers (from central State) represented around 67-8% in 2014, and special means (special funds) around 1 to 3%. These vertical transfers come from the above level of government (or through it for the first-level units) to cover the gap between assessed expenditure needs and the projected yield of own and assigned revenues. Yet, the formula does not accurately capturing disparities between municipalities, especially for bottom-tier municipalities, and maintains the structures made of small municipalities with very weak capacities.

**OTHER REVENUES.** LG may also collect revenues from property sales and privatization.

| OUTSTANDING DEBT        | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 0.7%  | 3.4%                 |

Subnational debt ratios are low, as total outstanding local government debt was 0.8 percent of GDP in 2013. Bottom-tier municipalities are not allowed to issue municipal bonds and guarantees, and there is no monitoring system to anticipate and manage the risks associated with borrowing.

A joint- study of:



**Source of Statistics:** EU Committee of the Regions • IMF-GFS • V.Roscovan (2015), Local Government System and Finances in the Republic of Moldova • World Bank (2014), Moldova Public Expenditure Review • UNDP representation in Moldova • Network of Associations of Local Authorities of South-East Europe NALAS (2016), Fiscal Decentralization Indicators for South-East Europe: 2006-2014,



# MONTENEGRO

UNITARY COUNTRY

EURO-ASIA

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **UPPER MIDDLE INCOME** Local currency - **Euro (EUR)**

### POPULATION AND GEOGRAPHY

AREA: **13 812** km<sup>2</sup>

POPULATION: **622.810** thousands inhabitants (2014),  
an increase of 0.1 % per year (2010-2014)

DENSITY: **45** inhabitants/km<sup>2</sup>

URBAN POPULATION: **64%** of national population

CAPITAL CITY: **Podgorica** (26.5% of national population)

Sources: World Bank Development Indicators, UNDP-HDI, ILO

### ECONOMIC DATA

GDP: **9.4** billion (current PPP international dollars)  
i.e. 14 904 dollars per inhabitant (2014)

REAL GDP GROWTH: **1.8%** (2014 vs 2013)

UNEMPLOYMENT RATE: **18%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **497** (BoP, current USD  
millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **20%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.802** (very high), **rank 49**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|--|--------------------|-------------------------|----------------------|
| <b>23</b><br>21 LOCAL SELF-GOVERNMENT UNITS<br>AND 2 URBAN MUNICIPALITIES<br>AVERAGE MUNICIPAL SIZE:<br>26 087 INHABITANTS | -                  | -                       | <b>23</b>            |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Montenegro is a unitary state with a one-tier structure of government. The country is divided into 3 Regions which have only been created for a statistical purpose and thus cannot be considered as a decentralized level of government. The only local self-government level is constituted by 21 local administrative units, and 2 urban municipalities (the Capital City of Podgorica and the Historical Capital of Cetinje). The 2007 Montenegrin Constitution enshrined the autonomy of local governments, stating that municipalities are identified as the basic form of local self-government having autonomy in the performance of their duties. The local governance legislative framework is made of the revised Law on Local Self-governments (2010) and the Law on Local Self-government financing, the Capital City Law, and the Gender Equality Law. They are also able to compose their own budgets and are financed from their own resources and those of the State. More recently, Montenegro adopted a 2011-2016 development strategy for inter-municipal cooperation, as well as a 2011-2013 Action Plan to implement the Law on the Territorial Organisation of Montenegro.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The 2010 Law on Local Self Government states for the details on division of competences and functions of municipalities. These last ones are therefore responsible for all issues of a local importance, such as local development, urban and spatial planning, construction permitting and management, water management, transport, social welfare, etc. Besides, some functions are shared between local self-government units and the central level government (e.g. education and primary health). With a reform that is due to 2016, the law is to be reformed as an achievement of the Strategy of Public Administration Reform in Montenegro held by the government since 2011.

## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>6.4%</b> | <b>14.1%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | 3.0%        | -   | 46.5%                       |
| <b>STAFF EXPENDITURE</b>        | 1.1%        | -   | 16.9%                       |
| <b>INVESTMENT</b>               | 1.4%        | 38.9%   | 22.1%                       |

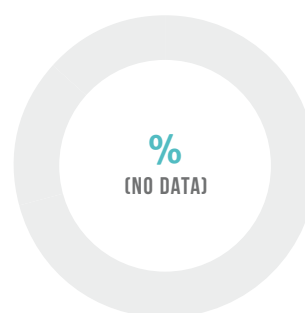
Following a classic scheme, expenditures are mostly operating expenditures (46.5%), while investment expenditures represents 22.1% of LGs total expenditures. Yet in 2013, local investment only represents 14.1% of total public expenditures, as most capital expenditures are dedicated to debt service payments, reducing the amounts dedicated to investments.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



Local governments in Montenegro are responsible for 22.1% of total capital expenditures. Following the economic downturn in 2008, public investments has sharply contracted, and the share within total local expenditures continues to decline.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL<br>GOVERNMENT |
|----------------------|-------|---|-----------------------------|
| TOTAL REVENUE (2013) | 6.8%  | 15.9%   | 100%                        |
| TAX REVENUE          | 2.9%  | -   | 43.0%                       |
| GRANTS AND SUBSIDIES | 0.9%  | -   | 12.6%                       |
| OTHER REVENUES       | 3.0%  | -   | 44.4%                       |

Municipalities revenues are relying for their most part on taxation revenues, either direct or shared, and and fees. As global level of resources plummeted after the 2008-09 economic crisis, municipalities own resources (local and shared taxation) are henceforth stable and draw up local budgets. Yet the constitution of local revenues is very diverse depending on the municipalities, and for some municipalities (Savnik, Andrijevisa, Berane, Mojkovac and Plav), transfers from the Equalization fund still represent the main part of the budget.

**TAX REVENUE.** Municipalities own taxation accounts for 43% of local governments financial resources, which is an important figures compared to other countries of the region. It relies primarily on property (70%) tax and surtax on personal income tax (30%).

**GRANTS AND SUBSIDIES.** Intergovernmental transfers represent close to 13% of total local revenues, and transfers are in the form of conditionnal grants for investments projects. The grant is conditioned to the adoption by the municipality of a multi-annual investment plan, and the grant is limited to 50% of the anticipated project cost. Shared taxes rise 15,3% of total revenues, comprising shares of personal income tax (40%), property transfer tax (35%), concessions and other fees for using natural resources awarded by the state (19%) and others.

**OTHER REVENUES.** Other revenues represent a large share Local governments other recipients consist in donations, recipients from loans and credit. Other revenues also encompass revenues transferred from previous year, and local charges and fees. Local charges (divided between local administrative charges (25%) and communal charges (70%). Besides, local fees include fee for utility equipment up to 90%, fees for the use of municipal roads (7%), environmental protection fines, etc.

| OUTSTANDING DEBT        | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 4.0%  | 7.0%                 |

Municipalities are legally enabled to long-term borrow and to issue guarantee with the prior consent of the central government. Following the economic downturn, local governments have increased borrowing. Therefore, several municipalities have reached their legal debt limits and have difficulties to pay their unpaid obligations to banks and to the State.

A joint- study of:



Sources: Union of municipalities of Montenegro database on Municipal Finance • Ministry of Finance • IMF-GDDS • Committee of the Regions, • Montenegro PEFA assesment report (2013) • Network of Associations of Local Authorities of South-East Europe NALAS (2016), Fiscal Decentralization Indicators for South-East Europe: 2006-2014



# RUSSIAN FEDERATION

FEDERAL COUNTRY

EURO-ASIA

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **UPPER MIDDLE INCOME** Local currency - **Russian rouble**

### POPULATION AND GEOGRAPHY

AREA: **17 098 240** km<sup>2</sup>

POPULATION: **143.820** million inhabitants (2014),  
an increase of 0.2% per year (2010-14)

DENSITY: **8** inhabitants/km<sup>2</sup>

URBAN POPULATION: **73.9%** of national population

CAPITAL CITY: **Moscow** (8.47% of national population)

Sources: OECD, World Bank, UNDP, ILO

### ECONOMIC DATA

GDP: **3 358.6** billion (current PPP international dollars)  
i.e. 5 150 dollars per inhabitant (2014)

REAL GDP GROWTH: **0.6%** (2014 vs 2013)

UNEMPLOYMENT RATE: **5.1%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **22 891** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **20%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.798** (high), rank **50**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL   | REGIONAL OR STATE LEVEL    | TOTAL NUMBER OF SNGs |
|--|--|----------------------------|----------------------|
| <b>20 055</b>  | <b>2 351</b>   | <b>83</b>                  | <b>22 489</b>        |
| 19 769 URBAN AND RURAL SETTLEMENTS AND 286 INTRA-CITY ENTITIES | 1 788 MUNICIPAL DISTRICTS (RAYONS) AND 563 CITIES (URBAN OKRUGS) | SUBJECTS OF THE FEDERATION |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Most of the legal principles governing SNGs can be found in the 1993 Constitution which guarantees the principle of self-government (article 12). The Russian Federation is divided into 83 regions ("subjects of the Federation") with various degrees of autonomy. They include 21 republics, 46 provinces (*oblasts*), 1 autonomous oblast, 9 "territories" (*kraj*), 4 autonomous districts (*avtonomny okrugs*), and 2 cities with federal status (Moscow and St. Petersburg). Direct election of governors has been re-established in 2012, after being abolished in 2005. A municipal reform was carried out between 2003 and 2005, resulting in an increase of the number of municipalities from around 12 000 to more than 20 000 today. Each region has either one or two tiers of local governments. In regions with two local government levels, the upper level is made up of 1 788 municipal districts and 563 cities and the lower level comprises 1 592 urban and 18 177 rural settlements as well as also 19 intra-city districts and 267 intra-city territory in cities of federal importance. Since 2000, there is also a federal administration at territorial level composed of 8 federal districts, run by an appointed presidential envoy, for the purpose of overseeing regional governments.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The federal Constitution and the 2003 Federal Law 131-FZ on the General Principles of Local Self-Government determines the main areas falling within the jurisdiction of the Federation, the regions (regional transport) and shared competences (minority rights, environment, health, education, science, culture, labour law, social security, family law, and natural disasters). Regarding local government management is concerned, regions may adopt their own legislation on local self-government provided that it is compatible with federal legislation. Local authorities are empowered to carry out all public services of local interest i.e. education (pre-school, primary, general and vocational education), public health (primary care facilities), public order and safety, land use planning, social protection and employment, local economic development, environmental protection, utilities (local energy, waste), local roads and public transport, culture and recreation (sport facilities). Some tasks are increasingly shared with the federation and the regions.

## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE              | % GDP            |      | % GENERAL GOVERNMENT<br>(same expenditure category) |       | % SUBNATIONAL GOVERNMENT |       |
|--------------------------|------------------|------|---|-------|--------------------------|-------|
|                          | SUBNATIONAL DATA |      | LOCAL DATA ONLY                                     |       |                          |       |
| TOTAL EXPENDITURE (2013) | 24.7%            | 9.0% | 58.4%   | 21.3% | 100%                     | 100%  |
| CURRENT EXPENDITURE      | 22.6%            | 7.7% | -   | -     | 91.3%                    | 85.3% |
| STAFF EXPENDITURE        | 5.5%             | 2.3% | 52.9%   | 22.2% | 22.2%                    | 29.9% |
| INVESTMENT               | 2.2%             | 1.3% | 44.9%   | 27.6% | 8.7%                     | 14.7% |

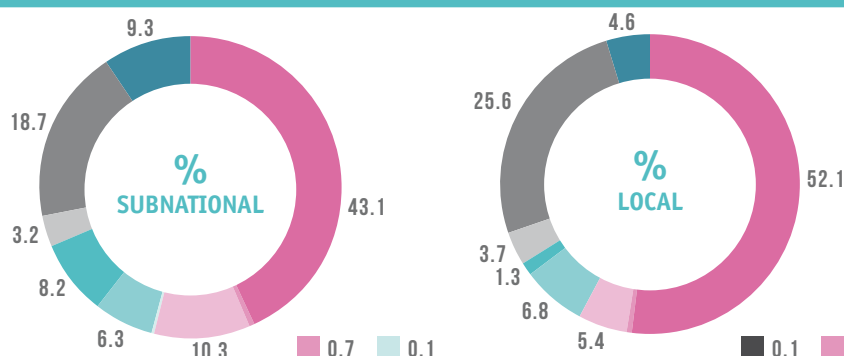
The SNG share in GDP and public spending is high, well above numerous federations in the world, including OECD federations for which spending ratios accounted for 19.2% of GDP and 49.1% of public spending in 2013. However, Russia remains a centralised country as SNG expenditure autonomy is weak: many spending obligations are planned and imposed centrally, the regions being paying agents on behalf of the federal government. SNGs are key employers, representing more than half of public staff spending, a level which is, however, below the OECD average for federations (76.1%). The role of SNGs in public investment is relatively low compared to other federations.



## EXPENDITURE BY FUNCTION



## % SUBNATIONAL GOVERNMENT EXPENDITURE



The primary area of SNG spending is general public services, followed by education, economic affairs/transport, social protection and health. A majority of expenditure is made by the regions (63%) for which, the primary areas of spending after general public services are education (15%), economic affairs/transport (13%) and social protection and health (12% each). For the municipalities, education is by far the most significant spending area (after general services) representing one-quarter of local expenditure, followed by housing and community amenities. 62% of SNG investment is carried out by municipalities.

## REVENUE BY TYPE

|                      | % GDP            |      | % GENERAL GOVERNMENT (same revenue category) |       | % SUBNATIONAL GOVERNMENT |       |
|----------------------|------------------|------|--|-------|--------------------------|-------|
|                      | SUBNATIONAL DATA |      | LOCAL DATA ONLY                              |       |                          |       |
| TOTAL REVENUE (2013) | 24.6%            | 9.0% | 57.0%  | 20.8% | 100%                     | 100%  |
| TAX REVENUE          | 8.8%             | 1.5% | 38.4%  | 6.7%  | 35.9%                    | 17.2% |
| GRANTS AND SUBSIDIES | 11.5%            | 5.7% | -  | -     | 46.8%                    | 63.5% |
| OTHER REVENUES       | 4.2%             | 1.7% | -  | -     | 17.0%                    | 19.3% |

Major intergovernmental fiscal relations reforms took place at the end of the 1990s and in the early 2000s aimed at clarifying revenue and expenditure assignments, to eliminate unfunded mandates and review the way federal transfers are allocated, by establishing equalisation formula-based systems. However, SNGs have a limited revenue autonomy and are increasingly dependent on federal (or regional) transfers.

**TAX REVENUE.** Shared taxes represent the bulk of SNG tax revenue. The regions are the main recipient of SNG tax revenue (83%), which made up 47% of their total revenue in 2013. Most regional tax revenue comes from the share of PIT and CIT (accounting for respectively, 37% and 34% of regional tax revenue), redistributed according to uniform percentages. Regions also receive an enterprise property tax (13%), excise taxes (10%) and various other taxes. Municipalities derive the great majority of their tax revenue (71%) from PIT sharing. Municipal taxes also include a property tax on individuals and a land tax. Overall, regional and local recurrent taxes on immovable property amounted to 1.2% of GDP. Taxes are collected by the federal government which set most tax rates. Regions have, however, some leeway to modify tax rates (enterprise property tax, CIT) within limits. The budget and tax codes assign minimum municipal shares of the PIT and the land tax but regions have the ability to assign additional shares of their tax revenues to municipal budgets, within certain constraints. A reform of the municipal property tax on individuals entered in force in 2015, giving municipalities more leeway on rates.

**GRANTS AND SUBSIDIES.** Successive reforms of the intergovernmental fiscal framework took place to finance federal mandated SNG spending and to reduce high regional disparities (of 83 regions, 10 produce more than 55% of Russia's GDP while they represent only one-third of the national population). Grants can be divided into three categories: 1) Non-conditional equalisation transfers which are formula-based. Forming the Federal Fund for Financial Support of the Regions, they aim at providing the basic level of public services across the nation. Allocation criteria are based on the assessment of revenue capacities and public service delivery costs. 2) Earmarked grants allocated by federal entities. They include unconditional earmarked grants to finance federally-mandated spending and earmarked matching grants to stimulate specific regional expenditure or investments. 3) And compensation payments and other transfers which include "balancing grants" aimed at reducing regional budget deficits. Transfers also include those from regions to municipalities, including equalisation subsidies and other financial support to municipalities. Since the late 2000s, there has been a decline of block equalisation transfers. Earmarked grants have increased to account for more than a half of all transfers in recent years, counteracting the effects of equalisation and reducing regional expenditure autonomy.

**OTHER REVENUES.** The shares of user charges and fees and property income (sales, rents, dividends) in SNG revenue are relatively small, compared to international standards (respectively 5.7% and 0.8%). The majority is made up fines, penalties, and forfeits.

## OUTSTANDING DEBT

|                         | % GDP            |      | % GENERAL GOVERNMENT |      |
|-------------------------|------------------|------|----------------------|------|
|                         | SUBNATIONAL DATA |      | LOCAL DATA ONLY      |      |
| OUTSTANDING DEBT (2013) | 3.2%             | 0.6% | 26.3%                | 4.7% |

A federal law of 1993 guaranteed SNGs the right to borrow. The Budget Code in 2000 and further regulations placed clear limits on the borrowing of SNGs. However, there are no specific restrictions on the use of borrowing (e.g. such as restricting the use of debt to investment projects). Debt is limited to a ceiling equal to the SNG's annual budget revenue net of federal grants. In addition, debt servicing costs must not exceed 15% of expenditure net of grants. Compliance with these limits is monitored by the Ministry of Finance who can impose financial sanctions. The average debt levels of Russia's SNGs are low by international standards, both at regional and local levels but it is likely to rise in the current economic context and higher expenditure obligations for the regions. The SNG debt is very concentrated: regions hold 82% of SNG debt and few regions only make the bulk of debt stock, including the federal city and the region of Moscow. SNG is made up financial debt (78%) and other accounts payable (12% but 33% for the municipal level). The financial debt is composed mainly of loans (67% of outstanding debt in 2013), securities accounting for 21% (mostly issued by the regions).

A joint study of:



**Sources:** Federal state statistics service Rosstat (2016), Russia in Figures 2016 • Ministry of Finance (2015) <http://www.roskazna.ru/en/government-finance-statistics> • Alexeev M. et al (2015), Fiscal decentralization and budget discipline in Russia's regions • European Parliament (2015) Russia's constitutional structure: Federal in form, unitary in function - OECD (2015), OECD Territorial Reviews: The Krasnoyarsk Agglomeration, Russian Federation • OECD (2013) Russia: Modernising The Economy, "Better Policies" Series • Alexeev M. and Weber S. (2013) Russian Fiscal Federalism: Impact of Political and Fiscal (De)centralization - Drobot E. (2012) Territorial Fundamentals of Local Self-governance in Russia: Basic Reform Concept", MPRA Paper No. 6451 • Council of Europe (2010), Local and regional democracy in the Russian Federation • Vartapetov K. (2010) Russia's federal fiscal grants: regional equalisation and growth, Post-Communist Economies, 22:4, 471-481.



# SERBIA

UNITARY COUNTRY

EURO-ASIA

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - UPPER MIDDLE INCOME Local currency - SERBIAN DINAR (RSD)

### POPULATION AND GEOGRAPHY

AREA: **77 474** km<sup>2</sup>

POPULATION: **7.129** million inhabitants (2014),  
a decrease of 0.6 % per year (2010-2014)

DENSITY: **92** inhabitants/km<sup>2</sup>

URBAN POPULATION: **55.6%** of national population

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

Sources: World Bank Development Indicators, UNDP-HDI, ILO

### ECONOMIC DATA

GDP: **96.9** billion (current PPP international dollars)  
i.e. 13 592 dollars per inhabitant (2014)

REAL GDP GROWTH: **-1.8%** (2014 vs 2013)

UNEMPLOYMENT RATE: **18.9%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **2 000** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **15.6%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.771** (high), rank **66**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL   | TOTAL NUMBER OF SNGs |
|---|--------------------|---|----------------------|
| <b>174</b><br>23 CITIES (GRAD) AND<br>150 MUNICIPALITIES (OPSTINA)<br>+ CITY OF BELGRADE<br>AVERAGE MUNICIPAL SIZE:<br>40 805 INHABITANTS | -                  | <b>2</b><br>2 AUTONOMOUS PROVINCES<br>(POKRAJINE VOJVODINA<br>AND KOSOVO AND METOHJA) | <b>176</b>           |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Serbia is a unitary country with a one tier structure of government. This tier is composed by 150 municipalities (*opstina*), 23 Cities (*grad*) and the City of Belgrade, which are themselves divided into several subordinate administrative units (*mesna zajednica*). Municipalities (usually >10000hab), has an assembly, public service property and a budget. They comprise local communities. Cities (>100000) have an assembly and budget of its own. Municipalities and cities are gathered into larger entities known as districts which are regional centers of state authority. Besides 5 Regions created for statistical purposes, there are also 2 autonomous Provinces, Pokrajine Vojvodina as well as Kosovo and Metohija. Local governments' existence and autonomy are enshrined in the Constitution of Republic of Serbia (2006) and the Law on Local Governments (2007).

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The main local responsibilities are infrastructure services including urban water supply, sanitation and sewerage, local road maintenance, solid waste management, urban planning and housing as well as transport, heating, kindergartens and preschool education, facilities in the field of sport and culture, public lighting. Competences on primary and secondary education and on social care are shared with the central State level, with staff wages being paid by local governments, and facilities and investment costs being covered by municipal budgets. Other shared responsibilities include management of local airports and social housing centers for the youth.

## SUBNATIONAL GOVERNMENT FINANCE

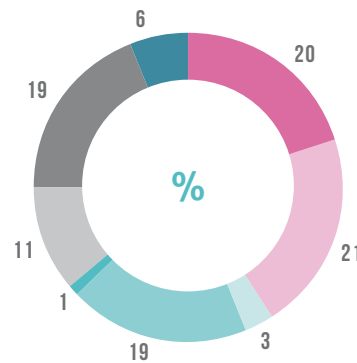
| EXPENDITURE              | % GDP | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|--------------------------|-------|---|-----------------------------|
| TOTAL EXPENDITURE (2012) | 7.9%  | 16.8%   | 100%                        |
| CURRENT EXPENDITURE      | 6.4%  | -   | 81.8%                       |
| STAFF EXPENDITURE        | 2.3%  | 19.0%   | 29.8%                       |
| INVESTMENT               | 1.4%  | 43.5%   | 18.2%                       |

The share of spending undertaken by municipalities has increased over the years, reflecting the influence of new legal framework on the devolution of powers and municipal funding. With the financial crisis and its consequences in terms of budget cuts getting gradually away, municipalities are able to launch projects that were stopped by lack of funding and capital expenditures have been recently increasing again.



## EXPENDITURE BY FUNCTION

### % SUBNATIONAL GOVERNMENT EXPENDITURE



Most part of subnational budget is spent on economic affairs, general public services, education and housing and community amenities (between 21 and 19% of total subnational expenditures for each sector), which reflects a diversified field of responsibilities.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL<br>GOVERNMENT |
|----------------------|-------|---|-----------------------------|
| TOTAL REVENUE (2012) | 7.9%  | 19.3%   | 100%                        |
| TAX REVENUE          | 4.5%  | 18.4%   | 56.6%                       |
| GRANTS AND SUBSIDIES | 2.1%  | -   | 26.2%                       |
| OTHER REVENUES       | 1.4%  | -   | 17.2%                       |

Last local finance reform of 2007 has modified the LG's revenues system. Municipal resources are perceived from local and shared taxation, block grants and fees and charges. Local governments perceive revenues equal to 7.9% of GDP in 2012, which is relatively low in comparison to EU average.

**TAX REVENUE.** In 2006, Serbia passed the Law on Local Government Finance which set the share of the personal income tax local governments receive. Thereby, in 2012, Personal income tax (PIT) revenues represent the main municipal financial resource (around 65%). PIT is a shared tax levied by the central government on gross wages, payroll tax and on income coming from self-employed, agriculture exploitation, ect. Municipalities can receive 80% of the tax (70% for Belgrade capital-city). Besides the PIT, local taxation relies on property transfer tax, which accounts for almost 35% of total tax revenues, and tax on inheritance and gift. LGs can set rate of the property tax in the limits provided by the law on local self-governments.

**GRANTS AND SUBSIDIES.** Municipalities receive non-earmarked transfers (equalization fund for intergovernmental transfers to compensate for the disparities between local governments, legally set at 1.7% of GDP ; compensation transfers; transitional transfer; general transfers) as well as earmarked transfers ( block transfers; categorical transfers in a narrow sense). National government in Serbia has cut some local grants after the Great Recession. Finally, current grants account for 92.5% of local government transfer revenues, against 6.6% for capital grants. The 2011 amendments also created a new transfer called the Solidarity Transfer to all municipalities except the City of Belgrade, equal to 10% of the wage taxes of the City of Belgrade, but in practice is functioning is not transparent.

**OTHER REVENUES.** Municipalities are able to perceive fees on urban land use, as well as business license and land development fees (especially for the City of Belgrade).

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

Under the public debt law, municipalities are allowed to borrow to finance capital investment. Either loans or bonds may be contracted on both domestic (Serbian government funds) and foreign capital markets, in domestic or foreign currency. The above-mentioned law on public debt also provides for ceilings. Level of municipal borrowing has rapidly grown over the last 4 years, and local debt represents a negligible share of total public debt. Yet at the national level, the consolidated debt of the General Government now exceeds the limits set by the Maastricht Treaty.

A joint- study of:



Sources: IMF-GFS • World Bank (2013), *Serbia municipal finance and expenditure review* • EU Committee of the Regions • PEFA Serbia Assessment (2013) • Network of Associations of Local Authorities of South-East Europe (2016), Fiscal Decentralization Indicators for South-East Europe: 2006-2014



# UKRAINE

UNITARY COUNTRY

EURO-ASIA

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - LOWER MIDDLE INCOME Local currency - Ukrainian hryvnia (UAH)

### POPULATION AND GEOGRAPHY

AREA: **603 550** km<sup>2</sup>

POPULATION: **45.363** million inhabitants (2014),  
a decrease of -0.3% per year (2010-14)

DENSITY: **75** inhabitants/km<sup>2</sup>

URBAN POPULATION: **69.5%** of national population

CAPITAL CITY: **Kiev** (6.5% of national population)

Sources: OECD, World Bank, UNDP, ILO.

### ECONOMIC DATA

GDP: **370.5** billion (current PPP international dollars)  
i.e. 8 168 dollars per inhabitant (2014)

REAL GDP GROWTH: **-6.8%** (2014 vs 2013)

UNEMPLOYMENT RATE: **9.3%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **847** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **14%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.747** (high), rank **81**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL   | REGIONAL OR STATE LEVEL   | TOTAL NUMBER OF SNGs |
|---|--|---|----------------------|
| <b>10 670*</b><br>272 CITIES (MISTA)<br>777 TOWNSHIPS<br>9 621 RURAL SETTLEMENTS<br><small>* Figures include amalgamated municipalities in 2015</small> | <b>721</b><br>DISTRICTS (RAYONS)<br>INCLUDING 488 RURAL DISTRICTS<br>AND 47 URBAN DISTRICTS AND<br>186 CITIES OF REGIONAL IMPORTANCE | <b>27</b><br>24 REGIONS (OBLAST)<br>1 AUTONOMOUS REPUBLIC (CRIMEA),<br>2 CITIES (KIEV AND SEVASTOPOL) | <b>11 418</b>        |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Ukraine has a complex three-tier system of SNGs, established by Article 7 and Chapter XI of the 1996 Constitution. The regional level is composed of 24 regions (*oblasts*) along with the Autonomous Republic of Crimea and the two cities of Kyiv and Sevastopol. The second tier is composed of districts (*rayons*) in urban and rural areas and cities of regional importance (*oblast* subordination) while the last tier consists of small cities, townships and rural settlements. Ukraine also comprises 27 206 villages. This decentralised system is interwoven with central government authorities operating at the subnational level. In fact, regions and districts have an elected legislative council, but an executive body appointed by the central government. In contrast, cities of regional importance (186 in 2016) have an elected executive body. In April 2014 the government approved the Concept of Reform of Local Self-Government and the Territorial Organisation of Power. Two laws on voluntary municipal amalgamations and inter-municipal co-operation were adopted in 2015. In 2015, 159 new amalgamated municipalities were created comprising approximately 850 municipalities. A decentralisation programme, requiring constitutional reform, includes the transfer of powers, competences and financial means from the central government to regional and local levels, and the election of executive authorities in regions and districts.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Ukraine is characterised by an asymmetrical territorial structure, with competences allocated differently for same levels of local government. A distinction is made between delegated competences (education, health, and social welfare) and exclusive competences for which SNGs have more autonomy (e.g. utilities, housing and social protection). The distribution of competences across levels of government is complex and unclear. Regional competences include regional development programmes, health, education, culture, social welfare, distribution of state budget funds, regional planning, transport and agriculture. District competences include district planning and development programmes, distribution of state budget funds, natural resources, health, education, culture, social welfare, transport and agriculture. Municipal competences include maintenance of technical infrastructure, urban planning, energy, transport, water, heating, waste management, tourism, environment, local commerce and employment, development programmes, urban development, education, social welfare, health care, etc.

## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP        | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|--------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>14.9%</b> | <b>31.3%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | 13.2%        | -   | 88.2%                       |
| <b>STAFF EXPENDITURE</b>        | 7.1%         | 60.2%   | 47.3%                       |
| <b>INVESTMENT</b>               | 0.6%         | 54.9%   | 3.9%                        |

On paper, Ukrainian SNGs are major social and economic actors: their spending decentralisation ratios place the country slightly above OECD unitary country averages. However, most SNG spending is made on behalf of the central government, SNGs having little influence. In the same vein, SNGs are major public employers (the share of SNG staff spending in staff public spending is twice that of SNG spending in total public spending) but in reality, they are responsible for the salaries of delegated functions (teachers, social and health staff). While SNG investment represents a very small portion of SNG expenditure, it represented a large share of public investment in 2013.



## EXPENDITURE BY FUNCTION

### % SUBNATIONAL GOVERNMENT EXPENDITURE



Major categories of SNG spending include education, social protection and healthcare which represent over 80% of total SNG expenditure. In addition, SNG expenditure constitutes the bulk of public spending in these three areas, as well as in the housing and cultural sectors. SNGs, however, do not have much freedom in managing that expenditure since key elements are decided centrally by the ministries responsible.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 15.0% | 34.6%   | 100%                     |
| TAX REVENUE          | 5.6%  | 24.3%   | 37.6%                    |
| GRANTS AND SUBSIDIES | 7.9%  | -   | 52.7%                    |
| OTHER REVENUES       | 1.4%  | -   | 9.6%                     |

The relative share of each main revenue source is in line with OECD unitary country averages. Half of SNG revenue comes from central government transfers and almost 38% from taxation, mostly shared. In fact, the gap between SNG own revenues and their spending responsibilities is very wide. The current fiscal framework is currently evolving in the framework of the decentralisation reform.

**TAX REVENUE.** Most SNG tax revenue comes from tax sharing. It includes shares of the PIT (around 80% of SNG tax revenue in 2013), tax on goods and services, business profit tax and the land tax. The shares allocated to SNGs are set by the national parliament; SNGs do not have the possibility to adjust tax rates or bases. PIT sharing is made according to a fixed percentage, levied locally. The percentage varies according to the category of SNG (from 25% to 100%, the majority receiving 50%). There is also an internal redistribution of PIT receipts across different SNG levels. According to the Tax Code passed in 2010, the number of local taxes was reduced from 15 to five: three are compulsory local taxes (a new property tax other than land, single tax (unified tax), license for special entrepreneurial activities) and two are optional charges (parking and tourist taxes), but they remain very limited.

**GRANTS AND SUBSIDIES.** Central government transfers are mainly dedicated to finance delegated functions and staff wages (education, social protection, health). They comprise, in approximately equal proportions, earmarked transfers and equalisation grants. The indicator taken into account for equalisation is tax potential, based on the list of resources considered for equalisation by the Budget Code. Other criteria are taken into consideration (population consumers) to assess the level of expenditure gaps. State earmarked grants finance social benefits (social grants) and local investment needs. The level of transfers is decided annually which introduces considerable uncertainty at the local level.

**OTHER REVENUES.** Other revenues include sales of goods and services (for instance a licence fee for individuals selling goods at markets and bazaars) and property income (rent).

## OUTSTANDING DEBT

|                         | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 1.4%  | 3.7%                 |

The legal framework contains some fiscal rules for local budgets which are quite loose and vary for different budget funds (general and special funds). SNGs can borrow but only to fund investment projects (golden rule) and with authorisation of the central government. For this purpose, some SNGs (e.g. cities of oblast subordination) have access to the national capital market within the limits of the law. This activity is strictly controlled and co-ordinated by the central government. In 2013, SNG debt was low by international standards and mostly composed of financial debt with a similar share between loans and bonds.

A joint- study of:



**Sources:** IMF Government Finance Statistics • Parliament of Ukraine (<http://static.rada.gov.ua/zakon/new/NEWSAIT/ADM/zmist.html>) • OECD (2013) Territorial Review of Ukraine • S&P Report (2013), Ukraine Local Government System Is Volatile And Underfunded • Gavrylenko A.S (2013), Features of Fiscal Decentralization in Ukraine, Actual Problems Of Economics • Assembly of European Regions (2013), Briefing Note on Local and Regional Government in Ukraine • Council of Europe (2013) Local and regional democracy in Ukraine • Sydorovych, M. (2011) Financing Local Government in Ukraine", Federal Governance, vol. 8 no 3, pp. 5-27.



# AUSTRIA

FEDERAL COUNTRY

## EUROPE

### BASIC SOCIO-ECONOMIC INDICATORS

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

#### POPULATION AND GEOGRAPHY

AREA: **82 409** km<sup>2</sup>

POPULATION: **8.544** million inhabitants (2014), an increase of 0.5% per year (2010-14)

DENSITY: **104** inhabitants/km<sup>2</sup>

URBAN POPULATION: **65.9%** of national population

CAPITAL CITY: **Vienna** (20.4% of national population)

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

#### ECONOMIC DATA

GDP: **407.5** billion (current PPP international dollars) i.e. 47 695 dollars per inhabitant (2014)

REAL GDP GROWTH: **0.4%** (2014 vs 2013)

UNEMPLOYMENT RATE: **5.6%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **8 202** (BoP, current USD millions, 2014)

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

HUMAN DEVELOPMENT INDEX: **0.885** (very high), **rank 23**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL                        | TOTAL NUMBER OF SNGs |
|---|--------------------|--|----------------------|
| <b>2 100</b>  | <b>-</b>           | <b>9</b>                                       | <b>2 109</b>         |
| 2 100 MUNICIPALITIES<br>(GEMEINDEN)<br>AVERAGE MUNICIPAL SIZE:<br>4 090 INHABITANTS |                    | 9 STATES<br>INCLUDING VIENNA<br>(BUNDESLÄNDER) |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Austria has two tiers of SNGs: states and municipalities. The municipal level, governed by state legislation, comprises statutory cities (*Statutarstädte*), towns, markets and villages. Moreover, for administrative purposes, Austrian states are also divided into 80 districts (*Bezirke*). The 15 statutory cities have a special statute, regrouping the power and responsibilities of a municipality and a district. Several Länder reduced the number of municipalities in the 1960s and 1970's (Lower Austria, Carinthia and Burgenland). The last important municipal reform was launched in implemented by the Land of Styria in January 2015.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The 1920 Constitution and the Federal Constitutional Law define the Austrian federal system, recognising both the autonomy of states and the municipalities' right to self-government. According to Article 15, large exclusive competencies are assigned to the federal government, the residual ones being assigned to the *Länder*: spatial planning, environment, agriculture, police and emergency service, municipal affairs, etc. *Länder* also have the constitutionally guaranteed right to execute some federal laws e.g. in the areas of primary and secondary education, healthcare (hospitals), social welfare, housing and urban and regional development. Local governments are responsible for local services and infrastructure, having their own responsibilities but also delegated responsibilities from the federal or *Land* government. Unlike other OECD federations, Austria's states have comparatively little autonomy. The 2003 Austrian Constitutional Convention was supposed to carry out a wide reform of the federation, including reducing vertical fiscal imbalances, redistributing subnational responsibilities and simplifying the federal system. However, the Convention closed in 2005 without any significant agreement being reached.

### SUBNATIONAL GOVERNMENT FINANCE

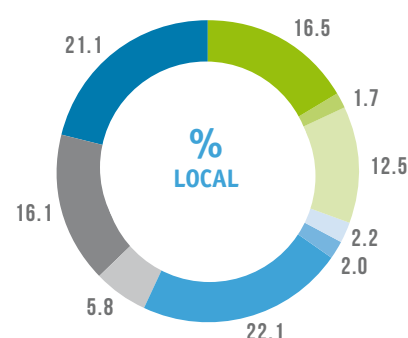
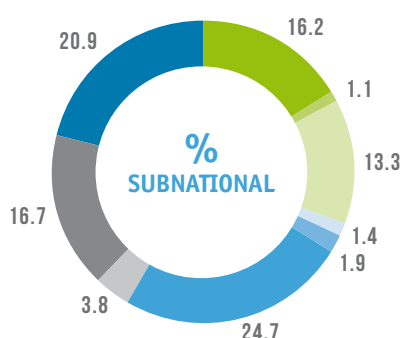
| EXPENDITURE              | % GDP            |      | % GENERAL GOVERNMENT<br>(same expenditure category) |       | % SUBNATIONAL GOVERNMENT |       |
|--------------------------|------------------|------|---|-------|--------------------------|-------|
|                          | SUBNATIONAL DATA |      | LOCAL DATA ONLY                                     |       |                          |       |
| TOTAL EXPENDITURE (2013) | 17.6%            | 8.5% | 34.6%   | 16.7% | 100%                     | 100%  |
| CURRENT EXPENDITURE      | 15.7%            | 7.4% | -   | -     | 89.3%                    | 87.4% |
| STAFF EXPENDITURE        | 5.9%             | 2.6% | 55.1%   | 24.9% | 33.2%                    | 31.0% |
| INVESTMENT               | 1.3%             | 0.8% | 55.5%   | 34.4% | 7.4%                     | 9.5%  |

SNG spending is below the OECD average of the 9 federal countries (19% of GDP and 49% of public expenditure in 2013) and is even in the last position of OECD federal countries in terms of share in total public spending. States and municipalities however represent a large share of public staff expenditure. Both have a similar weight in SNG expenditure (52% for the states and 48% for the municipalities). SNGs role in public investment is also slightly less significant than in other OECD federal countries where it represented 1.8% of GDP, 60% of public investment and 9.6% of SNG expenditure in 2013. Local government spending responsibilities are limited (estimated at around 15% of total SNG spending).



## EXPENDITURE BY FUNCTION

### % SUBNATIONAL GOVERNMENT EXPENDITURE



The two largest areas of SNG spending are health and social protection, which represented almost half of SNG expenditure in 2013. These two sectors are followed by education and general public services. The largest spending categories for Länder and local government are the same i.e. health, social protection and education.

## REVENUE BY TYPE

### % GDP

### % GENERAL GOVERNMENT (same revenue category)

### % SUBNATIONAL GOVERNMENT

■ SUBNATIONAL DATA □ LOCAL DATA ONLY

| <b>TOTAL REVENUE (2013)</b> | <b>17.4%</b> | <b>8.5%</b> | <b>35.1%</b> | <b>17.1%</b> | <b>100%</b> | <b>100%</b> |
|-----------------------------|--------------|-------------|--------------|--------------|-------------|-------------|
| <b>TAX REVENUE</b>          | 1.8%         | 1.3%        | 6.3%         | 4.5%         | 10.1%       | 14.9%       |
| <b>GRANTS AND SUBSIDIES</b> | 12.6%        | 5.5%        | -            | -            | 72.6%       | 64.6%       |
| <b>OTHER REVENUES</b>       | 3.0%         | 1.7%        | -            | -            | 17.3%       | 20.6%       |

The constitutional background of the intergovernmental fiscal relations is given by the 1948 Fiscal Constitutional Law providing for the Fiscal Equalization Law (*Finanzausgleichsgesetz* or FAG) adopted for a given period. The FAG details the rules of tax sharing, intergovernmental transfers and cost bearing between levels of government. The Austrian system is characterised by significant vertical fiscal imbalances, SNGs depending largely on federal transfers, even after the 2008 FAG which transformed 40% of the intergovernmental grants into higher shares of tax revenue.

**TAX REVENUE.** SNGs receive nearly all their tax revenue from shared taxes, for which the rules are determined by the FAG. Shared taxes include in particular VAT receipts, wage tax, corporate tax and the petrol tax. In 2013, the federal government received around 67% of joint taxes, the *Länder* 21% and the municipalities 12%. The amount allocated to individual SNGs is determined according to tax and demographic criteria. SNG share of own taxes is among the lowest in the OECD. They are negligible for the *Länder* but higher for municipalities which can collect the municipal business tax (*Kommunalsteuer*) and the property tax (*Grundsteuer*), levied on both land and buildings (0.2% of GDP). Tax administration is carried out mostly at the federal level. Approximately 95 % of all revenue is levied by federal revenue offices; municipalities levy more than 4 % and *Länder* less than 1 % of the total tax revenue.

**GRANTS AND SUBSIDIES.** Transfers from the federal government to states and municipalities are defined in the FAG, which distinguishes between general grants (quota allocation funds) and specific grants (to cover special needs or purposes). General grants are transfers aimed at equalising the average revenue of *Länder* and municipalities resulting from tax sharing (horizontal equalisation). Other transfers from the federal government include transfers for housing development, environmental purposes and infrastructure as well as transfers from the federal natural disasters fund. Municipalities also receive grants from state governments.

**OTHER REVENUES.** Other revenues are derived from user charges and fees (15% of municipal revenues, especially levied on water, sewerage and waste), asset sales, income from property and public companies. They represent a significant source of revenue compared to the OECD average.

## OUTSTANDING DEBT

### % GDP

### % GENERAL GOVERNMENT

■ SUBNATIONAL DATA □ LOCAL DATA ONLY

| <b>OUTSTANDING DEBT (2013)</b> | 9.1% | 3.6% | 10.0% | 4.0% |
|--------------------------------|------|------|-------|------|

The Internal Stability Pact, which came into force in December 2012, sets new fiscal rules which apply to all levels of government. According to the Pact, all levels of government must reach a balanced budget in 2016, and from 2017 onwards a structural balance rule will be implemented, relating deficits to the output gap. Moreover, all levels of government must reduce their level of debt by 1/20 per year. The Federal Financing Agency gives Austrian states access to funds from the sovereign. The Austrian Fiscal Advisory Council (*Fiskalrat*) was created in 2013 as an independent fiscal institution to promote sustainable public finances and fiscal discipline, including at subnational level. Bond financing, allowed for states and municipalities, represented around one-third of total SNG financial debt but 44% for the *Länder* and 11% for municipalities.

A joint study of:



**Sources:** OECD National Accounts Statistics • OECD (2015 and 2016) Subnational Governments in OECD Countries: Key data • OECD (2015) The State of Public Finances 2015: Strategies for Budgetary Consolidation and Reform in OECD Countries • OECD (2015) OECD Economic Surveys: Austria 2015 • European Committee of the Regions (2014) Division of Powers Between the European Union Member States Candidate and some Potential Candidate Countries, and Local and Regional Authorities: Fiscal Decentralisation or Federalism • Unicredit (2014) Financing Austria's regional and local governments (RLGs) • Council of Europe (2011) Local and regional democracy in Austria • Dexia (2008) Subnational governments in the European Union: organisation, responsibilities and finance.



# BELGIUM

FEDERAL COUNTRY

EUROPE

## BASIC SOCIO-ECONOMIC INDICATORS

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

### POPULATION AND GEOGRAPHY

AREA: **30 326** km<sup>2</sup>

POPULATION: **11.157** million inhabitants (2014),  
an increase of 0.6% per year (2010-14)

DENSITY: **368** inhabitants/km<sup>2</sup>

URBAN POPULATION: **97.8%** of national population

CAPITAL CITY: **Brussels** (18.2% of national population)

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

### ECONOMIC DATA

GDP: **487.8** billion (current PPP international dollars)  
i.e. 43 724 dollars per inhabitant (2014)

REAL GDP GROWTH: **1.3%** (2014 vs 2013)

UNEMPLOYMENT RATE: **8.5%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **-20 097** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **23%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.890** (very high), **rank 21**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL                          | REGIONAL OR STATE LEVEL  | TOTAL NUMBER OF SNGs |
|--|---|--|----------------------|
| <b>589</b>   | <b>10</b>                                   | <b>6</b>   | <b>605</b>           |
| <b>MUNICIPALITIES</b><br>(COMMUNES, GEMEENTEN)<br>AVERAGE MUNICIPAL SIZE:<br><b>19 030 INHABITANTS</b> | <b>PROVINCES</b><br>(PROVINCES, PROVINCIËS) | <b>3 REGIONS</b> (REGIONS,<br>GEWESTEN) AND <b>3 COMMUNITIES</b><br>(COMMUNAUTÉS,<br>GEMEENSCHAPPEN) |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Since the adoption of the 1831 Constitution, six constitutional revisions have progressively transformed Belgium from a unitary into a federal country, in particular since 1970. The last reform, started in 2011 and operational since 2014, further strengthened the federalisation of the country. Belgium has three tiers of SNGs: 6 federated states, including 3 regional governments (Flanders, Wallonia and the Brussels capital-region) and 3 community governments (Flemish, German, and French Speaking Communities) which overlap territorially; 10 provinces; and 589 municipalities which are governed by regional legislation. Flanders and Wallonia regions have started reforming the provincial and municipal levels in their respective territories. In Flanders, the government is engaged in voluntary municipal mergers and the "downsizing of the provinces" which will focus more on "territory-related powers", losing the "people-based powers" as well as some taxing powers. The Walloon Government aims at "optimising" the role of the provinces by developing "supra-municipality".

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Extensive competences are assigned to the regions while the residual ones are assigned to the federal government, giving great autonomy to the states. With the 6<sup>th</sup> reform of the State of 2011 (in effect since 2014), additional competencies have been transferred to the states. Regions are responsible for territorial matters (infrastructure, industrial policy, etc.) but also employment and tax matters since 2014 while communities are responsible for people-related matters (e.g. culture, education, welfare, health, sport), including since 2014 family allowances, care of the aged, health care; hospitals, justice homes, etc. Provincial and municipal responsibilities are not clearly defined in the legislation and they often overlap. Provinces have developed responsibilities in the fields of education, social and cultural infrastructure, environment, roads and waterways, preventive health, transport, public works, housing, etc. Municipal responsibilities are very extensive, covering missions attributed by higher authorities and those in the "municipal interest".

## SUBNATIONAL GOVERNMENT FINANCE

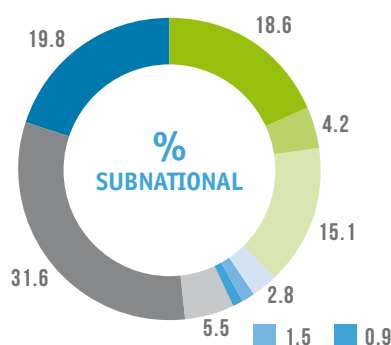
| EXPENDITURE                     | % GDP            |             | % GENERAL GOVERNMENT<br>(same expenditure category) |              | % SUBNATIONAL GOVERNMENT |             |
|---------------------------------|------------------|-------------|---|--------------|--------------------------|-------------|
|                                 | SUBNATIONAL DATA |             | LOCAL DATA ONLY                                     |              |                          |             |
| <b>TOTAL EXPENDITURE (2013)</b> | <b>23.0%</b>     | <b>7.2%</b> | <b>42.3%</b>  | <b>13.2%</b> | <b>100%</b>              | <b>100%</b> |
| <b>CURRENT EXPENDITURE</b>      | 20.1%            | 6.3%        | -   | -            | 87.5%                    | 88.6%       |
| <b>STAFF EXPENDITURE</b>        | 9.7%             | 4.0%        | 77.7%   | 32.0%        | 42.2%                    | 55.7%       |
| <b>INVESTMENT</b>               | 1.9%             | 0.7%        | 89.3%   | 33.3%        | 8.4%                     | 10.1%       |

While the 6<sup>th</sup> State reform has not yet affected SNG spending, SNGs were already key economic and social actors in 2013. SNG share in public spending is slightly below the OECD average of the nine federal countries (49% of public expenditure) but above the average when the share in GDP is considered (19% of GDP). Both ratios should increase significantly with the implementation of the federalisation reform. Local government expenditure represents a relatively small share of SNG expenditure (28% vs 72% for the regional level) and total public expenditure (13%). However, municipalities and provinces, besides federated states, are key employers. SNGs are major public investors, carrying out the great majority of public investment in the country.



## EXPENDITURE BY FUNCTION

### % SUBNATIONAL GOVERNMENT EXPENDITURE



SNG principal expenditure categories include education, social protection, general public services and economic affairs. The largest area of regional and community spending by far is education (37%), followed by social protection and economic affairs/transport. At the local level, the priority areas are social protection and education. Security and public order represent 13% of local spending, resulting from the reform of the police force and the recent creation of “multi-municipal police zones”.

## REVENUE BY TYPE

### % GDP

### % GENERAL GOVERNMENT (same revenue category)

### % SUBNATIONAL GOVERNMENT

|                             | SUBNATIONAL DATA |             | LOCAL DATA ONLY |              |             |             |
|-----------------------------|------------------|-------------|-----------------|--------------|-------------|-------------|
| <b>TOTAL REVENUE (2013)</b> | <b>22.6%</b>     | <b>6.9%</b> | <b>43.8%</b>    | <b>13.4%</b> | <b>100%</b> | <b>100%</b> |
| <b>TAX REVENUE</b>          | 4.6%             | 2.2%        | 15.0%           | 7.0%         | 20.3%       | 31.1%       |
| <b>GRANTS AND SUBSIDIES</b> | 13.9%            | 3.6%        | -               | -            | 61.7%       | 51.9%       |
| <b>OTHER REVENUES</b>       | 4.1%             | 1.2%        | -               | -            | 18.0%       | 17.0%       |

The 6<sup>th</sup> reform included the revision of the 2001 Special Financing Act through the special law of 6 January 2014 on the Reform of the Financing of the Communities and Regions. It led to the reinforcement of regional financial autonomy. The reform bolstered the own-source revenue of regions and communities, reducing previous vertical fiscal imbalance, to compensate for the elimination of grants from the federal government.

**TAX REVENUE.** There are around 12 regional taxes, including registration duties on sales of real estate, inheritance and gift tax, tax on vehicles, the withholding tax on real estate (property tax), etc. Since the reform, regions have been able to raise additional “enlarged” percentages of PIT. This “regionalisation” of the PIT will be the main revenue source of the regions in the future. Belgium differs from other countries due to its open system of local taxes: local governments can create new local taxes and have large leeway over both rates and bases. The main local own-taxes are the surtax (additional centimes) on the PIT, on the vehicle tax and on the regional withholding tax on real estate.

**GRANTS AND SUBSIDIES.** Until the 6<sup>th</sup> reform, regions and communities received an annual share of the PIT collected in their territory and a share of VAT (only for the communities). Federal transfers to states also included a “national solidarity grant” for regions whose average PIT yield is below the national average, drawing rights and a compensatory grant for the radio-television licence fee. Local governments receive funds and specific allocations from their regional government, the Municipal and Provincial Funds being the most important. These general purpose transfers include financial equalisation mechanisms. Other earmarked funds include operation subsidies to cover specific current and capital spending responsibilities.

**OTHER REVENUES.** SNGs can generate their own income from user tariffs and fees (around 10% of SNG revenues) and from income from financial and physical assets (rentals, dividends, interests, etc.).

## OUTSTANDING DEBT

### % GDP

### % GENERAL GOVERNMENT

|                                | SUBNATIONAL DATA |             | LOCAL DATA ONLY |             |
|--------------------------------|------------------|-------------|-----------------|-------------|
| <b>OUTSTANDING DEBT (2013)</b> | <b>18.8%</b>     | <b>5.9%</b> | <b>16.0%</b>    | <b>5.0%</b> |

Belgium has an internal stability pact covering the period 2015-18. For the first time, it now concerns all levels of government, including local authorities which are formally integrated in accordance with the co-ordination mechanisms established by the Cooperation Agreement of 13 December 2013 to implement the Fiscal Compact. Regions and communities can borrow to cover current and capital expenditure. They are authorised to issue debt on financial markets, although they require authorisation from the Federal Minister of Finance. Municipalities and provinces are free to borrow but only to fund investment projects (“golden rule”). Regional debt represents 70% of total SNG debt. It is made up of 38% of bonds and 62% of loans. Local debt comprises mainly loans (95% of outstanding local debt).

A joint- study of:



**Sources:** OECD National Accounts Statistics • OECD (2015 and 2016), Subnational Governments in OECD Countries: Key data • Chatry I., Hulbert C. (2016), Multi-level governance reforms: Overview of OECD country experiences OECD publishing • Council of Europe (2014), Local and regional democracy in Belgium • Belfius Research (2015), Les pouvoirs locaux dans le cadre du pacte de stabilité budgétaire et des normes SEC • G. Jennes (2015) “A test of the Law of 1/n for Belgium: Does “more politicians” mean “more public spending”?”, Vives Discussion Paper 49 • Government of Flanders (2014), 2014-2019 Coalition Agreement • K. de Ceuninck, H. Reynaert (2011), Flanders Heading Towards Its Own State Reform HKJU • CCPA, god. 11. (2011.) • Dexia (2008) Sub-national Governments in the European Union. Organisation, Responsibilities and Finance.



# BULGARIA

UNITARY COUNTRY

EUROPE

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **UPPER MIDDLE INCOME** Local currency - **LEV**

### POPULATION AND GEOGRAPHY

AREA: **111 000** km<sup>2</sup>

POPULATION: **7.168** million inhabitants (2014), a decrease of -0.59% per year (2010-14)

DENSITY: **65** inhabitants/km<sup>2</sup>

URBAN POPULATION: **73.6%** of national population

CAPITAL CITY: **Sofia** (17.0% of national population)

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

### ECONOMIC DATA

GDP: **124.3** billion (current PPP international dollars) i.e. 17 342 dollars per inhabitant (2014)

REAL GDP GROWTH: **1.6%** (2014 vs 2013)

UNEMPLOYMENT RATE: **11.6%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **1 971.2** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **21%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.782**(high), rank 59

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|--|--------------------|-------------------------|----------------------|
| <b>265</b><br>MUNICIPALITIES<br>(OBSHTINI)<br>AVERAGE MUNICIPAL SIZE:<br><b>27 160 INHABITANTS</b> | -                  | -                       | <b>265</b>           |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Bulgaria has only one SNG level, that of municipalities, re-established after several decades of a centralised socialist system in order to re-establish local democracy. The Constitution of 1992 recognises the principle of local self-government. Municipalities are sub-divided into smaller towns and villages, totalling 5 267 in 2015. Of these settlements, there are around 2 500 mayoralties (deconcentrated municipal units established by decision of the municipal council, governed by elected mayors and comprising at least 350 inhabitants). There are 25 such units on average per municipality. The three main Bulgarian cities are sub-divided into districts or raions (24 in Sofia, 6 in Plovdiv and 5 in Varna). There is also a central government territorial administration composed of 28 regions (*oblasts*), with governors appointed by the Council of Ministers.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The competences of SNGs are stipulated in the Local Self-Government and Local Administration Act adopted in 1991. Although Bulgaria remains a relatively centralised country, a significant process of decentralisation began in the early 2000s, boosted by the EU accession in 2004 which led to the adoption of the Strategy for Decentralisation in 2006, revised in 2010. Municipal responsibilities are divided into two categories:

- State-delegated competencies which include education (primary and secondary), social protection and health care.
- Municipal own responsibilities include housing and community amenities, economic affairs, environmental protection, water supply and sewerage, waste, urban public transport, roads, culture, tourism and leisure.

## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>7.9%</b> | <b>21.0%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | 5.9%        | -   | 74.1%                       |
| <b>STAFF EXPENDITURE</b>        | 3.1%        | 32.8%   | 39.2%                       |
| <b>INVESTMENT</b>               | 2.0%        | 51.9%   | 25.3%                       |

Despite the decentralisation process over the last years, growth of SNG expenditure in GDP and public expenditure since 2000 has been fairly minimal (respectively 7.6% and 18.6% in 2000). The share of SNGs in public investment represents almost 52%, still below the OECD and EU averages but significantly higher than in 2000 when it was considered to be a low priority and did not benefit yet from EU structural and cohesion funds (17% in 2000).



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



Nearly one-third of local expenditure is concentrated in the education sector (payment of salaries, construction and maintenance of infrastructure), followed by housing and community amenities (e.g. urban heating and lighting, drinking water etc.), economic affairs and transport and then health and social protection. Delegated responsibilities amount to about half of municipal expenditure.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 8.3%  | 22.3%   | 100%                     |
| TAX REVENUE          | 0.8%  | 4.1%  | 10.1%                    |
| GRANTS AND SUBSIDIES | 6.8%  | -   | 81.5%                    |
| OTHER REVENUES       | 0.7%  | -   | 8.4%                     |

Several Acts were adopted in the 2000s to regulate the municipal fiscal framework (structure of municipal revenue, taxing powers, borrowing, etc.) progressively providing municipalities with more fiscal autonomy.

**TAX REVENUE.** An important tax reform took place in 2003 abrogating tax sharing arrangements. Municipal tax revenues are now own-source taxes only, including property tax, the tax on property transactions, vehicle tax, inheritance tax, patent tax and tax on tourism. The first three taxes account for 95% of total local tax revenue, in particular the property tax on land and building which represented 38% of local tax revenue and 0.3% of GDP in 2013. Tax collection has been decentralised since 2006. Since 2008, municipalities have the power to set local tax rates within certain limits, stipulated by law.

**GRANTS AND SUBSIDIES.** A new system of intergovernmental transfers was introduced in 2003. There are three major grants for municipalities:

- the general grant for state-delegated responsibilities (around 75% of all transfers) aims at financing current state-delegated expenditure (see above). Its amount is determined on the basis of standards and physical indicators. Despite its name, it is a specific-purpose grant;
- the general equalising grant (around 10%) to ensure a "minimum level" of local service provision by each municipality. It is unconditional and may finance capital and current expenditure;
- earmarked grants for capital expenditure (around 6%). Amounts redistributed are based upon criteria including population size, number of cities/towns, size of the municipal territory and length of roads.

Current grants represented around 81% of total grants in 2013. The National Association of Municipalities in the Republic of Bulgaria plays an important role in negotiating standards and grant allocation mechanisms and annual levels.

**OTHER REVENUES.** User charges represent a major source of own-sources revenue for municipalities. These fees include fees for waste collection and treatment (the most important), kindergartens, social care homes, municipal social services, markets and marketplaces, administrative services, etc. Since 2003, municipalities have full discretion over tariffs and fees for municipal services. Sale and management of municipal property, fines, penalty charges also represent a significant source of revenue.

| OUTSTANDING DEBT        | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 3.0 % | 12.2%                |

Municipal debt in Bulgaria has steadily increased since the global financial crisis. Financial debt represents 38% of total outstanding debt, the remaining part being made up of "commercial debt" (other accounts payable). A Public Finances Act came into force in 2014 strengthening fiscal rules. It requires municipalities to have a balanced budget and stipulates that a municipality's annual debt payment must be lower than 15% of the annual average sum of own revenues and of the block equalising grant for the last 3 years.

A joint- study of:



**Sources:** Eurostat (Government Finance Statistics) • National Institute of Bulgaria (2015), Statistical yearbook 2015 of Bulgaria • European Committee of the Regions (2014), Division of Powers Between the European Union, Member States, Candidate and some Potential Candidate Countries, and Local and Regional Authorities: Fiscal Decentralisation or Federalism • P. Nenkova (2014), Fiscal Decentralization and Local Finance Reforms in Bulgaria: A Review of Ten Years' Experience, Mediterranean Journal of Social Sciences Vol 23 • National Association of Municipalities in The Republic of Bulgaria (2013), Local Self-Government in Bulgaria • Ministry of finance of Bulgaria (2013), presentation at a conference in Brussels on Domestic arrangements for coordination across general government sub-sectors • Dexia (2008), Subnational governments in the EU: organisation, responsibilities and finance.



## BASIC SOCIO-ECONOMIC INDICATORS

Income group - HIGH INCOME: NON-OECD Local currency - KUNA

## POPULATION AND GEOGRAPHY

AREA: **56 590** km<sup>2</sup>POPULATION: **4.233** million inhabitants (2014), a decrease of -0.37% per year (2010-14)DENSITY: **75** inhabitants/km<sup>2</sup>URBAN POPULATION: **58.6%** of national populationCAPITAL CITY: **Zagreb** (16.1% of national population)

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

## ECONOMIC DATA

GDP: **91.7** billion (current PPP international dollars)  
i.e. 21 664 dollars per inhabitant (2014)REAL GDP GROWTH: **-0.4%** (2014 vs 2013)UNEMPLOYMENT RATE: **17.3%** (2014)FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **3 937** (BoP, current USD millions, 2014)GROSS FIXED CAPITAL FORMATION (GFCF): **19%** of GDP (2014)HUMAN DEVELOPMENT INDEX: **0.818** (very high), rank 47

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL                                      | TOTAL NUMBER OF SNGs |
|---|--------------------|--|----------------------|
| <b>555</b><br>127 TOWNS (GRAD) AND<br>428 MUNICIPALITIES (OPĆINA)<br>AVERAGE MUNICIPAL SIZE:<br>7 625 INHABITANTS | -                  | <b>21</b><br>20 COUNTIES (ŽUPANIJAS)<br>AND ONE CAPITAL CITY | <b>576</b>           |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Today's territorial organisation is established on the basis of the 1990 Constitution and by a set of laws from 1992 and 1993, which brought back the territorial division of counties (abolished in 1922). The country has a two-tier subnational government system consisting of 21 counties (including Zagreb, the capital city, which is both a county and a city) and a local level made up of municipalities and towns. The town status is given to municipalities that are seats of counties with more than 10 000 inhabitants. The average town size is around 24 000 inhabitants, while those of municipalities is 3 000 inhabitants. There are also 6 762 settlements which can be established by the municipalities and the cities and which have their own councils. A reform of local and regional government, part of a wider public administration reform, and which would result in larger regions and municipalities, is currently being discussed.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The SNG system was established through the 1992 and 1993 laws on local self-government and administration. A major new phase of decentralisation took place in 2002 with the transfer of new responsibilities and financial means to counties and 32 towns with the strongest fiscal capacity. Decentralisation of tasks has been gradually extended over the last decade to counties, towns and some other units on an individual basis. In 2010, the Government adopted the *Guidelines and Principles for a Functional Decentralisation and Territorial Reorganisation*. The breakdown of responsibilities is quite complex and unclear because of this asymmetric process. Counties are responsible for secondary education, health care (including hospitals), housing and community planning, economic development, traffic and transport infrastructure, waste management, waste water, social services, etc.

## SUBNATIONAL GOVERNMENT FINANCE

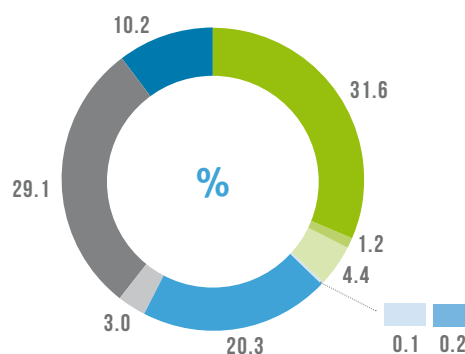
| EXPENDITURE                     | % GDP        | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|--------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>12.3%</b> | <b>25.8%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | 11.0%        | -   | 89.7%                       |
| <b>STAFF EXPENDITURE</b>        | 5.5%         | 45.4%   | 44.5%                       |
| <b>INVESTMENT</b>               | 1.0%         | 26.9%   | 8.2%                        |

Despite a strong decentralisation process, the share of SNG spending in GDP and public spending is below the EU average (respectively 15.9% and 32.8% in 2013), but slightly higher if only the local level is considered. While SNG staff expenditure accounts for a significant share of SNG expenditure, it represents only 26% of public staff expenditure. SNG investment is low as a share of public investment, particularly compared to the EU average (26.9% vs 55.3%).



## EXPENDITURE BY FUNCTION

### % SUBNATIONAL GOVERNMENT EXPENDITURE



While spending on education accounts for almost 30% of SNG expenditure, it does not cover teacher and staff wages (which are funded by central authorities). Other major SNG expenditure includes general public services, healthcare and social protection.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 12.3% | 29.0%   | 100.0%                   |
| TAX REVENUE          | 4.5%  | 17.8%   | 36.6%                    |
| GRANTS AND SUBSIDIES | 7.1%  | -   | 57.9%                    |
| OTHER REVENUES       | 0.7%  | -   | 5.5%                     |

The Law on Local and Regional Self-Government Financing describes SNG revenue types and distribution. In 2013, almost 60% of SNG revenue came from grants and subsidies. The major source of revenue is PIT which serves both as tax revenue (surtax) and grants (tax sharing arrangements).

**TAX REVENUE.** Three-quarters of tax revenue come from the PIT surtax of up to 18% on the amount PIT taxpayers owe to the national government. Other taxes are property taxes (communal charges), which are also shared between the central government and towns and municipalities, with 60% of property tax receipts being granted to local governments (representing 15% of SNG tax revenues in 2013). A reform of communal charges is underway aimed at introducing a proper recurrent property tax.

**GRANTS AND SUBSIDIES.** The major grant to SNGs consists of a share of the PIT. They receive between 56.5% and 90% of the PIT generated in their jurisdictions, depending on their development index and the functions they perform. Sixty percent of PIT revenues paid by local residents are retained by towns and municipalities and 16.5 % by counties. SNGs are granted an additional share of the PIT (which reach up to 6%) if they perform additional decentralised functions.

The remaining share of PIT is pooled at the central level into a “fiscal equalisation fund”; it is redistributed to local units unable to fully support their decentralised functions. The central government has set “minimum financial standards” for the provision of public services devolved to SNGs, based on a set of indicators, defining minimum expenditure at local unit level in each individual decentralised activity.

**OTHER REVENUES.** The vast majority of other revenues include sales of goods and services and property income (sale and rental of municipal assets).

## OUTSTANDING DEBT

|                         | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 3.0%  | 3.3%                 |

In 2010, the Fiscal Responsibility Act was adopted. It sets limits on national and SNG spending, strengthens the legal and functional accountability of budgetary resources, and introduces stronger controls for financial reporting. SNGs can borrow to finance capital investment (golden rule), with previous approval by the central government. SNG borrowing is decided annually by central authorities, according to two main restrictions: a general limit on the aggregate borrowing of all SNGs and an individual limit on each SNG borrowing. These limits do not include communal utilities and/or guarantees issued by local governments. SNG debt is relatively low, in particular financial debt. In fact, 47% of outstanding debt corresponds to loans and 3% comes from bonds while 50% are made up of commercial debts (“other accounts payable”).

A joint- study of:



Publication date: October 2016

**Sources:** Eurostat (Government Finance Statistics) • European Commission staff working document (2016), Country Report Croatia 2016 Including an In-Depth Review on the prevention and correction of macroeconomic imbalances • Network of Associations of Local Authorities of South-East Europe (2016), Fiscal Decentralization Indicators for South-East Europe: 2006-2014 • Croatian Bureau of Statistics (2015) Statistical yearbook of the Republic of Croatia • Kopri, I., M. Klari (2015) New Developments in Local Democracy in Croatia • World Bank (2014) Croatia Public Finance Review • Jutlina Alibegović D., Slijepević S., Kordej-de Villa Z. (2014) Regional Development and Decentralization: two Options to Overcome Lack of Funding Transylvanian Review of Administrative Sciences, No. 43 E/2014, pp. 146-167 • Dubravka Jurlina Alibegović and Sunana Slijepević (2012) Decentralisation in Croatia: problems and possible solutions. Working Paper No. 33/2012, The Institute of Economics, Zagreb • Ministry of Finance of Croatia (2012): Annual Report 2012.



## BASIC SOCIO-ECONOMIC INDICATORS

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

## POPULATION AND GEOGRAPHY\*

AREA: **9 250 / 5 695** km<sup>2</sup>POPULATION: **1.153 / 0.853** million inhabitants (2014),  
an increase of 1.05% / 0.69% per year (2010-14)DENSITY: **124 / 150** inhabitants/km<sup>2</sup>URBAN POPULATION: **67%** of national populationCAPITAL CITY: **Nicosia / Lefkosia**  
(22% / 30% of national population)

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

\*Note: Throughout this document, where only one figure or statistic is presented this does not include the northern part of the island unless otherwise provided. Where two figures appear (e.g. 'XX / YY'), the first figure refers to the whole island, while the second does not include the northern part thereof.

## ECONOMIC DATA

GDP: **25.8** billion (current PPP international dollars)REAL GDP GROWTH: **-2.3%** (2014 vs 2013)UNEMPLOYMENT RATE: **16.1%** (2014)FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **861.1** (BoP, current USD millions, 2014)GROSS FIXED CAPITAL FORMATION (GFCF): **11.5%** of GDP (2014)HUMAN DEVELOPMENT INDEX: **0.850** (high), rank **32**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|--|--------------------|-------------------------|----------------------|
| <b>526 / 380</b><br>39 / 30 MUNICIPALITIES (DEMOS) AND<br>487 / 350 COMMUNITIES (KOINOTITES)<br>AVERAGE MUNICIPAL SIZE:<br>2 190 / 2 245 INHABITANTS | -                  | -                       | <b>526 / 380</b>     |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** The principle of local autonomy is recognised in the Constitution ratified in 1960 (Articles 173 to 178). Cyprus has a single tier local government system, comprising two categories of local government: municipalities (over 5 000 inhabitants) and communities in rural areas (less than 5 000 inhabitants). In the Northern part of the island there are 9 municipalities and 137 communities. In the rest of the island, there are 30 municipalities (created under the 1985 Municipal Act of the Republic of Cyprus) and 350 communities (governed by the Communities Act of 1999). The latter can become a municipality by local referendum and approval of the Council of Ministers if its population is greater than 5 000 inhabitants, or if it has sufficient economic resources to carry out municipal functions. For administrative purposes, Cyprus is also divided into 6 districts (*eparchies*) which are part of the Ministry of Interior. A local government reform began in 2010. A set of three bills was presented by the government in July 2015 to be approved by the Parliament in spring 2016. The reform aims at clustering some municipal services on a district level in order to cut administrative costs. It also includes a reform of local wages.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Competencies differ for communities and municipalities, the latter having more functions. Communities are responsible for waste disposal, water supply and public health. Municipalities are also responsible for these competencies, plus social services and building permits. Larger municipalities are also responsible for the provision of planning permission. As communities have limited functions, a large proportion of services in rural areas are carried out by district offices, on behalf of communities.

## SUBNATIONAL GOVERNMENT FINANCE

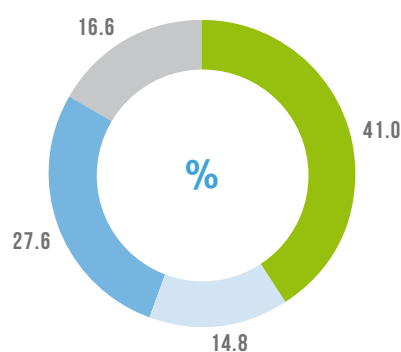
| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>1.5%</b> | <b>3.7%</b>   | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | 1.2%        | -   | 78.0%                       |
| <b>STAFF EXPENDITURE</b>        | 0.7%        | 5.1%  | 47.6%                       |
| <b>INVESTMENT</b>               | 0.3%        | 33.1%   | 22.0%                       |

Cyprus ranks among the EU countries in which the weight of SNG spending in GDP and public expenditure is the lowest (second to Malta). SNGs have very few spending responsibilities, which is also reflected in the low level of spending in total staff spending. However, staff expenditure represents almost half of SNG expenditure, well above the EU average of 34%. Investment also amounts to a relatively large share of SNG spending (above the EU average of 10%) but remains very limited as a percentage of GDP and public investment (well below the EU average).



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



The largest shares of expenditure are allocated to general public services, followed by housing and community amenities (urban lighting, water supply), recreation and culture as well as environmental protection (waste, municipal gardens and parks, sewerage, etc.). Responsibility for water can fall to water boards and sewerage boards, especially in large cities.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 1.7%  | 4.6%  | 100%                     |
| TAX REVENUE          | 0.6%  | 2.4%  | 33.6%                    |
| GRANTS AND SUBSIDIES | 0.7%  | -   | 38.9%                    |
| OTHER REVENUES       | 0.5%  | -   | 27.5%                    |

The different sources of revenue are quite balanced between taxation, grants and subsidies and other types of revenue.

**TAX REVENUE.** All tax revenue is own-source taxes coming from three main taxes: property tax, municipal professional tax, hotel accommodation tax and entertainment tax. Property tax, which represented 55% of local tax revenue in 2013, is calculated based on the market value of immovable property on 1 January 1980, progressive tax rates ranging from 0.6% to 1.9% depending on the value category. Professional tax, introduced in 1985, is levied on companies based on the turnover, share capital and number of employees. An important tax reform has been announced which would have an impact on local taxation.

**GRANTS AND SUBSIDIES.** A general grant is proposed annually by the Council of Ministers and approved by the House of Representatives. One-third of the overall grant is divided equally among the 30 Municipalities and the remaining two-thirds are distributed according to the number of voters. In addition, the government contributes special grants for development projects, approved on a project-by-project basis, according to the project and the financial situation of the council.

**OTHER REVENUES.** User charges and fees account for a large share of SNG revenue, well above the EU average (16%). A large part comes from duties, permits, licences and other royalties. Other municipal revenues include fees for refuse collection, fines, fees for water supply services, charges for the provision of various municipal services, rents, etc.

| OUTSTANDING DEBT        | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 1.6%  | 1.6%                 |

According to the Municipal Act, municipalities can borrow to fund capital expenditure and debt refinancing (golden rule). Municipal loans have to be approved by the Council of Ministers. Community loans must be approved by the district officer. An umbrella legislation, known as the *Fiscal Responsibility and Budget System Law* (FRBSL), passed in February 2014. It will have an impact on municipalities, in particular on reporting requirements, when relevant provisions are extended to local authorities (2016). In addition, the FRBSL mandates the Council of Ministers, through the *Fiscal Strategy Statement*, to establish any rules for debt and the balancing of local government budgets. It also contains new measures related to local government oversight and control.

A joint- study of:



Sources: Eurostat (Government Finance Statistics) • Local Government Reform in Cyprus: Final Options Report (2014) • Union of Cyprus municipalities, <http://www.ucm.org.cy/> • Commonwealth Local Government Forum, [http://www.clgf.org.uk/default/assets/File/Country\\_profiles/Cyprus.pdf](http://www.clgf.org.uk/default/assets/File/Country_profiles/Cyprus.pdf) • Dexia (2008) Subnational governments in the EU: organisation, responsibilities and finance.



# CZECH REPUBLIC

UNITARY COUNTRY

EUROPE

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **HIGH INCOME: OECD** Local currency - **Czech Koruna (CZK)**

### POPULATION AND GEOGRAPHY

AREA: **77 227** km<sup>2</sup>

POPULATION: **10.525** million inhabitants (2014),  
an increase of 0.02% per year (2010-14)

DENSITY: **136** inhabitants/km<sup>2</sup>

URBAN POPULATION: **73%** of national population

CAPITAL CITY: **Prague** (12.1% of national population)

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

### ECONOMIC DATA

GDP: **328.2** billion (current PPP international dollars)  
i.e. 31 187 dollars per inhabitant (2014)

REAL GDP GROWTH: **2.0%** (2014 vs 2013)

UNEMPLOYMENT RATE: **6.1%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **4 871** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **25%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.870** (very high), **rank 28**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL                                   | TOTAL NUMBER OF SNGs |
|--|--------------------|---|----------------------|
| <b>6 258</b>   | <b>-</b>           | <b>14</b>   | <b>6 272</b>         |
| MUNICIPALITIES (OBCE)<br>AVERAGE MUNICIPAL SIZE:<br><b>1 640 INHABITANTS</b> |                    | REGIONS (KRAJ)<br>INCLUDING THE CAPITAL<br>CITY OF PRAGUE |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** The Czech Republic has a two-tier subnational government system, with no hierarchical link. Regions were established in 2000 (Regions Act 129/2000). Municipalities are regulated through the Municipal Act 128/2000. The municipal level includes municipalities, towns (*mesto*) and 25 statutory cities (*statutarní mesto*). The latter have a special status granted by an Act of Parliament and can establish districts at the sub-municipal level with their own mayor, council and assembly - but only eight cities have chosen this option.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The Municipal and Region acts, both amended in 2002, make a distinction between autonomous and delegated responsibilities, i.e. exercised on behalf of the central government. While municipalities have equal status, they are divided into three categories according to the scope of their delegated responsibilities: 205 municipalities with "extended powers" (ORP), 1 036 municipalities with some delegated powers (e.g. registry office, building authority) including 183 municipalities with an authorised municipal authority and the remaining which are "basic" municipalities. Municipal competences include education (pre-elementary, primary, and lower secondary education), agriculture, housing, primary health care, social care services, local roads and public transport, water and waste management (ORP only). Some municipal competences are currently being re-allocated from small municipalities to larger ones and to the central government within the framework of the Social Reform. Regional responsibilities include upper secondary education, regional roads, public transport, health care/general hospitals, economic development and planning, social assistance for disadvantaged groups.

## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE              | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|--------------------------|-------------|---|-----------------------------|
| TOTAL EXPENDITURE (2013) | <b>9.9%</b> | <b>23.6%</b>  | <b>100%</b>                 |
| CURRENT EXPENDITURE      | 7.9%        | -   | 79.4%                       |
| STAFF EXPENDITURE        | 3.5%        | 48.2%   | 35.0%                       |
| INVESTMENT               | 1.8%        | 52.0%   | 17.8%                       |

SNG spending is sizeable in key policy areas, being slightly below the OECD average for unitary countries (13% of GDP and 29% of public spending in 2013). The share of SNGs in public staff expenditure is significant. SNGs have a key role in public investment, however on average marginally lower than in unitary countries of the OECD (56% of public investment and 15% of SNG budget). Discretionary powers of SNGs are limited as much spending is made on behalf of the central government. Overall, municipalities have greater spending responsibilities than regions.



## EXPENDITURE BY FUNCTION

### % SUBNATIONAL GOVERNMENT EXPENDITURE



The largest category of spending by far is education, SNGs being responsible both for current and capital expenditure in this sector up to lower secondary school. The second most important area of spending is economic affairs, particularly transport. It is followed by general public services and environment, in particular, waste and waste water treatment. The share of social protection expenditure in SNG expenditure has decreased over recent years, since the recentralisation of some competences in this area (12% in 2010).

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 10.2% | 25.2%   | 100%                     |
| TAX REVENUE          | 5.0%  | 25.0%   | 48.5%                    |
| GRANTS AND SUBSIDIES | 3.6%  | -   | 35.0%                    |
| OTHER REVENUES       | 1.7%  | -   | 16.5%                    |

Although tax revenue represents a significant source of SNG revenue, SNGs have little autonomy on their revenue as most taxes are shared. Overall, SNGs are reliant on central government funding (shared taxation and grants), especially the regions.

**TAX REVENUE.** Subnational governments are financed through a mix of shared taxes, including PIT, CIT, VAT and income tax on the self-employed, distributed according to the Local Finance Act 243/2000. Tax revenues are allocated as a percentage of revenue raised and then redistributed within SNGs according to a complex formula. The regional share is set in the legislation. That of municipalities is calculated according to different criteria, demography being the most important one. Recent amendments to the Finance Act increased the share of SNGs on several taxes. Tax revenues are higher for municipalities than for regions, as municipalities can collect their own taxes. Municipal tax includes an income tax from local companies and property tax on land and buildings (5% of local tax revenue i.e. 0.2% of GDP in 2013). In 2009, a marginal rate was introduced in order to give municipalities some autonomy over tax rates.

**GRANTS AND SUBSIDIES.** In contrast to municipalities, regions rely mostly on transfers from the central government. The central government funding structure is highly complex. Transfers include hundreds of subsidy schemes, which are mostly earmarked. Grants typically come from either the national budget, or the budget of several state funds. Some transfers are fixed and relatively stable over time, in particular those aimed at funding delegated expenditure. Grants for current expenditure are formula-based and typically earmarked, in particular to fund delegated responsibilities (education, health, etc.). Other transfers for capital expenditure (around 20% of total transfers) are typically granted on a case-by-case basis. Municipalities can also apply for subsidies from the regions.

**OTHER REVENUES.** Other revenues include user tariffs and fees from municipal services in particular water and sewerage charges, municipal waste collection fee or library fees (15% of SNG revenues). Property income includes rents, interest income and sales of property charges, parking charges, planning application fees, etc. (24% of local revenue).

## OUTSTANDING DEBT

|                         | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 4.3%  | 7.4%                 |

SNGs are subject to a balanced budget rule. Moreover, following the new Constitutional Act approved in October 2012, a new fiscal framework is under preparation regulating local government indebtedness. It requires that the level of SNG gross debt remains below 60% of a four year average of revenues. SNG debt is lower than the level of debt of other OECD unitary countries which amounted to an average of 15% of GDP and 12.0% of general government debt in 2013. Municipal debt is concentrated in the four largest cities (50% of municipal debt in 2013). Loans represented 56% of outstanding debt in 2013, bonds around 9% (bond issuance must be approved by the Ministry of Finance) and other accounts payable 35%.

A joint- study of:



**Sources:** OECD National Accounts Statistics • OECD (2015 and 2016) Subnational Governments in OECD Countries: Key data • OECD (2016) OECD Economic Surveys: Czech Republic 2016 • Chatry I., Hulbert C. (2016) "Multi-level governance reforms: Overview of OECD country experiences" OECD publishing • Linhartová V., Němeček L. (2016) An analysis of municipal indebtedness, University of Pardubice • Hladík J, Kopecký V. (2013) Public administration reform in the Czech Republic Association for International Affairs Working Paper • OECD (2015) The State of Public Finances 2015: Strategies for Budgetary Consolidation and Reform in OECD Countries • European Committee of the Regions (2014) Division of Powers Between the European Union, Member States • Candidate and some Potential Candidate Countries and Local and Regional Authorities: Fiscal Decentralisation or Federalism".



# DENMARK

UNITARY COUNTRY

EUROPE

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **HIGH INCOME: OECD** Local currency - **Danish Krone (DKK)**

### POPULATION AND GEOGRAPHY

AREA: **42 959** km<sup>2</sup>

POPULATION: **5.643** million inhabitants (2014),  
an increase of 0.4% per year (2010-14)

DENSITY: **131** inhabitants/km<sup>2</sup>

URBAN POPULATION: **87.5%** of national population

CAPITAL CITY: **Copenhagen** (22.2% of national population)

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

### ECONOMIC DATA

GDP: **256.8** billion (current PPP international dollars)  
i.e. 45 500 dollars per inhabitant (2014)

REAL GDP GROWTH: **1.3%** (2014 vs 2013)

UNEMPLOYMENT RATE: **6.6%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **677** (BoP, current USD  
millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **19%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.923** (very high), **rank 4**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL           | TOTAL NUMBER OF SNGs |
|---|--------------------|-----------------------------------|----------------------|
| <b>98</b><br>MUNICIPALITIES<br>(KOMMUNER)<br>AVERAGE MUNICIPAL SIZE:<br><b>58 155 INHABITANTS</b> | <b>-</b>           | <b>5</b><br>REGIONS<br>(REGIONER) | <b>103</b>           |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Denmark has a two-tier system of local government resulting from a reform in 2007 which significantly changed territorial organisation. The former 14 counties were abolished, and 5 regions were introduced. The former 271 municipalities were merged into the current 98. There are no hierarchical links between either level. Denmark also has two autonomous regions, the Faroe Islands and Greenland, which have their own legislative assemblies.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The 2007 reform significantly changed the distribution of responsibilities between the central government and regions and municipalities. The five new regions are now granted responsibilities for health care services (including hospitals, health insurance and outpatient medicine), regional development, regional transport and environment. Municipalities gained responsibilities for social welfare and education, making them responsible for most citizen-related tasks. Overall, municipal tasks include pre-school, primary, lower secondary and specialised education, healthcare (preventive medicine, dental care, home care, etc.), social welfare (child, elderly), support services (unemployment insurance, early retirement benefits, cash benefits, and sickness benefits) sports and culture, spatial planning, nature and environment, job centres, integration of immigrants, local roads, etc.

## SUBNATIONAL GOVERNMENT FINANCE

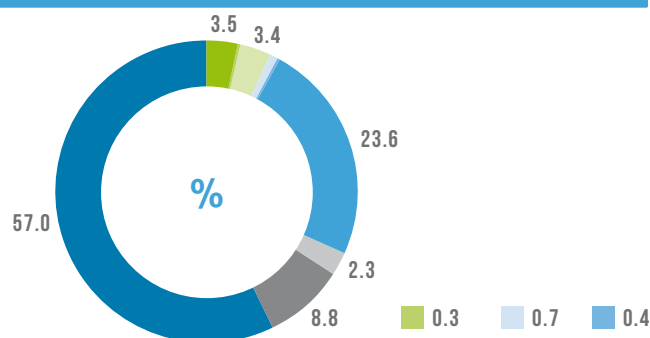
| EXPENDITURE                     | % GDP        | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|--------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>36.4%</b> | <b>63.8%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | 34.9%        | -   | 95.7%                       |
| <b>STAFF EXPENDITURE</b>        | 12.2%        | 72.6%   | 33.5%                       |
| <b>INVESTMENT</b>               | 1.6%         | 43.3%   | 4.3%                        |

SNGs, in particular municipalities, are providers of numerous public services and benefits in key areas, making Denmark the most unitary decentralised country of the OECD. SNG expenditure as a share of GDP and public expenditure is even greater than in most OECD federal countries (Canada is the only exception). SNGs employ the vast majority of public staff. However, an important share of SNG spending is made on behalf of the central government and the social security sector, with little autonomy for municipalities. The role of SNG in public investment is lower than in the OECD averages (in the OECD, investment accounted for 59% of public investment and 11% of SNG expenditure).



## EXPENDITURE BY FUNCTION

### % SUBNATIONAL GOVERNMENT EXPENDITURE



SNG largest area of spending is by far social protection, which accounts for almost 60% of subnational expenditure. It is followed by health and education. For the regions, the main category of spending is health care (almost 90% of total regional expenditure). For the municipalities, social protection is also by far the main item. Although some other spending areas occupy a relatively low percentage of SNG expenditure, they may represent a substantial share of total public spending in these areas (housing and community amenities, recreation and culture, environment protection). Comparatively to other OECD countries, spending in economic affairs and transports is lower.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 36.4% | 65.0%   | 100%                     |
| TAX REVENUE          | 12.5% | 26.1%   | 34.3%                    |
| GRANTS AND SUBSIDIES | 21.9% | -   | 60.3%                    |
| OTHER REVENUES       | 2.0%  | -   | 5.4%                     |

The 2007 reform also brought major changes to the financing of SNGs. The share of taxation in SNG revenue decreased as the new regions are not entitled to levy taxes unlike the former counties (it went from 82% in 2005 to one-third in 2013). Grants and subsidies are now the main funding source for regions while taxes are the main source for municipalities.

**TAX REVENUE.** Since the reform, only municipalities can levy taxes, which represent 70% of municipal revenue. Major own-source taxes are the local personal income tax (89% of municipal tax revenue in 2013) and land tax (11%). The local income tax (average rate is 25%) is collected by the central government together with the national income tax, while land tax is collected by municipalities. Municipalities can set the income tax rate and land tax, within limitations set by the Ministry of Finance.

**GRANTS AND SUBSIDIES.** Regional financing mainly comes from transfers from the central government and municipal contributions, according to three main pillars: the health sector, regional development and educational/social institutions. For instance in the health sector, the main grant (representing 75% of health care expenditure) is allocated according to a formula based on population size and objective criteria measuring regional spending needs, including the average population age and socio-economic structure. Municipalities receive earmarked grants and block grants. Municipalities also receive grants awarded under the statutory financial equalisation arrangements, which were modified in 2007. The equalisation system is based upon the "structural deficit" (or surplus) i.e. the difference between municipal tax revenues (calculated with an average rate of taxation) and its spending needs. Municipalities with high structural deficit benefit from additional equalisation grants.

**OTHER REVENUES.** Other revenues include mostly user tariffs and fees for sewage disposal, waste disposal, gas, electricity, heating, water supply, nurseries, etc. (less than 5% of local revenue). Another source of revenue includes the sales of assets and return on capital investments.

| OUTSTANDING DEBT        | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 11.4% | 19.9%                |

Local governments are subject to a structural balanced budget rule. With the 2012 Budget Law, legally multiannual binding expenditure ceilings were introduced in central government, municipalities and regions. Regions are not allowed to borrow on capital markets. Municipal borrowing (loans and bonds) is subject to the supervision and approval of the central government. They can only borrow for certain purposes and not at all for current expenditure. SNG outstanding debt as a percentage of GDP is lower than in OECD unitary countries on average (15%). It is made up of financial debt (65%) and other accounts payable (35%). Financial debt comprises only loans. Kommunekredit, a credit association owned by regions and municipalities and active in the financial markets for more than 110 years, is the main lender (market share about 95%).

A joint- study of:



**Sources:** OECD National Accounts Statistics • OECD (2015 and 2016) Subnational Governments in OECD Countries: Key data • OECD (2015) The State of Public Finances 2015: Strategies for Budgetary Consolidation and Reform in OECD Countries • Ministry for Economic Affairs and the Interior of Denmark (2014) Municipalities and Regions: Tasks and Financing • European Committee of the Regions (2014) Division of Powers Between the European Union, Member States, Candidate and some Potential Candidate Countries, and Local and Regional Authorities: Fiscal Decentralisation or Federalism • Council of Europe (2013) Local and regional democracy in Denmark.



## BASIC SOCIO-ECONOMIC INDICATORS

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

## POPULATION AND GEOGRAPHY

AREA: **43 432** km<sup>2</sup>POPULATION: **1.316** million inhabitants (2014), a decrease of -0.3% per year (2010-14)DENSITY: **30** inhabitants/km<sup>2</sup>URBAN POPULATION: **67.6%** of national populationCAPITAL CITY: **Tallinn** (30.5% of national population)

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

## ECONOMIC DATA

GDP: **36.99** billion (current PPP international dollars)  
i.e. 28 113 dollars per inhabitant (2014)REAL GDP GROWTH: **2.9%** (2014 vs 2013)UNEMPLOYMENT RATE: **7.4%** (2014)FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **1 571** (BoP, current USD millions, 2014)GROSS FIXED CAPITAL FORMATION (GFCF): **25%** of GDP (2014)HUMAN DEVELOPMENT INDEX: **0.861** (very high), **rank 30**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|--|--------------------|-------------------------|----------------------|
| <b>213</b><br>MUNICIPALITIES<br>AVERAGE MUNICIPAL SIZE:<br>6 165 INHABITANTS | -                  | -                       | <b>213</b>           |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Estonia has a single tier of local government comprising 213 municipalities recognised as self-governing by the 1992 Constitution. They include cities (*linnad*) and rural municipalities (*vallad*), all with the same legal status. The number of municipalities has gradually decreased since the 2004 Act on the Promotion of Local Government Mergers, however very slowly. Therefore, in 2014 the central government launched a new local government reform promoting, among other things, municipal mergers for 2015-18 (voluntary in a first phase through financial incentives, then compulsory) for municipalities under 5 000 inhabitants. Inter-municipal co-operation will be also promoted. All municipalities have the legal possibility to create sub-municipal entities (districts in cities and parishes in rural municipalities), with limited self-governing status. Only two cities and two rural municipalities have seized this opportunity. Estonia is also divided into 15 counties, which are administrative subdivisions led by governors appointed by the central government.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Local government responsibilities are set by the Constitution and the Local Government Organisation Act of 1993. Municipalities are responsible for education (nursery, primary and secondary education), social welfare (services for the elderly, inclusion), housing and utilities, water supply and sewerage, waste, local planning, local roads and public transport, sports and culture (municipal libraries and museums), etc. The Local Government Reform, under preparation since 2014, provides for a possible reorganisation of functions between the central government and the municipalities, in particular in the secondary education sector, to allow for balancing the functions assigned to local authorities and their capacity to perform.

## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL GOVERNMENT |
|---------------------------------|-------------|---|--------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>9.9%</b> | <b>25.8%</b>  | <b>100%</b>              |
| <b>CURRENT EXPENDITURE</b>      | 7.7%        | -   | 78.3%                    |
| <b>STAFF EXPENDITURE</b>        | 4.2%        | 39.5%   | 42.2%                    |
| <b>INVESTMENT</b>               | 1.9%        | 35.9%   | 19.0%                    |

Estonia ranks below OECD unitary countries regarding SNG share in GDP and total public spending, which accounted for 13% of GDP and 29% of general government on average in 2013. The share of municipalities in public staff spending is however significant, as municipalities are responsible for teacher salaries. Municipal share in public investment is also below the average of OECD unitary countries (56% of public investment) although capital expenditure represents an important portion of SNG expenditure.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



The largest SNG expenditure category is by far education, as municipalities are responsible for both current and capital expenditure in this area, accounting for 35.2% of GDP. Health care and economic affairs/transport are the two second most important spending items, followed by recreation and culture.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 9.4%  | 24.7%   | 100.0%                   |
| TAX REVENUE          | 0.4%  | 1.8%  | 3.8%                     |
| GRANTS AND SUBSIDIES | 8.0%  | -   | 85.2%                    |
| OTHER REVENUES       | 1.0%  | -   | 11.0%                    |

Municipalities depend highly on central government transfers, the share of taxes being negligible since the implementation in 2014 of the 2008 SNA methodology which reclassified some shared taxes as transfers and no longer as taxes. The local government reform initiated in 2014 includes a revision of the local financing system. The reform would foresee more leeway for municipalities in designing their own tax revenues and a reform of the equalisation system.

**TAX REVENUE.** Own-source taxes include the land tax on which municipalities have a certain leeway to set the rates which range from 0.1% to 2.5% of cadastral value of land excluding buildings. (0.3% of GDP). They also collect other minor local taxes which are optional according to the Local Taxation Act and rarely availed of (tax on advertising, parking fees, road tax, etc.).

**GRANTS AND SUBSIDIES.** Most municipal revenue (around 50% of municipal revenue) comes from the sharing with the central government, of the PIT receipts. The share for municipalities, which increased in 2013, was 11.6% of taxable income in 2014. Other grants are a block grant from the State Budget (17% of municipal revenue), an equalisation fund (6%) and other earmarked grants for current and capital expenditures from State Budget. Equalisation transfers are defined in the yearly state budget and are formula-based. They are distributed according to two main principles: an average spending need, based on the population size and age structure, and the revenues of each local government."

**OTHER REVENUES.** Other revenues for local governments include user charges and fees and revenues from economic activities (around 10% of municipal revenues), the remaining part being property income (rents and sales of assets).

| OUTSTANDING DEBT        | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 4.6%  | 34.1%                |

The 2014 State Budget Act introduced a budget balance rule for the general government, with a breakdown by level of government. Municipalities can contract long-term loans or bonds but only to fund investment projects (golden rule). Limits for local debt were introduced from 2009 to 2012. According to the Financial Management of Local Authorities Act of 2012, the debt ceiling for local governments ranges from 60% to 100% of the current year operational revenues (depending on SNG self-financing capacity). While the weight of local debt in GDP is significantly lower than OECD unitary country averages (15% of GDP in 2013), its share in total public debt is high, central government debt being in turn limited. In 2013, the share of loans for municipal outstanding debt accounted for 56%, that of bonds, 22%, the remaining part being made up "other accounts payable."

A joint- study of:



**Sources:** OECD National Accounts Statistics • OECD (2015 and 2016), Subnational Governments in OECD Countries: Key data • Chatry I., Hulbert C. (2016), Multi-level governance reforms: Overview of OECD country experiences, OECD publishing • OECD (2015), The State of Public Finances 2015: Strategies for Budgetary Consolidation and Reform in OECD Countries • National Audit Office (2014), Report of the National Audit Office for the Riigikogu, Tallinn 2014 Overview of the use and preservation of state assets in 2013-2014 Summary of Problems in the Development and Economy of Estonia • European Committee of the Regions (2014), Division of Powers Between the European Union, Member States, Candidate and some Potential Candidate Countries, and Local and Regional Authorities: Fiscal Decentralisation or Federalism • Dexia (2008), Subnational governments in the European Union: organisation, responsibilities and finance.



# FINLAND

UNITARY COUNTRY

EUROPE

## BASIC SOCIO-ECONOMIC INDICATORS

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

### POPULATION AND GEOGRAPHY

AREA: **303 891** km<sup>2</sup>

POPULATION: **5.463** million inhabitants (2014), an increase of 0.5% per year (2010-14)

DENSITY: **18** inhabitants/km<sup>2</sup>

URBAN POPULATION: **84.1%** of national population

CAPITAL CITY: **Helsinki** (8.7% of national population)

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

### ECONOMIC DATA

GDP: **222.2** billion (current PPP international dollars) i.e. 40 666 dollars per inhabitant (2014)

REAL GDP GROWTH: **-0.4%** (2014 vs 2013)

UNEMPLOYMENT RATE: **8.7%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **14 812** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **21%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.883** (very high), **rank 24**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL              | TOTAL NUMBER OF SNGs |
|--|--------------------|--------------------------------------|----------------------|
| <b>313</b><br>MUNICIPALITIES (KUNTA)<br>AVERAGE MUNICIPAL SIZE:<br><b>17 530 INHABITANTS</b> | <b>-</b>           | <b>1</b><br>ISLAND PROVINCE OF ALAND | <b>314</b>           |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Finland has one subnational level composed of 313 municipalities, whose autonomy is entrenched in the Constitution of 1999. While there are 19 "regional councils", only one (the island region of Åland) has an autonomous administration (the other 18 are led by joint municipal boards). A regional self-government experiment was carried out with the region of Kainuu between 2005 and 2012. Finland has undergone several municipal reforms over the past years, in particular the PARAS reform in 2005-07 which promoted municipal mergers and inter-municipal co-operation. The number of municipalities has steadily decreased from 475 in 1976 to the current number. A new reform was launched in 2015 aimed at creating a new autonomous elected regional level above the existing 18 "regional councils". The reform should come into force in January 2019.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Municipalities have a wide range of responsibilities which have been extended over the years. They include education (up to upper secondary schools, vocational education), healthcare (preventative, basic and specialised health care, dental care, including hospitals), social services (old-age, disabled people and childcare), town and land-use planning, water and energy supply, waste management, infrastructure maintenance, environmental protection and fire and rescue services. In the framework of the recent reform, new self-governing regions would be in charge of the organisation of primary and specialised healthcare and social services (transferred from the responsibility of municipalities). In addition, future autonomous regions could take over other functions (not yet defined) presently under the responsibility of current regional councils, Centres for Economic Development, Transport and the Environment (mostly regarding regional development, rescue services, etc.).

## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP        | % GENERAL GOVERNMENT (same expenditure category) | % SUBNATIONAL GOVERNMENT |
|---------------------------------|--------------|--|--------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>23.9%</b> | <b>41.4%</b>                                     | <b>100%</b>              |
| <b>CURRENT EXPENDITURE</b>      | 21.6%        | -  | 90.7%                    |
| <b>STAFF EXPENDITURE</b>        | 10.7%        | 74.3%  | 44.9%                    |
| <b>INVESTMENT</b>               | 2.2%         | 53.3%  | 9.1%                     |

Finland is one of the most decentralised OECD countries. Local government share in GDP and public spending is among the highest in the OECD, on the same level as several federal countries (SNG spending represented an average of 16.6% of GDP and 40% of public spending in the OECD in 2013). The share of local government in public staff spending is also one of the highest, as with most federal countries, Denmark, Sweden and Japan. Staff expenditure represents almost half of SNG expenditure (vs 36% in the OECD). However, the share of SNGs in public investment is below the OECD average (59%) although local investment, as a percentage of GDP, is higher than in the OECD on average (2.2% vs 1.9%).



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



Local governments in Finland are responsible for large categories of spending. The two largest areas are healthcare and social protection. They are followed by education. More than half of municipal employees work in social services and healthcare, which explains the high level of municipal staff spending (which also includes teaching staff).

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL<br>GOVERNMENT |
|----------------------|-------|---|-----------------------------|
| TOTAL REVENUE (2013) | 23.1% | 41.7%   | 100%                        |
| TAX REVENUE          | 10.3% | 33.0%   | 44.5%                       |
| GRANTS AND SUBSIDIES | 7.0%  | -   | 30.5%                       |
| OTHER REVENUES       | 5.8%  | -   | 25.1%                       |

Municipalities have considerable autonomy over their revenue. The main source of revenue comes from taxes, a level in line with the OECD average (44%) and above of the average of the OECD unitary countries (37%). In the framework of the current reform, a new Act on regional financing is being developed. Closely linked to the reform of health and social protection financing, the aim is to give the central government primary responsibility for financing the regions.

**TAX REVENUE.** Local taxes as a share of GDP and public tax revenue are particularly high, above the OECD average. In addition, most local taxes are own-source. Only one tax is shared with the central government: the corporate income tax established in 1993 (7% of local government tax revenue in 2013). The share redistributed to municipalities is regularly readjusted to adapt to the municipal sector economy (e.g. from around 20% in 2003 to 32% in 2011 during the crisis and 30% in 2013). The largest source of own tax revenue is municipal income tax (86%). Its base is determined by the central government but municipalities have full control over the rate. Municipalities also levy property taxes (7% of local tax revenue) which consist of five taxes, the most important being general real estate tax and tax for permanent residential buildings. They are collected by the central tax authority, but each municipality decides its own property tax rates within upper and lower limits set by the central government.

**GRANTS AND SUBSIDIES.** A major 1993-95 reform of the central government transfer system transformed matching grants into formula-based grants. The latest reform, in 2014, simplified formulas and made the system more transparent. Two-thirds of all transfers are directed to specific municipal functions. Such transfers include, for instance, a general allowance, health and social care transfers, education and culture transfers, calculated based on different criteria according to the type of grants (population, geographic remoteness, pupils, age-specific cost coefficients for services, etc.). There is grant equalisation system based on municipal potential tax revenue, computed by applying the country average tax rates to the municipal tax bases. Equalisation can be significant for some municipalities with high service cost factors and low revenue bases (share of grants can represent more than 50% of all their revenues). The vast majority of grants are for current expenditure.

**OTHER REVENUES.** The majority of other revenues (22%) come from tariffs and fees. They include charges for utilities (water supply, waste disposal, power) and public transport, with modest fees charged on public health care, while basic education is free. The remaining part is made up of property income (assets sales and rents).

| OUTSTANDING DEBT        | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 11.7% | 18.0%                |

Local budgets in Finland must be balanced over a four-year period. Moreover, an amendment to the Municipal Act in 2015 reinforced macro-steering of the local finance system. An objective was set for local government deficit, and a spending limit was introduced on central government measures affecting local finances. Municipalities are free to borrow through bonds and loans to finance any type of operation. Deteriorating fiscal positions pushed municipalities to increase borrowing over recent years. However, in 2013, the level of local outstanding debt as a percentage of GDP in Finland (11.7%) remained below the OECD average (24%), including for unitary countries only (15%). Local debt is made up of other accounts payable (21%), loans (58%) and bonds (11%). Around 80% of municipal debt is financed through Municipal Finance (MuniFin), a fully publicly-owned provider of financial services to local governments.

A joint- study of:



**Sources:** OECD National Accounts Statistics • OECD (2015 and 2016), Subnational Governments in OECD Countries : Key data • Chatry I., Hulbert C. (2016), "Multi-level governance reforms: Overview of OECD country experiences", OECD Publishing • André C. and C. García (2014), Local Public Finances and Municipal Reform in Finland, OECD Economics Department Working Papers, No. 1121 • Finnish Ministry of Finance (2015) General Government Fiscal Plan 2016–2019 • Kettunen P. (2014) The Finnish Municipal Reform • Moiso A. (2013), Paper on "Spend and tax, and then tax and spend? Looking for a relationship between municipal service responsibilities and taxing powers in Finland", Government Institute for Economic Research.



# FRANCE

UNITARY COUNTRY

## EUROPE

### BASIC SOCIO-ECONOMIC INDICATORS

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

#### POPULATION AND GEOGRAPHY

AREA: **647 795** km<sup>2</sup>

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

DENSITY: **102** inhabitants/km<sup>2</sup>

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 |
|---|-----------------------------------|-------------------------|----------------------|
| <b>35 885</b>                                       | <b>101</b>                        | <b>18</b>               | <b>36 004</b>        |
| MUNICIPALITIES<br>(COMMUNES)                        | 101 DEPARTMENTS<br>(DÉPARTEMENTS) | REGIONS<br>(RÉGIONS)    |                      |
| AVERAGE MUNICIPAL SIZE:<br><b>1 855</b> 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 1<sup>st</sup> 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, international solidarity), 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, and 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

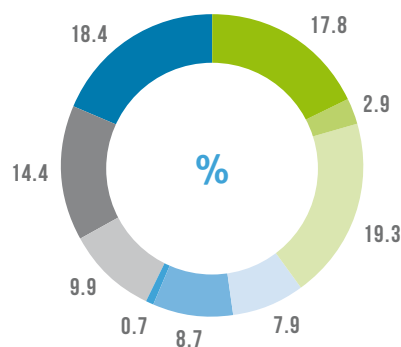
| EXPENDITURE                     | % GDP        | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|--------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>11.9%</b> | <b>20.9%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | 9.1%         | -   | 76.1%                       |
| <b>STAFF EXPENDITURE</b>        | 3.5%         | 27.4%   | 29.7%                       |
| <b>INVESTMENT</b>               | 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<br>(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/](http://www.collectivites-locales.gouv.fr/) • Délégation sénatoriale aux collectivités territoriales et à la décentralisation [www.senat.fr/commission/decentralisation/index.html](http://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](http://www.agence-france-locale.fr) - Dexia (2008) Subnational governments in the EU: organisation, responsibilities and finance.



# GERMANY

FEDERAL COUNTRY

EUROPE

## BASIC SOCIO-ECONOMIC INDICATORS

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

### POPULATION AND GEOGRAPHY

AREA: **357 168** km<sup>2</sup>

POPULATION: **80.983** million inhabitants (2014),  
an increase of 0.2% per year (2010-14)

DENSITY: **227** inhabitants/km<sup>2</sup>

URBAN POPULATION: **75.1%** of national population

CAPITAL CITY: **Berlin** (4.3% of national population)

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

### ECONOMIC DATA

GDP: **3 757.1** billion (current PPP international dollars)  
i.e. 46 394 dollars per inhabitant (2014)

REAL GDP GROWTH: **1.6%** (2014 vs 2013)

UNEMPLOYMENT RATE: **5.0%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **8 390** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **20%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.916** (very high), **rank 6**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|---|--------------------|-------------------------|----------------------|
| <b>11 092</b>   | <b>402</b>         | <b>16</b>               | <b>11 510</b>        |
| MUNICIPALITIES (GEMEINDEN)<br>AVERAGE MUNICIPAL SIZE:<br><b>7 320 INHABITANTS</b> | DISTRICTS (KREISE) | STATES (LÄNDER)         |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** The German federal system, set up by the 1949 Basic Law, reformed in 2006 and again in 2009, is based on the principle of co-operative federalism. The three-tier system of subnational governments includes, below the *Länder* level, a local government level composed of 295 rural districts (*Landkreise*) and 107 district-free cities (*Kreisfreie Städte*), and at the lower level, municipalities. While local government status is constitutionally guaranteed, they are governed by their *Land*, thus with an organisation varying from one *Land* to another. Several districts and municipal merger policies were carried out by the *Länder* over the last decades, and more recently, in *Land* Saxony-Anhalt for example. Overall, the number of German municipalities has decreased by one-third between 1990 and 2016.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** According to the Basic Law, all legislative and administrative functions are assigned to the *Länder*, except for those under exclusive competency of the federal government. There is some overlap in several areas (in addition, joint federal-*Länder* tasks were introduced in 1969). A reform of the federation's SNG expenditure took place in 2006 (*Föderalismusreform I*) which clarified responsibilities and transferred new ones to the *Länder*. Today, their wide-ranging responsibilities include: education (including universities), internal administration, regional economic development, public welfare and health, culture, environmental protection, public order and local government affairs. Local government functions, defined by the *Land*, vary considerably from one area to another. However, they usually include both mandatory and optional functions. Mandatory district functions include secondary roads, public transport, spatial planning, fire protection, nature and landscape, hospitals, education (secondary schools), etc. For municipalities, they include local roads, town planning, housing, sewerage, waterways, education (primary schools), recreational areas and social and youth welfare. Optional functions include cultural activities, economic development, tourism, local public transport, sports and leisure, etc.

## SUBNATIONAL GOVERNMENT FINANCE

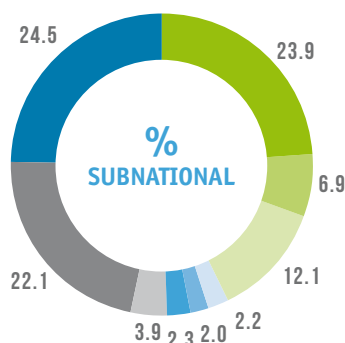
| EXPENDITURE              | % GDP            |      | % GENERAL GOVERNMENT<br>(same expenditure category) |       | % SUBNATIONAL GOVERNMENT |       |
|--------------------------|------------------|------|---|-------|--------------------------|-------|
|                          | SUBNATIONAL DATA |      | LOCAL DATA ONLY                                     |       |                          |       |
| TOTAL EXPENDITURE (2013) | 20.5%            | 7.6% | 46.2%   | 17.1% | 100%                     | 100%  |
| CURRENT EXPENDITURE      | 18.1%            | 6.7% | -   | -     | 88.4%                    | 89.0% |
| STAFF EXPENDITURE        | 6.0%             | 1.9% | 78.0%   | 24.6% | 29.5%                    | 25.2% |
| INVESTMENT               | 1.5%             | 0.7% | 67.9%   | 34.3% | 7.2%                     | 9.9%  |

German SNGs are key economic and social actors. Their share in GDP and public spending is above the OECD average (respectively, 16.6% and 40.0%). SNGs are also key public employers, accounting for more than three-quarters of total public staff spending. SNG role in investment is also significant: SNG share in public investment is ten percentage points above the OECD average (of 58.5%), and even when only federations are considered (60.2%). However, the share of SNG investment in GDP is significantly below the OECD average of 1.8%. The *Länder* accounted for 63% of SNG expenditure in 2013. Within the local sector, municipalities account for the greatest part of local spending. Compared to OECD unitary countries, spending responsibilities of local governments in Germany are significantly lower, both in terms of current and capital expenditure.



## EXPENDITURE BY FUNCTION

### % SUBNATIONAL GOVERNMENT EXPENDITURE



Social protection, general public services and education are the three main areas of spending, weighing similarly. They are followed by economic affairs and transport. *Länder* primary areas of spending are general public services, education and social protection. Local spending goes primarily to social protection, general public services, education and economic affairs/transport. SNGs are responsible for the large majority of overall public spending in the areas of security and public order, environment, housing and community amenities, recreation and culture and education.

## REVENUE BY TYPE

### % GDP

### % GENERAL GOVERNMENT (same revenue category)

### % SUBNATIONAL GOVERNMENT

■ SUBNATIONAL DATA □ LOCAL DATA ONLY

|                             | % GDP        | % GDP       | % GENERAL GOVERNMENT<br>(same revenue category) | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL<br>GOVERNMENT | % SUBNATIONAL<br>GOVERNMENT |
|-----------------------------|--------------|-------------|---|---|-----------------------------|-----------------------------|
| <b>TOTAL REVENUE (2013)</b> | <b>20.6%</b> | <b>7.8%</b> | <b>46.2%</b>                                    | <b>17.4%</b>                                    | <b>100%</b>                 | <b>100%</b>                 |
| <b>TAX REVENUE</b>          | 11.3%        | 3.0%        | 49.3%   | 13.2%   | 54.8%                       | 38.9%                       |
| <b>GRANTS AND SUBSIDIES</b> | 5.5%         | 3.1%        | -   | -   | 26.6%                       | 40.3%                       |
| <b>OTHER REVENUES</b>       | 3.8%         | 1.6%        | -   | -   | 18.5%                       | 20.8%                       |

The Basic Law sets out detailed fiscal provisions, in particular the assignment of exclusive and shared taxes, intergovernmental transfers as well as equalisation principles between the federal government and the *Länder*. It also includes specific arrangements relating to municipalities although local government financing is established by the *Länder*. The 2009 Federalism reform (*Föderalismusreform II*) modified some financial arrangements. SNG financing is based mainly on tax revenues, whose share in SNG revenue, public tax revenue and GDP is significantly above the OECD average. However, there is a relatively low level of subnational tax autonomy, the Federation having almost exclusive power to legislate on tax bases, rates and sharing arrangements.

**TAX REVENUE.** The SNG tax system is based on shared and own-source taxes. *Länder* represent around three-quarters of SNG tax revenue. In 2013, shared taxes accounted for around 55% of all SNG tax revenue. Most of *Länder* tax revenue comes from shared taxes, essentially the PIT, CIT and the VAT. Their own taxes include inheritance tax, vehicle tax, real estate purchase tax, lottery tax, beer tax, etc. *Länder* have little control over own taxes, with the exception of real estate purchase tax. Main local shared taxes (around 40% of local tax revenue) are the PIT and tax on interest, and marginally the VAT. Own source tax includes the local business tax (41% of local tax revenue) and the property tax (13% of local tax revenue amounting 0.4% of GDP, one of the lowest levels of the OECD). Shared taxes are part of the formula-based fiscal equalisation system between *Länder* defined by the Equalisation Law, 25% of *Länder* VAT revenues being used for equalisation. At the local level, each Land is in charge of its own equalisation mechanism.

**GRANTS AND SUBSIDIES.** Besides tax equalisation, there are horizontal equalisation transfers to *Länder*, aimed at reaching equal public services in all regions. *Länder* with lower-than-average fiscal capacity are compensated through federal transfers. In addition, specific transfers are made to reflect certain needs of the *Länder*, to finance joint tasks or for specific purposes. At the local level, there is no direct federal grant to local governments, only state grants. They represent a significant source of revenue and comprise general, compensation, investment and specific grants.

**OTHER REVENUES.** Other revenues, in particular user charges and fees paid by local citizens and corporations as users of local public services, are a significant source for SNGs, especially for local governments.

## OUTSTANDING DEBT

### % GDP

### % GENERAL GOVERNMENT

■ SUBNATIONAL DATA □ LOCAL DATA ONLY

|                                | % GDP        | % GDP       | % GENERAL GOVERNMENT | % GENERAL GOVERNMENT |
|--------------------------------|--------------|-------------|----------------------|----------------------|
| <b>OUTSTANDING DEBT (2013)</b> | <b>29.6%</b> | <b>5.3%</b> | <b>36.3%</b>         | <b>6.5%</b>          |

Balanced structural budget provisions and a “debt brake rule” were introduced in 2011 at the federal and *Länder* levels following the 2009 Constitutional reform. After a period of transition, it will take full effect in 2020 for the states. The rule calls for structurally balanced budgets for the *Länder*. Local governments must balance their budgets and have borrowing restrictions, determined by each state. Commonly, local governments may borrow to fund capital investment with the approval of the supervisory authority. German SNG debt, as a percentage of GDP and public debt, are above OECD averages, the *Länder* accounting for around 80% of the SNG debt. In 2013, debt included exclusively loans and bonds in equal proportion. Municipal borrowing is only under the form of loans while bonds represent around 60% of outstanding debt for *Länder*.

A joint study of:



Sources: OECD National Accounts Statistics • OECD (2015 and 2016) Subnational Governments in OECD Countries: Key data • OECD (2015) The State of Public Finances 2015: Strategies for Budgetary Consolidation and Reform in OECD Countries • S. Nicol (2014) Fiscal Devolution Some Comparative Examples, SPICE paper • Committee of the Regions (2015), Division of powers <https://portal.cor.europa.eu/divisionpowers/countries/MembersLP/Germany/Pages/default.aspx> • OECD Regional Outlook 2014: Regions and Cities: Where Policies and People Meet • Wollmann H. (2013) The recent reform of German federalism through constitutional amendment.



### BASIC SOCIO-ECONOMIC INDICATORS

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

#### POPULATION AND GEOGRAPHY

AREA: **130 820 km<sup>2</sup>**

POPULATION: **10.892** million inhabitants (2014),  
a decrease of -0.5% per year (2010-14)

DENSITY: **83** inhabitants/km<sup>2</sup>

URBAN POPULATION: **77.7%** of national population

CAPITAL CITY: **Athens** (27.5% of national population)

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

#### ECONOMIC DATA

GDP: **291.9** billion (current PPP international dollars)  
i.e. 26 795 dollars per inhabitant (2014)

REAL GDP GROWTH: **0.7%** (2014 vs 2013)

UNEMPLOYMENT RATE: **26.5%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **1 683** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **12%** of GDP

HUMAN DEVELOPMENT INDEX: **0.865** (very high), **rank 29**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL               | TOTAL NUMBER OF SNGs |
|---|--------------------|---------------------------------------|----------------------|
| <b>325</b><br>MUNICIPALITIES<br>(DIMOS)<br>AVERAGE MUNICIPAL SIZE:<br><b>33 410 INHABITANTS</b> | <b>-</b>           | <b>13</b><br>REGIONS<br>(PERIPHERIES) | <b>338</b>           |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Since the Law 3852/2010 on the “New architecture of self-governance and decentralized administration” (the *Kallikratis* reform), Greece now has a two-tier local government structure composed of 325 municipalities (replacing 1 033 municipalities and communities) and 13 regions (replacing 54 prefectures), without hierarchical link. The reform maintained historic communities as deconcentrated entities, providing “some intra-municipal decentralisation”. The 325 new municipalities are divided into local communities (communities with a population of less than 2.000 citizens) and municipal communities (communities with population of more than 2 000 citizens). Greece has one autonomous territorial entity, the Community of Mount Athos Monasteries. Greece is also divided into seven deconcentrated state administrations (led by a General Secretary appointed by the Ministry of Interior) and 74 regional units for administrative purposes.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The *Kallikratis* reform was also a decentralisation process, granting municipalities and regions with new and expanded powers. Regional planning and development responsibilities have been given to the 13 new self-governing regions. They also manage the authorities for regional operational programmes of the European Union. Some responsibilities relative to local development, child protection, elderly care, social assistance to the unemployed and poor people and health prevention were transferred to municipalities. They were already responsible for environment, employment, education, culture and sports, civil protection, rural development. Many responsibilities are shared with the central government (e.g. education, health). As provided by the constitution, insular municipalities may undertake additional responsibilities otherwise exercised by the regions.

### SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>3.5%</b> | <b>5.9%</b>   | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | <b>2.7%</b> | <b>-</b>  | <b>78.0%</b>                |
| <b>STAFF EXPENDITURE</b>        | <b>1.3%</b> | <b>10.6%</b>  | <b>36.5%</b>                |
| <b>INVESTMENT</b>               | <b>0.7%</b> | <b>24.5%</b>  | <b>19.4%</b>                |

Despite the transfer of responsibilities within the framework of the *Kallikratis* reform, Greece remains among the most centralised countries of the OECD, along with Chile, Ireland, New Zealand and Turkey. SNG spending as a percentage of GDP and public spending is among the lowest as well as the share of staff spending in public staff expenditure (despite the fact that staff spending represents a significant share of local spending). SNG involvement in public investment is also limited.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



The main categories of SNG spending include general public services, economic affairs (mainly transport) and environmental protection, including waste water and waste. Some of the most important public service delivery systems, such as public education, public health and social protection are still subject to direct control by the central government

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 3.9%  | 8.3%  | 100%                     |
| TAX REVENUE          | 0.9%  | 3.8%  | 23.3%                    |
| GRANTS AND SUBSIDIES | 2.6%  | -   | 66.9%                    |
| OTHER REVENUES       | 0.4%  | -   | 9.7%                     |

SNG financial resources are limited, reflecting few spending responsibilities. However, the *Kallikratis* reform modified resources for SNGs, granting them more tax revenue and reducing the share of general grants. Regions have no tax revenue and depend most entirely on central government transfers.

**TAX REVENUE.** Tax revenues are entirely own-source, benefiting almost exclusively to municipalities (regional tax revenues are negligible). Around 90% of municipal tax revenue comes from property tax. A new property tax (Unified Property Tax, ENFIA) was established in 2014. Other taxes include street cleaning tax, a street lighting tax, beer tax, advertising tax, etc.

**GRANTS AND SUBSIDIES.** Transfers from the central government represent the primary share of SNG revenue. They mainly come from the Central Autonomous Funds (CAF) granted annually to municipalities and regions. CAF funds for municipalities are made up of receipts from the PIT, VAT and property tax. CAF funds for regions come from receipts from the PIT and the VAT. Funds are allocated based on various criteria (demographic, geomorphological, administrative, financial, social, environmental etc.) characterising each municipality and region. CAF transfers are divided between “Regular Grant” (RG) for operating expenditure and the “Public Investment Specific Programme Grant” (PISPG). Other transfers to local governments include compensation grants, global investment grants and earmarked grants (for transportation costs for pupils, for welfare support, etc.). Capital expenditure grants represent around 18% of total grants.

**OTHER REVENUES.** Other revenues for municipalities include service charges and fees (such as market charges, charges for cemeteries, charges for the use of slaughterhouses) and the assets sales or rents.

## OUTSTANDING DEBT

|                         | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 1.3%  | 0.7%                 |

The *Kallikratis* reform granted the Court of Audit with additional powers in the monitoring of local governments. An Observatory for Financial Autonomy of the Local Government Organizations was launched by Law 4111/2013 and further implemented by Law 4270/2014. Tasks of this Committee are to ensure the preparation of realistic and balanced budgets by local authorities, in accordance with the applicable budgetary Law as well as to monthly monitor budget execution by local authorities. The law introduced additional fiscal rules limiting debt: interest payments for a given year cannot exceed 20% of ordinary annual revenues and total debt must remain under 60% of total annual revenues. A debt-brake was introduced for the few municipalities facing problems of over-indebtedness. The *Kallikratis* law provided that these municipalities would join a “Special Economic Recovery Program.” Overall, the level of local debt remains low as a percentage of GDP and total public debt. In 2013, it was made up of loans (75%) and other accounts payable (25%).

A joint- study of:



**Sources:** OECD National Accounts Statistics • OECD (2015 and 2016) Subnational Governments in OECD Countries: Key data • Council of Europe (2015) Local and regional democracy in Greece, CG/2015(28)8PROV • N. Hlepas (2014) Centralisation, Decentralisation, Recentralisation: Lessons from the Greek Experience in K. Göymen & O. Sazak, Centralization Decentralization Debate Revisited, Istanbul • Committee of the Regions (2014), <https://portal.cor.europa.eu/divisionpowers/countries/MembersNLP/Greece/Pages/default.aspx> • Council of Europe (2012) Structure and Operation of Local and Regional Democracy, Greece, Situation in 2012, Strasbourg.



# HUNGARY

UNITARY COUNTRY

EUROPE

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **HIGH INCOME: OECD** Local currency - **Forint (HUF)**

### POPULATION AND GEOGRAPHY

AREA: **93 028** km<sup>2</sup>

POPULATION: **9.867** million inhabitants (2014), a decrease of -0.3% per year (2010-14)

DENSITY: **106** inhabitants/km<sup>2</sup>

URBAN POPULATION: **70.8%** of national population

CAPITAL CITY: **Budapest** (17.3% of national population)

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

### ECONOMIC DATA

GDP: **247.3** billion (current PPP international dollars) i.e. 25 061 dollars per inhabitant (2014)

REAL GDP GROWTH: **3.7%** (2014 vs 2013)

UNEMPLOYMENT RATE: **7.7%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **12 400** (BoP, current USD millions, 2014)

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

HUMAN DEVELOPMENT INDEX: **0.828** (very high), **rank 44**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|---|--------------------|-------------------------|----------------------|
| <b>3 178</b>  | <b>-</b>           | <b>19</b>               | <b>3 197</b>         |
| LOCAL AUTHORITIES<br>(TELEPÜLÉSI ÖNKORMÁNYZATOK)<br>AVERAGE MUNICIPAL SIZE:<br><b>3 125 INHABITANTS</b> |                    | COUNTIES<br>(MEGYÉK)    |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Hungary has a two-tier system of local government, made up of 19 counties and 3 178 municipal authorities comprising villages, cities, cities of county rank and the capital city of Budapest and its 23 districts. The number of counties excludes Budapest which has had special status since 1991 and has an organisation similar to a county. The 2012 Constitutional reform and the 2011 Local Government Act (LGA, in effect from 2013) have profoundly transformed SNGs, reducing their scope, functions and financing resources. In parallel, a large State reform in 2013 introduced a new administrative structure in the form of 175 districts (*járás*), including three districts in the capital. These new central government offices at the local level took over many functions exercised previously by municipalities and are also in charge of SNG legal and financial supervision.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The LGA has drastically reduced SNG responsibilities. It recentralised several (or parts of) functions in education (primary and secondary education), healthcare (free medical services, hospitals, excluding specialised clinics), social protection (social allowances e.g. for the elderly, families, etc.), public hygiene, water works, and administration (document office duties). Municipal responsibilities are of two types: compulsory and voluntary. Compulsory tasks include road maintenance, public transport, child protection support, social provision tied to local government ordinances, issuance of various permits, some administrative tasks, etc. Most county responsibilities which included health, secondary and specialised education, economic development, spatial planning, environment protection, tourism have been recentralised. Counties are now primarily responsible for regional development.

## SUBNATIONAL GOVERNMENT FINANCE

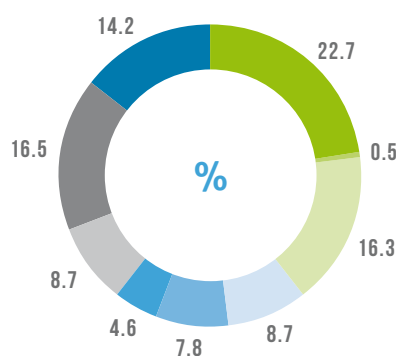
| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL GOVERNMENT |
|---------------------------------|-------------|---|--------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>7.5%</b> | <b>15.1%</b>  | <b>100%</b>              |
| <b>CURRENT EXPENDITURE</b>      | 5.6%        | -   | 74.9%                    |
| <b>STAFF EXPENDITURE</b>        | 2.4%        | 23.3%   | 31.4%                    |
| <b>INVESTMENT</b>               | 1.6%        | 39.4%   | 21.8%                    |

As a result of the recentralisation of a large part of SNG responsibilities, the share of SNG expenditure in GDP and public expenditure decreased significantly, by respectively 5 and almost 10 percentage points between 2010 and 2013. The share of SNG staff spending in total staff spending went from 50% to 23%, resulting from large transfers of personnel from SNGs to the central government, in particular to the new government offices. Similarly, the share of SNGs in public investment and GDP has fallen, respectively from 59% to 39% and from 2.2% to 1.6% of GDP.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



Main categories of SNG spending in 2013 included general public services, education (municipalities continue to manage school buildings and facilities but are no longer responsible for teaching and administrative staff) and economic affairs (mainly transport) and social protection.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 10.0% | 21.2%   | 100%                     |
| TAX REVENUE          | 2.3%  | 8.9%  | 22.5%                    |
| GRANTS AND SUBSIDIES | 6.7%  | -   | 67.1%                    |
| OTHER REVENUES       | 1.0%  | -   | 10.4%                    |

The new Local Government Act also modified SNG sources of financing and borrowing rules.

**TAX REVENUE.** Counties are not allowed to levy taxes. The highest municipal tax is by far the local business tax (74% of local tax revenue in 2013) which is imposed on companies located or registered in the municipal area and based on corporate gross margins. The rate is decided by the municipality, but capped at 2%. Property taxes are the second highest tax (18% of local tax revenue i.e. 0.4% of GDP). Including a building tax and a land tax, they are paid by owners, based either on area or floor space or on the adjusted market value. Tax rates are set by each municipality, up to certain limits. There are some other minor taxes such as a tax on motor vehicle or the communal tax on households, tourist tax, etc.

**GRANTS AND SUBSIDIES.** The 2011 reform also modified the grants system and reduced their amounts, in accordance to the recentralisation of several responsibilities, for example fall of funds from the Health Insurance Fund. A stricter grant system was set up in 2013, going from an income-based system to a task-based, expenditure-oriented system. Grants are now earmarked. The reform included the tightening of distribution rules and new equalisation criteria based on the tax capacity of each municipality.

**OTHER REVENUES.** Other revenues for municipalities include mostly user tariffs and fees for public services which represent around 9% of local revenue.

| OUTSTANDING DEBT        | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 2.1%  | 2.2%                 |

Tighter budgetary restrictions and new borrowing controls have been introduced for SNGs by the LGA. It forbids any operating deficit, and stipulates that SNGs are responsible for their own financial management. The LGA also set up an authorisation framework for local borrowing in 2012. Following the 2013 reform, SNG debt has also been recentralised, the central government taking over local debt. It was done progressively in three stages based on the size of SNGs. As a result, the amount and the structure of outstanding debt in 2014 profoundly changed, SNG debt accounting for 0.7% of GDP and 0.7% of public debt. It is made up other accounts payable for 79%, the remaining part being financial debt (18% of loans and 3% of bonds instead of 48% and 26% in 2013).

A joint- study of:



**Sources:** OECD National Accounts Statistics • OECD (2015 and 2016) Subnational Governments in OECD Countries: Key data • OECD (2015) Hungary: Towards a Strategic State Approach, OECD Public Governance Review • Lentner C. (2014) The Debt Consolidation of Hungarian Local Governments, Public Finance Quarterly • Sivák J. (2014) A systemic approach to the Local Government System, Public Finance Quarterly • Hajnal G. and Kovacs E. (2014) "Government Windows": One-Stop Shops For Administrative Services In Hungary' COCOPS • Soós G. and Dobos G. (2014) Against the Trend: Recentralization of the Local Government System in Hungary • Government of Hungary (2014) Convergence Programme of Hungary 2014 – 2017 • Council of Europe (2013) Local and regional democracy in Hungary, CG(25)7FINAL.



# ICELAND

UNITARY COUNTRY

EUROPE

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **HIGH INCOME: OECD** Local currency - **Icelandic Króna (ISK)**

### POPULATION AND GEOGRAPHY

AREA: **100 243** km<sup>2</sup>

POPULATION: **0.327** million inhabitants (2014), an increase of 0.7% per year (2010-14)

DENSITY: **3** inhabitants/km<sup>2</sup>

URBAN POPULATION: **94%** of national population

CAPITAL CITY: **Reykjavik** (55.3% of national population)

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

### ECONOMIC DATA

GDP: **14.4** billion (current PPP international dollars)  
i.e. 40 666 dollars per inhabitant (2014)

REAL GDP GROWTH: **1.8%** (2014 vs 2013)

UNEMPLOYMENT RATE: **4.9%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **746** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **17%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.899** (very high), **rank 16**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|--|--------------------|-------------------------|----------------------|
| <b>74</b><br>MUNICIPALITIES<br>(SVEITARFÉLAG)<br>AVERAGE MUNICIPAL SIZE:<br><b>4 445</b> INHABITANTS | -                  | -                       | <b>74</b>            |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Iceland has a single tier of local government protected under Article 78 of the Constitution, as well as in Article 2 of the Act on Local Authorities. All municipalities have the same status and responsibilities, regardless of population size. Voluntary mergers have reduced the number of municipalities from 226 in 1950, to 170 in 1995, 124 in 2000 and 74 today. An evaluation of merger policy conducted in 2010 recommended to promote inter-municipal co-operation instead of pushing for further mergers. The 2011 Local Government Act clearly opted for co-operation rather than amalgamation, by promoting municipal collaboration through regional boards, regional federations, or economic development agencies co-owned by the municipalities.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Municipal responsibilities include social welfare (child, youth and disabled support, elderly policy, homeless, social home care, social housing), education (pre and primary schools), unemployment and employment services, culture (public libraries, museums, etc.), sports, traffic and transport, environmental protection, industry support, etc.

## SUBNATIONAL GOVERNMENT FINANCE

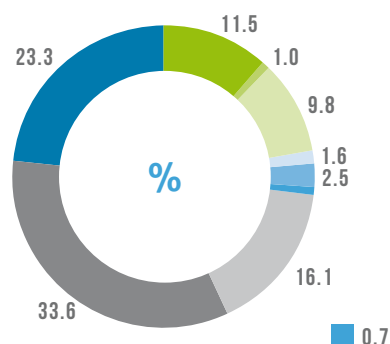
| EXPENDITURE                     | % GDP        | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|--------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>13.4%</b> | <b>32.0%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | 11.9%        | -   | 91.3%                       |
| <b>STAFF EXPENDITURE</b>        | 5.8%         | 42.8%   | 43.6%                       |
| <b>INVESTMENT</b>               | 1.2%         | 41.0%   | 9.0%                        |

The level of local expenditure in GDP and total public spending in Iceland is on average similar to that of unitary countries of the OECD, amounting to 13.4% of GDP and 29.0% of public spending in 2013. Icelandic local authorities are one of the biggest employers in the country. The share of staff expenditure in SNG expenditure is above the OECD average for unitary countries (32%). Local governments do not have a key role in public investment compared other OECD unitary countries (41% in Iceland vs 56% of the OECD on average in 2013), which is explained by the allocation of competences.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



The largest area of local spending is education, municipalities being responsible for both current and capital expenditure, including teacher salaries. It is followed by social welfare and recreation and culture.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL<br>GOVERNMENT |
|----------------------|-------|---|-----------------------------|
| TOTAL REVENUE (2013) | 13.0% | 30.6%   | 100%                        |
| TAX REVENUE          | 9.6%  | 29.6%   | 73.7%                       |
| GRANTS AND SUBSIDIES | 1.5%  | -   | 11.5%                       |
| OTHER REVENUES       | 1.9%  | -   | 14.8%                       |

The main source of local revenue comes from taxation (the highest share of all OECD countries) and tariffs and fees. In contrast, the share of central government transfers is the lowest across the OECD countries.

**TAX REVENUE.** Municipal tax revenue includes revenue from municipal income tax which is by far the highest source of tax revenue (82% of municipal tax revenue in 2013 i.e. 60% of total municipal revenue). Local governments have some authority over the municipal income tax rate. They can choose within a narrow band of between 12.44% and 14.52%. In 2013, the average rate on PIT was 14.4%, indicating that most municipalities chose the maximum allowable rate. Municipal income tax is withheld at source, monthly, along with national income tax. The second source is property tax on residential and commercial buildings (18% of local tax revenue). The tax rate varies (up to 1.65%), depending on the municipality and the type of real estate. Local governments are not allowed to introduce new taxes.

**GRANTS AND SUBSIDIES.** Transfers mostly come from the Municipal Equalisation Fund, founded in 1937 and restructured in the 1990s due to the decentralisation of tasks to municipalities (primary education). It has again expanded in recent years to finance new municipal spending responsibility such as disabled care. The central government contributes 2.12% of its total tax revenues and 0.264% of the previous year's PIT base. Local governments also contribute 0.77% of their PIT base (earmarked for elementary school expenditure) and 0.95% of the PIT base (earmarked for disabled expenditure). Fund revenues are then shared among the municipalities based on a complex formula which takes municipal charges and resources into account. The Fund also pays a share of rent compensation to all local governments, as well as grants to institutions and associations attached to municipalities: 92% of grants are for current expenditure, the other 8% being dedicated to investment projects.

**OTHER REVENUES.** SNGs have considerable autonomy in setting local fees and charges which represent 11% of their revenue (service fees on garbage disposal, sewage, etc.). Property income includes revenues from rents and sales of assets.

| OUTSTANDING DEBT        | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 12.8% | 11.4%                |

A new Act on Local Government (138/2011) introduced two fiscal rules for municipalities: a balancing rule for current operations, obliging them to balance revenue and expenditure over a three year period and a debt rule that limits total SNG debt and liabilities to 150% of total revenue. Municipalities are divided into three groups according to their debt standing. SNG debt is made up of insurance pensions (21%), other accounts payable (21%) and financial debt (58%), comprising only loans - although municipalities can issue bonds. Municipality Credit Iceland (MCI) is a capital loan fund owned by the local authorities, providing between 25% and 30% of Icelandic municipal financing needs.

A joint- study of:



**Sources:** OECD National Accounts Statistics • Eurostat Government Finance Statistics (COFOG only) • OECD (2015 and 2016), Subnational Governments in OECD Countries : Key data • OECD (2015), The State of Public Finances 2015: Strategies for Budgetary Consolidation and Reform in OECD Countries • International Monetary Fund (2015) ,Optimal Reform and Distributional Analysis of the Personal Income Tax • Thór Eythórsson G. et al (2014) West Nordic municipal structure: Challenges to local democracy, efficient service provision and adaptive capacity, Report from a project supported by the Arctic Co-operation Programme 2012-2014 • The Association of Local Authorities in Iceland (2012), Local Governments in Iceland • Ministry of Economic Affairs of Iceland (2012), pre-accession economic programme to the EU.



# IRELAND

UNITARY COUNTRY

EUROPE

## BASIC SOCIO-ECONOMIC INDICATORS

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

### POPULATION AND GEOGRAPHY

AREA: **68 394** km<sup>2</sup>

POPULATION: **4.614** million inhabitants (2014),  
an increase of 0.3% per year (2010-14)

DENSITY: **67** inhabitants/km<sup>2</sup>

URBAN POPULATION: **63%** of national population

CAPITAL CITY: **Dublin** (24.7% of national population)

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

### ECONOMIC DATA

GDP: **228** billion (current PPP international dollars)  
i.e. 49 402 dollars per inhabitant (2014)

REAL GDP GROWTH: **5.2%** (2014 vs 2013)

UNEMPLOYMENT RATE: **11.3%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **86 766** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **19%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.916** (very high), **rank 6**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|---|--------------------|-------------------------|----------------------|
| <b>31</b><br>3 CITY COUNCILS, 2 CITY AND COUNTY COUNCILS, 26 COUNTY COUNCILS<br>AVERAGE MUNICIPAL SIZE:<br><b>149 530</b> INHABITANTS | <b>-</b>           | <b>-</b>                | <b>31</b>            |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Local self-government was recognised in the 1999 Constitution (Article 28A). In 2014, Ireland implemented a significant territorial reform aimed at rationalising the territorial structure based on outdated town boundaries, increased democratic governance and spending efficiency of local governments. Following the Local Government Reform Act of 2014, the former 114 local councils were merged into 31 local governments, including 31 local councils: 3 city councils, 2 city and county councils and 26 county councils. The reform also abolished the eight regional authorities replacing them with three "regional assemblies" (still not elected by direct universal suffrage). The 2014 reform also created a nationally representative system of sub-county governance, the Municipal Districts. They are part of the relevant county council, acting as constituencies for county councils, with councillors, enjoying devolved local decision-making responsibilities to decide matters relevant to local communities.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The Local Government Act 2001, as amended by the Local Government Reform Act 2014, provides the legislative basis for the distribution of responsibilities. Until 2014, local governments were responsible for housing, planning, local roads, water supply and sewerage, environmental protection, recreation facilities and amenities, etc. In addition to these competences, a major role of local authorities is representation of local communities. Following the Local Government Reform Act (2014), local governments were granted new responsibilities, in particular in planning, local and community development and support economic development and enterprise at a local level.

## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL GOVERNMENT |
|---------------------------------|-------------|---|--------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>4.0%</b> | <b>9.8%</b>   | <b>100%</b>              |
| <b>CURRENT EXPENDITURE</b>      | 3.1%        | -   | 79.2%                    |
| <b>STAFF EXPENDITURE</b>        | 1.2%        | 11.2%   | 30.0%                    |
| <b>INVESTMENT</b>               | 0.7%        | 52.8%   | 18.7%                    |

Local councils have very limited spending responsibilities. Ireland is one of the most centralised countries of the OECD, with one of the lowest ratios to GDP and public spending among OECD countries, together with Chile, Greece and New Zealand. Their role as public employers is also very low, although staff spending represents 30% of their expenditure. However, they are key public investors, carrying out more than half of public investment. Investment is one of their main functions, even though they often act on behalf of the central government to implement national investment programmes.



## EXPENDITURE BY FUNCTION

### % SUBNATIONAL GOVERNMENT EXPENDITURE



In 2013, principal categories of local government spending included social protection (social inclusion and poverty, social housing benefits), economic affairs (mainly transports) and housing and community amenities, which include planning and development of public housing and water supply.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 4.1%  | 11.8%   | 100%                     |
| TAX REVENUE          | 0.9%  | 3.7%  | 21.7%                    |
| GRANTS AND SUBSIDIES | 2.0%  | -   | 47.8%                    |
| OTHER REVENUES       | 1.3%  | -   | 30.5%                    |

Local tax revenue is very limited, although it has increased over the recent years. However, local councils raise important user charges and fees while central government transfers represent around half of their revenue.

**TAX REVENUE.** Local tax revenues include in particular property taxes, levied on commercial properties. Since July 2013, a new property tax on residential properties was introduced to local governments. These two taxes are the only local tax revenue. The levying and collection of rates are matters for each individual local authority. From 2015 onwards, new powers over the local property tax rates are being conferred to local authorities, with the aim of increasing their financial autonomy and local ownership. The Annual Rate on Valuation (ARV), which is applied to the valuation of each property, determined by the Valuation Office, to obtain the amount payable in rates, is decided by the elected members of each local authority in their annual budget.

**GRANTS AND SUBSIDIES.** Transfers from the central government include specific (earmarked) grants and a general grant, the Local Government Fund (LGF) established in 1999. The LGF, financed by receipts from the motor tax and a contribution from the Exchequer, provides local councils with general funding. Designed for equalisation, its allocation takes expenditures and revenues of each local government into consideration (needs and resources model). Since 2015, 20% of local property tax receipts collected nationally is redistributed for equalisation purposes through the LGF (the remaining 80% is retained by local governments). Specific grants aim at financing specific public programmes (housing, roads, etc.). Current grants represented around 65% of total grants while capital grants accounted for 36%.

**OTHER REVENUES.** Other revenues for local governments include service fees and charges, such as commercial water charges, housing rents, waste charges, parking charges, planning application fees, etc. (24% of local revenue).

| OUTSTANDING DEBT        | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 3.4%  | 2.5%                 |

Fiscal rules for local governments were introduced in 2004, after Ireland recorded a general government deficit in 2002. The Government set a limit of EUR 200 million for the contribution of the local government sector to the deterioration in the General Government Balance (GGB) in any one year. This limit was reaffirmed in 2009. The Local Government Act (Article 106) states that a local authority may borrow money in any manner it considers suitable for the effective performance of its functions. However, it is limited to capital expenditure and needs prior approval of the central government. In addition, there is debt ceiling of 200 million euros for new annual borrowing (on the total sector's fiscal deficit for any given year). As a result, local government debt is limited, significantly below the OECD average. It comprises 87% of loans and 13% of other accounts payable.

A joint- study of:



**Sources:** OECD National Accounts Statistics • OECD (2015 and 2016) Subnational Governments in OECD Countries: Key data • Chatry I., Hulbert C. (2016) Multi-level governance reforms: Overview of OECD country experiences • OECD publishing • Department of the Community, Environment and Local Government (2015) <http://www.environ.ie/en/LocalGovernment/LocalGovernmentReform> • Citizen Information Board (2014) Changes to local government and local development structures • Council of Europe (2013) Local democracy in Ireland • European Committee of the Regions (2014) Division of Powers Between the European Union, Member States, Candidate and some Potential Candidate Countries, and Local and Regional Authorities: Fiscal Decentralisation or Federalism .



# ITALY

UNITARY COUNTRY

## EUROPE

### BASIC SOCIO-ECONOMIC INDICATORS

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

#### POPULATION AND GEOGRAPHY

AREA: **295 113** km<sup>2</sup>

POPULATION: **60.795** million inhabitants (2014),  
an increase of 0.4% per year (2010-14)

DENSITY: **206** inhabitants/km<sup>2</sup>

URBAN POPULATION: **68.8%** of national population

CAPITAL CITY: **Rome** (6.1% of national population)

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

#### ECONOMIC DATA

GDP: **2 155.8** billion (current PPP international dollars)  
i.e. 35 463 dollars per inhabitant (2014)

REAL GDP GROWTH: **-0.4%** (2014 vs 2013)

UNEMPLOYMENT RATE: **12.7%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **13 727** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **17%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.873** (very high), **rank 27**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL      | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|--|-------------------------|-------------------------|----------------------|
| <b>8 047</b>   | <b>107</b>              | <b>20</b>               | <b>8 174</b>         |
| MUNICIPALITIES (COMUNI),<br>INCLUDING 14 METROPOLITAN CITIES<br>(CITTÀ METROPOLITANE)<br>AVERAGE MUNICIPAL SIZE:<br><b>7 545</b> INHABITANTS | PROVINCES<br>(PROVINCE) | REGIONS<br>(REGIONI)    |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Italy has a three-tier system of SNGs, comprising the regions, the provinces and the municipalities. Italy is often referred to as a “regionalised country”, in particular since the constitutional reform of 2001 and the fiscal federalism law of 2009 both granted greater autonomy to the regions. In addition, Italy has an asymmetric decentralisation with fifteen ordinary-status regions (RSO) and the five special status regions (RSS) enjoying even more legislative and financial autonomy (Aosta Valley, Friuli-Venezia Giulia, Sardinia, Sicily and Trentino-Alto Adige/Südtirol). This latter region is divided into two provinces, each with its own special statute. Provinces and municipalities are not governed by regional legislation, except in the RSS. The current Italian multi-level governance system could change in October 2016 if the Constitutional reform adopted in April 2016 is approved by referendum. The reform includes, among others, the abolition of the provinces which would be removed definitively from the Constitution as self-governing entities. The Law 56/2014 already transformed the provinces into inter-municipal cooperation bodies, taking the form of metropolitan cities in each of the ten metropolitan areas designated by the law. Italy also has a state territorial administration based on prefectures (*prefettura*) at the provincial level.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Regions have significant legislative and administrative powers since the 2001 Constitutional reform which gave them exclusive legislative power with respect to any matter not expressly reserved to State. Regions are responsible for healthcare, transport, social services and housing, economic development, environmental protection, culture, agriculture, education, etc. Some responsibilities are, however, shared with the central government, resulting in significant overlap (concurrent responsibilities). Before the Law 56/2014, provinces were in charge of transport, roads, environmental protection, sewerage, waste, secondary schools, etc. Following the new law, provincial tasks were transferred to regions, municipalities or new-intermunicipal bodies, depending on each region. Municipal responsibilities include town planning, building and commercial permits, social housing, local police, local public transport and roads, water and waste management, education (pre and primary schools buildings), social services, local economic development, recreation and culture, etc. The Constitutional reform provides for significant changes, intending to clarify the allocation of responsibilities between the central government and ordinary regions. It plans to abolish “concurrent competences” and to recentralise several tasks, the central government gaining in particular exclusive competences on transport, public finance and taxation as well as labour.

### SUBNATIONAL GOVERNMENT FINANCE

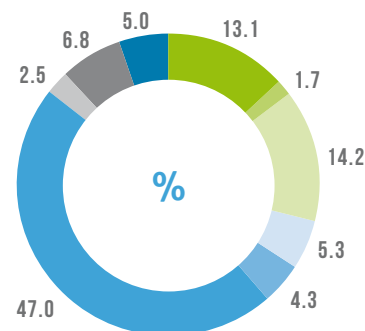
| EXPENDITURE                     | % GDP        | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|--------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>14.9%</b> | <b>29.3%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | 12.9%        | -   | 86.4%                       |
| <b>STAFF EXPENDITURE</b>        | 4.2%         | 41.2%   | 28.4%                       |
| <b>INVESTMENT</b>               | 1.4%         | 56.6%   | 9.1%                        |

The gradual but deep decentralisation process led to a strong increase in SNG expenditure. Italy is today among the most unitary decentralised countries, after Nordic countries and Japan. SNGs are key public employers, in particular in the health sector. The role of SNGs in public investment is slightly lower than in the OECD on average where SNG investment accounted for 58.5% of public investment, 1.9% of GDP and 11.2% of SNG expenditure in 2013. Regions represent the bulk of SNG expenditure (around 65%), municipalities and provinces representing around 30% and 5%.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



Health is by far the primary area of SNG spending, representing almost half of SNG expenditure, and even 60% of regional budgets (health services are organized within special-purpose autonomous bodies funded by the regions (local health agencies or ASL). It is followed by economic affairs/transport and general public services. The share of social protection and education is lower than in the OECD on average (where they respectively accounted for 11.9% and 26.2% in 2013) as these two sectors remain primary functions of the central government, in particular regarding staff management. SNGs are responsible for the large majority of overall public spending in the areas of environmental protection, housing and community amenities and health (over 80% of public spending).

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 14.9% | 31.0%   | 100%                     |
| TAX REVENUE          | 6.5%  | 21.7%   | 44.0%                    |
| GRANTS AND SUBSIDIES | 6.5%  | -   | 43.6%                    |
| OTHER REVENUES       | 1.9%  | .   | 12.5%                    |

The 2001 Constitutional reform and the fiscal federalism law No. 42 of 2009 set a milestone for Italy in its gradual move towards decentralisation. The objective of the reform was to increase SNG fiscal autonomy, efficiency and accountability, and to guarantee an adequate level of subnational services across the country. It led to an increase of own-taxes and shares in national taxes with the aim of covering spending obligations, which also induce the replacement of a portion of central government grants by tax revenues equalization payments.

**TAX REVENUE.** SNG tax revenue comprises both shared and own-sources taxes. Regional taxes include a regional tax on productive output (IRAP, by far the most important source of tax revenue for regions), a regional surtax on the PIT (*imposta sul Reddito delle Persone Fisiche IRPEF*), a regional automobile tax, etc. The RSS and the central government also share certain national taxes (PIT, CIT, stamp tax, excise duties, etc.). Provincial own taxes include a vehicle insurance tax, a vehicle registration tax, a surtax on electricity consumption and a share of the PIT (*compartecipazione IRE*). Municipalities also receive a share of the PIT but most of their taxes are own-source, including a municipal property tax (*Imposta Municipale Propria IMU*), a municipal tax on building licenses, a waste tax and a surtax on the PIT (IRPEF), with some municipal leeway on the rate. The property tax, abolished in 2006, was re-established in 2012, accounting for 1.3% of GDP in 2013. In 2014, a new Municipal tax, called IUC (Single Municipal tax), was established, consisting of three separate taxes: the IMU, the TASI (tax financing local services such as public lighting, roads) and the TARI (waste tax).

**GRANTS AND SUBSIDIES.** The 2009 reform reviewed the equalisation system, introducing a new system based on covering the costs of essential public services and equalising tax-raising capacities. Central government (non-capital) transfers consist exclusively of general purpose equalisation grants. This system replaced the prior system of negotiated grants based primarily upon historical levels. The grants system is funded through a share of national VAT receipts. Equalization must take into account both expenditure needs (a minimum level of the compulsory services is guaranteed to all citizens regardless of where they live within the country) and fiscal capacity. SNGs with a below-average fiscal capacity are entitled to equalising grants. There are, however, some earmarked transfers targeted to specific needs, in particular to correct regional disparities for economic development and social cohesion purposes, for natural disasters, and for funding functions delegated to regions by the central government. These types of grants should be limited as far as possible as conditional grants are banned by the Constitution. Regional transfers to local governments are often earmarked, and include, for instance, capital grants. Overall, capital grants represented 13% of all grants in 2013.

**OTHER REVENUES.** The share of other revenue in SNG revenue is significantly lower than in the OECD on average (12.5% vs 19.0%). They include mostly user charges and fees (10.9% of SNG revenue, but more for the municipalities), property income (rents, sales) representing 1% of SNG revenue.

## OUTSTANDING DEBT

|                         | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 12.3% | 8.6%                 |

In 1999, Italy has introduced an Internal Stability Pact (ISP) to ensure that the financial situation of local, provincial and regional administrations is consistent with Italy's obligations under the European Union fiscal rules. ISP has been progressively modified, with different targets and borrowing limits for regions, provinces and municipalities and specific rules for health spending. A reform enshrining the budget stability rule in the Italian constitution also passed in May 2012. Deficits can no longer be financed through debt (golden rule). The reform also reinforced the role of the central government in the co-ordination of public finances, subjecting regional and local government budgets to central control. Italian SNG outstanding debt as a share of GDP and public debt is below OECD averages, especially that of unitary countries (15.1% of GDP and 12.0% of public debt). It is made up of financial debt (70%) and other accounts payable (30%). Municipalities, provinces and regions may issue bonds according to specific prudential rules. However, the majority of Italy's regional and local debt is in the form of bank loans (59% of outstanding SNG debt in 2013). The government set up a funding plan in 2013 to repay the SNGs' accumulated liabilities (debt buyback). The regions receive funding directly from Italy's Ministry of Finance, while cities and provinces receive funding from Italian government agency Cassa Depositi e Prestiti (CDEP).

A joint study of:



**Sources:** OECD National Accounts Statistics • OECD (2016 and 2015) Subnational Governments in OECD Countries: Key data • Chatry I., Hulbert C. (2016), "Multi-level governance reforms: Overview of OECD country experiences" OECD publishing • Unicredit (2016), Financing Italy's regional and local governments • OECD (2015), OECD Economic Surveys Italy • OECD (2015), The State of Public Finances 2015, Strategies for Budgetary Consolidation and Reform in OECD Countries • Wolman H. and Hincapié D. (2014), National Fiscal Policy And Local Government During The Economic Crisis, Volume 2: Country Profiles, Urban Paper Series • Council of Europe (2013), Local and regional democracy in Italy CG(24)8FINAL.



### BASIC SOCIO-ECONOMIC INDICATORS

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

#### POPULATION AND GEOGRAPHY

AREA: **64 589** km<sup>2</sup>

POPULATION: **1.995** million inhabitants (2014), a decrease of -1.25% per year (2010-14)

DENSITY: **31** inhabitants/km<sup>2</sup>

URBAN POPULATION: **67.4%** of national population

CAPITAL CITY: **Riga** (30.8% of national population)

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

#### ECONOMIC DATA

GDP: **46.9** billion (current PPP international dollars)  
i.e. 23 537 dollars per inhabitant (2014)

REAL GDP GROWTH: **2.4%** (2014 vs 2013)

UNEMPLOYMENT RATE: **10.8%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **878** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **23%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.819** (very high), **rank 46**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|---|--------------------|-------------------------|----------------------|
| <b>119</b>  | <b>-</b>           | <b>-</b>                | <b>119</b>           |
| <b>119 LOCAL GOVERNMENTS: 110 DISTRICTS (NOVADS) AND 9 REPUBLICAN CITIES (REPUBLIKAS PILSETA)</b><br>AVERAGE MUNICIPAL SIZE: <b>16 760 INH.</b> |                    |                         |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Latvia's territorial organisation is relatively new, resulting from a large territorial reform conducted in 2009 changing from dual-level municipalities to single-level municipalities: Local authorities numbering 524 (municipalities, rural territories, district towns, "republican cities"), were merged in one single tier of government, comprising 110 districts and 9 "republican cities" (i.e. the largest cities - 50% of the population and 74% of GDP). These "republican cities" have well-developed commercial activities, transport and community jurisdiction facilities, social and cultural infrastructure, as well as a minimum resident population of 25 000. This city status grants them a certain administrative and financial independence. Districts have resident populations of at least 4 000 inhabitants and must comprise a village of at least 2 000 inhabitants. Five planning regions were also established in 2002. They have no legal status but have indirectly elected regional governments (councils) made up of local authority representatives.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The 1992 Constitution has no explicit specific provisions giving local self-government a constitutional foundation. However, the Constitutional Court considered that Article 101 on citizen participation in local authority activities was a safeguard for local self-government. The Local Government Act dates back to 1994 and has been amended several times to define SNG powers and responsibilities. Local governments have three types of competences: mandatory autonomous functions prescribed by laws, autonomous functions performed as voluntary initiatives, and delegated functions on behalf of the State. Each type of task has to match its own funding source. Local government competences include organisation of public utilities (water supply and sewerage, heating, waste management), local planning, environment, pre-school, primary and secondary education, housing (including housing benefits), social assistance and social services (child care, elderly, disabled), culture, public transport, local roads, etc.

### SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP        | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|--------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>10.2%</b> | <b>27.5%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | <b>8.0%</b>  | <b>-</b>  | <b>78.4%</b>                |
| <b>STAFF EXPENDITURE</b>        | <b>4.3%</b>  | <b>46.2%</b>  | <b>42.7%</b>                |
| <b>INVESTMENT</b>               | <b>2.2%</b>  | <b>49.0%</b>  | <b>21.3%</b>                |

The local government share of public expenditure is below the EU average of 33% but slightly above the EU average of 23% if only the local level is considered. The share of staff expenditure in SNG expenditure is particularly high corresponding for the large part to teacher wages. Investment is a key function of SNGs, representing 2.2% of GDP (vs 1.6% in the EU) and 21% of SNG expenditure (vs 10% in the EU). However, the share of SNGs in public investment is lower than the EU average (55%).



## EXPENDITURE BY FUNCTION

### % SUBNATIONAL GOVERNMENT EXPENDITURE



A significant share of SNG expenditure is allocated to education (teacher salaries), but also for the financing of the maintenance and operational costs of educational facilities. Other significant expenditure functions include economic affairs (transport, roads), housing and community amenities (water, lighting, etc.) and social protection.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 9.7%  | 27.0%   | 100%                     |
| TAX REVENUE          | 5.5%  | 27.3%   | 56.1%                    |
| GRANTS AND SUBSIDIES | 3.3%  | -   | 34.1%                    |
| OTHER REVENUES       | 1.0%  | -   | 9.8%                     |

The Local Government Act of 1994 has been complemented by the 1995 Act on self-government budgets and the 1998 Act on equalisation of self-government finance (currently being revised). The main source of SNG revenue is derived from taxes, while grants and subsidies amount to 34%.

**TAX REVENUE.** Shared taxes are the major source of SNG tax revenue. The most significant taxes include a share of the PIT (the share is around 80% of tax collected in local authority area and negotiated annually), the natural resources tax, the lottery and gambling tax and the real estate tax levied on lands and buildings (share of 100%, amounting to 0.8% of GDP). Local authorities cannot set their own tax rates which are set by the central government. However, since 2013 they were granted greater autonomy over the adjustment of tax rates on the property tax (within a pre-defined bracket of 0.2-3%). PIT receipts represent 85% of SNG tax revenues while real estate tax represents 14%.

**GRANTS AND SUBSIDIES.** Nearly all grants from the central government are earmarked. Transfers include, in particular, grants for the remuneration of teachers, road maintenance and construction, investment projects or financing of EU projects. Another grant (non-earmarked) is the Local Government Finance Equalisation Fund, which aims at balancing the different tax capacities (PIT and real estate tax) and service obligations of municipalities based on an estimation of the "financial needs" itself calculated using several demographic criteria. A Draft Law on Municipal Financial Equalisation is under preparation to simplify the mechanisms and improve equity while stimulating economic development.

**OTHER REVENUES.** Other revenues come from assets sales and rentals, user charges and fees as well as from income generated by local public companies.

## OUTSTANDING DEBT

|                         | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 8.0%  | 18.7%                |

SNGs can only carry out long-term borrowing to finance investment projects (golden rule). However, they do not have free access to the banking system or the capital market, as loans must be contracted with the State Treasury or within specific funding programmes. Borrowing from another institution must be justified and authorised by the Ministry of Finance. SNG borrowing in a given year cannot exceed 20% of current revenues (excluding earmarked grants and contributions to the Equalisation Fund). In case of non-compliance, the national Treasury can apply sanctions, and SNGs may be placed under supervision. Seventy-seven percent of outstanding debt is composed of loans and 23% of other accounts payable.

A joint study of:



**Sources:** Eurostat (Government Finance Statistics) • Central Statistical Bureau of Latvia (2015), Latvia Statistical year-book 2015 • OECD (2015), OECD Economic Surveys: Latvia 2015 • European Committee of the Regions (2014), Division of Powers Between the European Union, Member States, Candidate and some Potential Candidate Countries, and Local and Regional Authorities: Fiscal Decentralisation or Federalism • Gross E. and Bruna S. (2012), Municipal Finance Equalization Process In Latvia, Economics and Management Vol 17 • The Congress of Local and Regional Authorities of the Council of Europe (2011), Local and regional democracy in Latvia • Dexia (2008) Subnational governments in the EU: organisation, responsibilities and finance.



# LITHUANIA

UNITARY COUNTRY

EUROPE

## BASIC SOCIO-ECONOMIC INDICATORS

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

### POPULATION AND GEOGRAPHY

AREA: **65 300** km<sup>2</sup>

POPULATION: **2.932** million inhabitants (2014), a decrease of -1.36% per year (2010-14)

DENSITY: **45** inhabitants/km<sup>2</sup>

URBAN POPULATION: **66.5%** of national population

CAPITAL CITY: **Vilnius** (17.2% of national population)

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

### ECONOMIC DATA

GDP: **81.2** billion (current PPP international dollars)  
i.e. 27 686 dollars per inhabitant (2014)

REAL GDP GROWTH: **3.0%** (2014 vs 2013)

UNEMPLOYMENT RATE: **10.7%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **351** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **19%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.839** (very high), rank **37**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|---|--------------------|-------------------------|----------------------|
| <b>60</b><br>MUNICIPALITIES<br>(SAVIVALDYBĖS)<br>AVERAGE MUNICIPAL SIZE:<br><b>48 875 INHABITANTS</b> | -                  | -                       | <b>60</b>            |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Lithuania has one tier of local self-government composed of 60 municipalities, resulting from the mergers of 581 local governments in 1994. The municipal level comprises 48 districts (*rajonas*), 6 towns (*miestas*) and 6 common municipalities, which all have the same status and competences. Municipalities can set up sub-municipal entities called wards (*seniūnijos*) to manage proximity services. There are around 545 such entities each headed by a civil servant appointed by the director of municipal administration. The ten counties (state administrative regions with centrally-appointed governors) were abolished in 2010 and replaced by regional development councils composed of municipal councillors, but which remain under the direction of the Ministry of Interior.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Municipal competences were set by the 1992 Constitution and by the 1994 Local Government Act, modified in 2002, which ensures the autonomy and stability of SNG functions. The elimination of state counties led to the transfer of their competencies to municipalities (primary healthcare, education and social services) and to the central government. The decentralisation of social assistance, began in 2012, giving municipalities full management responsibility. Since 2015, they also have full responsibility for funding social assistance. Municipal competences are divided into either independent or assigned competences. Independent competences include education (pre-school, primary and secondary) and vocational training, health (primary health care and public health services), social welfare, spatial planning, local development, local transport (public transport and roads), environmental protection, housing, culture, public safety and order, waste and sanitation and water management. Delegated competences include civil and fire protection, agriculture and rural development, participation in labour market policy, public registry and archive services, protection of children's rights, organisation of secondary health care, etc.

## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>8.3%</b> | <b>23.3%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | 7.0%        | -   | 84.7%                       |
| <b>STAFF EXPENDITURE</b>        | 4.2%        | 44.2%   | 50.7%                       |
| <b>INVESTMENT</b>               | 1.3%        | 36.4%   | 15.1%                       |

SNG spending share in GDP and public expenditure is below the EU average (respectively 15.9% and 32.8%) but closer if only the local level is considered (the EU average being respectively 11.4% and 23.4%). However, this share should increase following the recent decentralisation process of the social sector. SNG staff expenditure is particularly high, SNGs being responsible for the payment of teacher salaries and health administrative staff. Their role in investment is relatively limited.



## EXPENDITURE BY FUNCTION

### % SUBNATIONAL GOVERNMENT EXPENDITURE



The largest category of SNG spending is by far education, which represents over 35% of total SNG expenditure, as municipalities have extensive responsibilities in this area. Health is the second main item of SNG expenditure, municipalities being in charge of most of the health care system, either directly or by delegation of the central government. Other major categories of spending include social protection, a growing area for municipal intervention, and economic affairs and transport.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 8.0%  | 24.4%   | 100%                     |
| TAX REVENUE          | 0.4%  | 2.7%  | 5.4%                     |
| GRANTS AND SUBSIDIES | 7.2%  | -   | 89.4%                    |
| OTHER REVENUES       | 0.4%  | -   | 5.2%                     |

Municipalities are highly dependent on central government transfers and subsidies which represent almost 90% of their revenue.

**TAX REVENUE.** PIT tax sharing, considered as tax revenue until 2008 SNA reform, has been classified as central government transfers since 2014 (see below). Today, local tax revenue includes two property taxes (tax on immovable property and the tax on land from households i.e. 63% of SNG tax revenue and around 0.2% of GDP), the stamp tax (22% of SNG tax revenue) as well as taxes on pollution (shared) and natural resources (6% each). Municipalities are able to set the rates of the tax on immovable property and of the tax on land (since 2013), within limits set by law (or decisions from central authorities). Other tax rates are set at the central level.

**GRANTS AND SUBSIDIES.** The Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets establishes yearly the percentage of the PIT falling on all municipal budgets from inflows to the National budget and the amount of grants allocated to municipal budgets based upon indices for each budgetary year. In 2016, the total PIT share for municipalities increased from 72.8% to 75.49%, representing around one-third of SNG revenues. The criteria used to allocate PIT to the municipalities changed in 2016. Municipalities receive a percentage of PIT share based on the municipality's projected revenue from PIT per capita compared to the average projected PIT per capita of all municipalities. Municipalities below the average receive 100% share of PIT whereas those which are above are donors. Other grants include special targeted grants which are assigned to specific competences or for implementing particular programs. From 2016, these grants will also include the EU and other international financial aid funds.

**OTHER REVENUES.** Other revenues include property revenue (1%) e.g. sales of assets and leasing of state-owned land as well as user charges and fees (4%) for the provision of municipal services.

| OUTSTANDING DEBT        | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 2.8%  | 5.7%                 |

Limits to local government borrowing are set annually by the government via the Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets. Long-term borrowing is restricted to finance investment (golden rule). Municipal total and net borrowing limits are calculated from the approved municipal budget revenues (excluding state-specific grants). In addition, the amount of municipal guarantees cannot exceed a given share of municipal budget revenues (also excluding state-specific grants). In 2015, amendments to municipal borrowing regulations were drafted to reinforce municipal fiscal discipline. Recourse to municipal bonds is not authorised. In 2013, total outstanding debt comprised loans (75%) and "other accounts payable" (25%).

A joint- study of:



**Sources:** Eurostat (Government Finance Statistics) • Statistics Lithuania (2015), Lithuania Statistical Yearbook 2015 • OECD (2015), regulatory policy in Lithuania • Davulis G. (2014), Significance of local taxes for Lithuanian local government finance, International Journal of Economic Theory and Application • European Committee of the Regions (2014), Division of Powers Between the European Union, Member States, Candidate and some Potential Candidate Countries, and Local and Regional Authorities: Fiscal Decentralisation or Federalism • Burbulyte-Tsiskarishvili G. et al (2013), Local governments as the main actors of regional development in Lithuania • The Congress of Local and Regional Authorities (2012), local and regional democracy in Lithuania • Dexia (2008) Subnational governments in the EU: organisation, responsibilities and finance.



# LUXEMBOURG

UNITARY COUNTRY

EUROPE

## BASIC SOCIO-ECONOMIC INDICATORS

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

### POPULATION AND GEOGRAPHY

AREA: **2 586** km<sup>2</sup>

POPULATION: **0.558** million inhabitants (2014),  
an increase of 2.4% per year (2010-14)

DENSITY: **216** inhabitants/km<sup>2</sup>

URBAN POPULATION: **89.9%** of national population

CAPITAL CITY: **Luxembourg** (19.9% of national population)

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

### ECONOMIC DATA

GDP: **54.8** billion (current PPP international dollars)  
i.e. 98 163 dollars per inhabitant (2014)

REAL GDP GROWTH: **4.1%** (2014 vs 2013)

UNEMPLOYMENT RATE: **6.1%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **7 087 957**  
(BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **18.6%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.892** (very high), **rank 19**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|---|--------------------|-------------------------|----------------------|
| <b>105</b><br>MUNICIPALITIES<br>(COMMUNES)<br>AVERAGE MUNICIPAL SIZE:<br><b>5 360 INHABITANTS</b> | -                  | -                       | <b>105</b>           |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** The Grand Duchy of Luxembourg has a single tier of subnational government composed of 105 municipalities (*communes*). Article 107 of the 1868 Constitution defined them as autonomous authorities having a territorial basis and a legal personality with the responsibility of managing their own patrimony and interests (under central government control). In 2009 the government adopted a plan for promoting municipal mergers within the framework of the "Integrative Blueprint for Territorial and Administrative Reform in Luxembourg". The number of municipalities was cut from 116 to 105, a figure below the initial target. A new plan was launched in 2015, promoting continued voluntary mergers involving consultation with the population by referendum. In Luxembourg, the critical mass of a municipality was set at 3 000 inhabitants (and a minimum surface area of 100 km<sup>2</sup>).

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The 1988 Municipal Government Act (*loi communale*) provides a reference framework for the distribution of responsibilities across levels of government, making a distinction between mandatory responsibilities (including some which are shared with central government or delegated) and optional responsibilities. Main municipal tasks include pre-school and primary education, spatial planning and urban development, waste and water management, local roads and traffic regulation, environmental protection, public order and safety and firefighting services, civil status, social assistance, etc. Optional tasks include sports, culture, housing, tourism, facilities for the elderly, gas and electricity supplies etc.

## SUBNATIONAL GOVERNMENT FINANCE

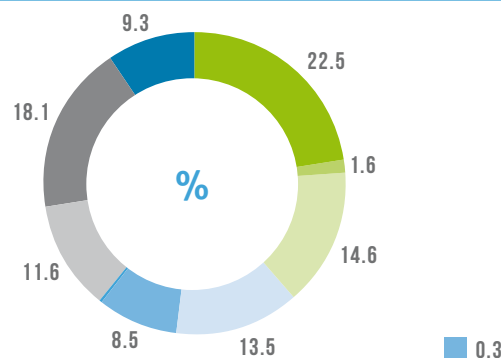
| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>5.0%</b> | <b>11.5%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | 3.6%        | -   | 71.1%                       |
| <b>STAFF EXPENDITURE</b>        | 1.7%        | 20.7%   | 34.1%                       |
| <b>INVESTMENT</b>               | 1.4%        | 39.5%   | 28.7%                       |

Luxembourg is a relatively centralised country. Municipal expenditure represents a lower share of GDP and total general government expenditure than the OECD average, including for unitary countries only (respectively, 13% of GDP and 29% of public expenditure). In this respect, Luxembourg is similar to countries such as Ireland, Israel, Turkey or New Zealand. However, Luxembourg is a small country, in terms of area and population and the distance between national and local is small. In terms of the level of expenditure per capita, Luxembourg is above the OECD unitary country average (5 230 USD vs 4 265 USD in the OECD), ranking 8th out of 25. Municipalities are key public investors and investment represents a large share of their expenditure.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



Main areas of municipal spending include general public services, education, economic affairs (mainly transport) and environmental protection (waste, sewerage) and then recreation and culture. The share of education in municipal expenditure has decreased since 2009 from 24% in 2008 to 18% in 2013 following a law which assigned responsibility for infrastructure and operating costs to municipalities and no longer that of teaching, which was left to central government.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 5.4%  | 12.1%   | 100%                     |
| TAX REVENUE          | 1.4%  | 4.9%  | 25.6%                    |
| GRANTS AND SUBSIDIES | 3.0%  | -   | 55.1%                    |
| OTHER REVENUES       | 1.0%  | -   | 19.3%                    |

The share of tax in local revenue has been steadily decreasing for a number of years, in particular linked to the nature of the tax base. In contrast, the share of central government transfers has increased.

**TAX REVENUE.** All municipal taxes are own-source, the main one by far being, the municipal trade tax established in 1936 (*impôt commercial communal* or ICC) representing 91% of municipal tax revenue in 2013. This tax is levied on profits of commercial companies only. Each municipality determines a rate - approved by the central government - which is applied to the tax base. Tax collection is made by the central government and receipts are not redistributed in full directly: an horizontal equalisation mechanism redistributes ICC receipts among municipalities according to different criteria. The contribution of a municipality to this "Participation fund" is between 42% and 67% of ICC revenue located on its territory, with various intermediate permutations. The second highest tax is property tax (*impôt foncier*) levied on lands and buildings (5% of local tax revenue). Other minor taxes include a gambling tax, dog tax, a surtax over the real estate transfer tax, etc.

**GRANTS AND SUBSIDIES.** The main framework for intergovernmental transfers is the Communal Fund for Financial Grants (*Fonds Communal de Dotation Financière*, FCDF). Established in 1987, it regroups around 70% of all grant funding from the central government to municipalities. Transfers are not earmarked and represent around 40% of local revenue. Annual funding for the FCDF is made up of 18% of PIT receipts, 10% of VAT receipts, 20% of the vehicle tax, as well as an additional lump sum set annually by legislation. A fixed sum is allocated to each municipality, as well as a variable grant based on criteria such as population, amount of green land and population density. Other current and investments grants are all earmarked. Capital grants represent around 15% of total grants.

**OTHER REVENUES.** The share of other municipal revenues is high, in particular that of fees and user charges for public services such as fees for water distribution, disposal of household waste (18%). They also include property revenue (interests, dividend, assets sales, etc.).

| OUTSTANDING DEBT        | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 3.0%  | 10.1%                |

Municipal budgets and borrowing are under the supervision of the Ministry of Interior. While municipalities are not prohibited from running an operating deficit, according to the Municipal law, borrowing is only allowed if there is no other financing option, and if regular reimbursement of annual accruals is guaranteed. Loans are only permitted to fund capital expenditure (golden rule). Any loans in excess of EUR 50 000 must be approved by the Ministry of the Interior. Issuing bonds is allowed but never used. The local debt-to-GDP ratio is five times lower than the average of OECD unitary countries. The share in total public debt is slightly lower (OECD unitary country average: 12%). The outstanding debt is made up of loans (73%) and other accounts payable.

A joint- study of:



**Sources:** OECD National Accounts Statistics • OECD (2015 and 2016) Subnational Governments in OECD Countries: Key data • Chatry I., Hulbert C. (2016) "Multi-level governance reforms: Overview of OECD country experiences" OECD publishing • Council of Europe (2015) Local democracy in Luxembourg, CPL/2015(29)5FINAL • European Committee of the Regions (2014) Division of Powers Between the European Union, Member States, Candidate and some Potential Candidate Countries, and Local and Regional Authorities: Fiscal Decentralisation or Federalism • Banque centrale du Luxembourg (2013) Bulletin BCL 2013 • Banque Centrale du Luxembourg et Gouvernement du Luxembourg (2012) Radiographie des finances communales.



## BASIC SOCIO-ECONOMIC INDICATORS

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

## POPULATION AND GEOGRAPHY

AREA: **316** km<sup>2</sup>POPULATION: **0.427** million inhabitants (2014), an increase of 0.77 per year (2010-14)DENSITY: **1 352** inhabitants/km<sup>2</sup>URBAN POPULATION: **95.3%** of national populationCAPITAL CITY: **Valletta** (45.9% of national population)

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

## ECONOMIC DATA

GDP: **12.50** billion (current PPP international dollars)  
i.e. 29 246 dollars per inhabitant (2013)REAL GDP GROWTH: **3.7%** (2014 vs 2013)UNEMPLOYMENT RATE: **5.9%** (2014)FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **-12.9** (BoP, current USD millions, 2014)GROSS FIXED CAPITAL FORMATION (GFCF): **18%** of GDP (2014)HUMAN DEVELOPMENT INDEX: **0.839** (very high), **rank 37**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|---|--------------------|-------------------------|----------------------|
| <b>68</b><br>68 LOCAL COUNCILS<br>(KUNSILLI LOKALI)<br>AVERAGE MUNICIPAL SIZE:<br>6 285 INHABITANTS | -                  | -                       | <b>68</b>            |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Malta is the smallest EU Member State both in terms of area and population, although it is the most densely populated. It is an archipelago of seven islands but only the three largest are inhabited: Malta, Gozo and Comino. Malta has a one-tier local government system, established in 1993 via the approval of the Local Councils Act and entrenched in the Maltese Constitution in 2001 through an amendment. There are 54 local councils in Malta and 14 in Gozo. The Local Councils Act was substantially revised in 1999, in 2005 and in 2009 by Act No. XVI as part of the 2009 Local Government Reform. This reform introduced several changes: further division of local councils into “communities” (hamlets) run by an administrative committee directly elected by the residents of each community. At the upper level, 5 regions were created, run by a regional committee composed of mayors of the local councils located in the region. Their responsibilities are delegated by the central government and the local council.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Since 1993, local responsibilities have been gradually extended over time but they remain relatively limited. According to the Local Councils Act, local councils are responsible for street cleaning and maintenance, waste disposal, parks, leisure facilities and playgrounds, libraries and sport facilities. Decentralised services also include the administration of property, enforcement of regulations in several sectors and the provision of e-government services.

## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>0.7%</b> | <b>1.7%</b>   | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | 0.5%        | -   | 71.1%                       |
| <b>STAFF EXPENDITURE</b>        | 0.1%        | 3.9%  | 13.0%                       |
| <b>INVESTMENT</b>               | 0.2%        | 7.0%  | 28.9%                       |

Malta is the EU country in which the share of SNG expenditure in GDP and total public expenditure is the lowest. Local councils have very few spending responsibilities, which is also reflected in a low level of staff expenditure. Investment accounts for a large share of local expenditure, above the EU average (29% vs 10%). However, local investment remains very limited as a share of public investment and GDP.



## EXPENDITURE BY FUNCTION

### % SUBNATIONAL GOVERNMENT EXPENDITURE



The main category of spending is general public services, followed by environmental protection (notably waste management) and economic affairs and transport.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL<br>GOVERNMENT |
|----------------------|-------|---|-----------------------------|
| TOTAL REVENUE (2013) | 0.7%  | 1.7%  | 100%                        |
| TAX REVENUE          | 0.0%  | 0.0%  | 0.0%                        |
| GRANTS AND SUBSIDIES | 0.6%  | -   | 94.4%                       |
| OTHER REVENUES       | 0.0%  | -   | 5.6%                        |

The lion's share of local revenue (94%) comes from central government transfers as local councils are not able to raise any taxes, according to the Local Councils Act.

**TAX REVENUE.** Local councils have no tax revenue (neither own-source nor shared).

**GRANTS AND SUBSIDIES.** Central government transfers to local councils are organised under Article 55 of the Local Councils Act. The Minister of Finance allocates funds annually for the exercise of local council functions. The amount appropriated is based on a complex formula based on councils characteristics (e.g. the number of properties within the council, the number of councillors, the length of roads, park areas, etc.) and on estimations of current costs for the delivery of 16 statutory functions.

The 2009 local council reforms also resulted in an increase of the number of earmarked grants.

**OTHER REVENUES.** Local councils have the power to levy fines, under Article 36 of the Local Councils Act and by virtue of delegated powers to collect penalties by agreement under Article 33 of the Act. They can also charge fees for municipal services, a right which has been reinforced by the 2009 reform.

## OUTSTANDING DEBT

|                         | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 0.3%  | 0.4%                 |

According to the Local Councils Act, local councils cannot borrow without the authorisation of central authorities. In fact, the Local Councils Act prohibits any works with a cost which exceeds the annual provision allotted for each financial year except if the project has been explicitly accepted by the central government. When authorised, funding is supposed to be done by the allocation of supplementary funds by central government, not by borrowing. It explains a very low level of local financial debt (16% of total debt; the remaining 84% is made up of "other accounts payable") which is entirely composed of loans.

A joint- study of:



**Sources:** Eurostat (Government Finance Statistics) • National Statistics Office of Malta (2015), Malta in Figures 2014 • Ángel Manuel Moreno (2012), Local Government in the Member States of the European Union: A Comparative Legal Perspective, INAP • Council of Europe, Congress of Local and Regional Authorities (2011), Local democracy in Malta • Ministry for Justice, Culture and Local Government (2009), presentation made by Mr. Natalino Attard on Challenges and Developments for Local Government in Malta • The Local Government Reform 2009, CDLR workshop St Gallen - Government of Malta (2009), Malta Policy for local governance.



# NETHERLANDS

UNITARY COUNTRY

EUROPE

## BASIC SOCIO-ECONOMIC INDICATORS

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

### POPULATION AND GEOGRAPHY

AREA: **33 718** km<sup>2</sup>

POPULATION: **16.864** million inhabitants (2014),  
an increase of 0.4% per year (2010-14)

DENSITY: **500** inhabitants/km<sup>2</sup>

URBAN POPULATION: **89.9%** of national population

CAPITAL CITY: **Amsterdam** (6.4% of national population)

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

### ECONOMIC DATA

GDP: **813.8** billion (current PPP international dollars)  
i.e. 48 256 dollars per inhabitant (2014)

REAL GDP GROWTH: **1.0%** (2014 vs 2013)

UNEMPLOYMENT RATE: **6.8%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **48 225** (BoP, current  
USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **18%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.922** (very high), **rank 5**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL                | TOTAL NUMBER OF SNGs |
|---|--------------------|--|----------------------|
| <b>390</b><br>MUNICIPALITIES<br>(GEMEENTEN)<br>AVERAGE MUNICIPAL SIZE:<br><b>43 540</b> INHABITANTS | -                  | <b>12</b><br>PROVINCES<br>(PROVINCIES) | <b>402</b>           |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** The decentralised two-tier system of local government is recognised by the 1815 Constitution. Provinces are regulated by the Provinces Act, and municipalities by the Municipalities Act. The SNG system also includes a functional layer at the regional level comprising the regional water authorities (*waterschappen*). One of the characteristics of the Netherlands is that the heads of the provincial assembly (King's Commissioner) and municipal mayors are neither directly nor indirectly elected, but are appointed by central authorities. However since 2001, municipal and provincial councils have a role in their selection. Over the years, a municipal merger process has led to a gradual but significant drop in their number, from 913 in 1970 to 390 by January 2016. A new "Policy Framework for Municipal Redivision" was adopted recently to promote mergers. The consolidation of provinces into larger regions has been debated since the 1960s but never materialised. The last failed attempt took place in 2014. The eight city-regions, established in 1995 by the central government as inter-municipal co-operation entities, were abolished in January 2015. The law created two new metropolitan governance arrangements in Amsterdam and Rotterdam The Hague. Netherlands also has a network of 2 200 villages and community councils which are legal entities organised according to the Municipalities Act and to private law.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** A characteristic of the Dutch system is that many areas of responsibility are shared between the central government and SNGs. A decentralisation programme, started in 2007 has since transferred new responsibilities to the provinces and municipalities. Provinces' main responsibilities are traffic and transport, environmental protection and nature policy, regional economic development, spatial planning, recreation, culture and heritage as well as welfare. Moreover, they are in charge of administrative and financial supervision of municipalities and play a key role in vertical co-ordination. Municipalities have a wide range of responsibilities, with new functions transferred in 2015 in the social sector (youth health care, long-term care and employment support for young disabled people). Municipal tasks include urban development and land-use planning, employment policy, social welfare, public health, social housing, public order and safety, local roads and public transport, primary and secondary education, local economic development, culture and recreation.

## SUBNATIONAL GOVERNMENT FINANCE

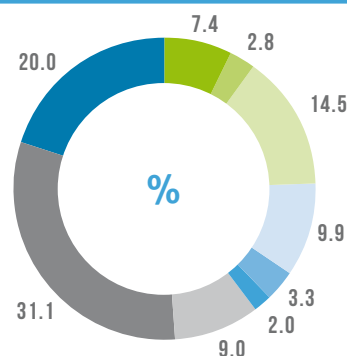
| EXPENDITURE                     | % GDP        | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|--------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>14.3%</b> | <b>30.5%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | 12.2%        | -   | 85.4%                       |
| <b>STAFF EXPENDITURE</b>        | 5.8%         | 62.2%   | 40.3%                       |
| <b>INVESTMENT</b>               | 1.9%         | 64.4%   | 13.2%                       |

The share SNG in public expenditure is in line with the OECD averages for unitary countries which accounted for 13.4% of GDP and 29% of public spending in 2013. Expenditure by Dutch municipalities and their groupings is significantly higher than by provinces and water authorities (84% of total SNG expenditure vs 16%). The share of SNGs in public staff spending is particularly significant, in line with the OECD average (63%) but much higher if we only consider the OECD unitary country average (45%). SNGs play a key role in public investment, with a higher share than in the OECD average (64% vs 59%).



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



Subnational main categories of spending include education, social protection, economic affairs and transport and environmental protection (including waste and sewerage management). The share of social protection has increased significantly over recent years (approximately 13% in 2008). SNGs are responsible for the vast majority of total public spending in the areas of environmental protection, housing, community amenities (water distribution, street lighting, etc.) and recreation and culture.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL<br>GOVERNMENT |
|----------------------|-------|---|-----------------------------|
| TOTAL REVENUE (2013) | 14.0% | 31.4%   | 100%                        |
| TAX REVENUE          | 1.4%  | 6.5%  | 10.0%                       |
| GRANTS AND SUBSIDIES | 9.9%  | -   | 71.2%                       |
| OTHER REVENUES       | 2.6%  | -   | 18.8%                       |

**TAX REVENUE.** Netherlands scores very low in terms of the share of SNG tax revenues of total public tax revenue, GDP and total SNG revenue. SNG tax ratios are some of the lowest in the OECD, well below OECD averages. A large part of municipal tax revenue (around 50% in 2013, 0.6% of GDP) comes from the property tax (OZB), based on property value and is paid by owners and users on residential and non-residential properties (since 2006, owners of residential properties only have to pay owner tax). Municipalities have the power to set their rates but only within limits established by the central government. Other taxes are tourist tax, dog tax, sewerage charges, levies on water pollution, a tax paid for the use of municipal land, etc. Provincial taxes come almost entirely from a surtax on the motor vehicle tax the rate of which is capped by the central government.

**GRANTS AND SUBSIDIES.** The 1996 Financial Relations Act regulates the intergovernmental financial relations. Transfers to municipalities are divided between a general grant (Municipalities Fund or *Gemeentefonds*, i.e. 36% of municipal revenue), an integration grant, a decentralisation grant (including a new Fund for social affairs) and specific grants meant to cover the expenses of obligatory delegated tasks. The Municipal Fund consists of a lump-sum payment. It has a strong equalising function (60 different criteria are used for its allocation). Municipalities also receive transfers from provinces (e.g. investment grants for roads and public transport). Transfers to provinces also include a general grant (Provinces Fund or *Provinciefonds*, also redistributed on the basis of an equalisation system and providing 12% of provincial revenue), allocated payments from the government funds (integration and decentralisation grants) as well as specific grants for delegated tasks.

**OTHER REVENUES.** Other major sources of revenue for SNGs are user charges and fees (14% of their revenue) and property income. Provinces receive dividends from utility companies, in particular energy companies. In addition, some provinces have recently obtained large resources from the privatisation of energy public utilities.

## OUTSTANDING DEBT

|                         | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 12.0% | 15.5%                |

New budgetary rules, agreed in the Coalition Agreement and the 2013 Sustainable Public Finances Bill stipulate that SNGs must make similar efforts to those of the central government to comply with public finance targets. SNGs are subject to a balanced budget rule. SNGs may borrow freely, including through bonds (but they are rarely used) but only to finance capital expenditure. Other fiscal rules include a short and long-term ceilings. The level of SNG debt is below the OECD average for unitary countries which amounted 15% of GDP and 12% of public debt in 2013. Outstanding debt is made up of loans (72%), other accounts payable (27%) and bonds (1%).

A joint- study of:



Publication date: October 2016

**Sources:** OECD National Accounts Statistics • Government Statistics • OECD (2015 and 2016) Subnational Governments in OECD Countries : Key data • Council of Europe (2014) Local and regional democracy in the Netherlands, CG(26)7FINAL • OECD (2014) OECD Territorial Reviews: Netherlands 2014 • Allers M., Merkus E. (2013) Soft budget constraint but no moral hazard? The Dutch local government bailout puzzle" University of Groningen 13014-EEF • Schaap L. (2013) Decentralised autonomy? Report in preparation for the study by the Council of Europe into the state of sub-national self-government in the Netherlands • Bos, Frits (2013) "Economic theory and four centuries of fiscal decentralisation in the Netherlands", OECD Journal on Budgeting, Vol. 12/2. • Allers Maarten A. (2011) Spending and revenues of subnational governments in the Netherlands.



# NORWAY

UNITARY COUNTRY

EUROPE

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **HIGH INCOME: OECD** Local currency - **Norwegian Krone (NOK)**

### POPULATION AND GEOGRAPHY

AREA: **304 246** km<sup>2</sup>

POPULATION: **5.137** million inhabitants (2014),  
an increase of 1.2% per year (2010-14)

DENSITY: **17** inhabitants/km<sup>2</sup>

URBAN POPULATION: **80.2%** of national population

CAPITAL CITY: **Oslo** (19% of national population)

Sources: OECD, World Bank, UNDP, ILO

### ECONOMIC DATA

GDP: **337.1** billion (current PPP international dollars)  
i.e. 65 613 dollars per inhabitant (2014)

REAL GDP GROWTH: **2.2%** (2014 vs 2013)

UNEMPLOYMENT RATE: **3.5%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **10 586** (BoP, current  
USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **28%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.944** (very high), **rank 1**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL                                    | TOTAL NUMBER OF SNGs |
|--|--------------------|--|----------------------|
| <b>428</b><br>MUNICIPALITIES<br>(KOMMUNER)<br>AVERAGE MUNICIPAL SIZE:<br><b>12 185 INHABITANTS</b> | <b>-</b>           | <b>18</b><br>COUNTIES*<br>(FYLKER)<br><br>* Excluding Oslo | <b>446</b>           |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Norway has a two-tier subnational government system, composed of municipalities and counties with no hierarchical link and which carry equal rights and responsibilities. The city of Oslo is both a county and a municipality. Norway has implemented several policies aimed at merging municipalities whose number was reduced from 744 in 1957 to 428 today. A new process of voluntary municipal mergers was launched in 2014 and will continue until 2017, 52% of municipalities still have less than 5 000 inhabitants. A similar process is on-going at the regional level and a committee of experts was recently appointed to analyse the new regional map resulting from regional consolidation (approximately ten new regions could be created in 2020). Central government is directly represented at the local level by the office of the county governor.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The Local Government Act of 25 September 1992 sets the basic legal framework for local and regional government. Several reforms took place recentralising (hospitals in 2001) or decentralising some functions (regional development and spatial planning for the counties, health and social care for municipalities in 2003 and 2010). Currently, municipal functions include education (pre-school, primary and lower-secondary schools), health and social care (care for the elderly, disabled and children, social services, primary health care, housing support, etc.), local roads, utilities (water supply and sewerage, waste), local town planning, environmental protection, culture, firefighting, etc. County responsibilities include regional planning and development, roads and public transport, upper-secondary education, dental health, culture, environmental protection, etc. Spending autonomy is limited for social welfare, health and education sectors which are closely scrutinised by the central government. A possible reshuffle of tasks across the different levels of government may be undertaken in the framework of the current municipal and regional reforms.

## SUBNATIONAL GOVERNMENT FINANCE

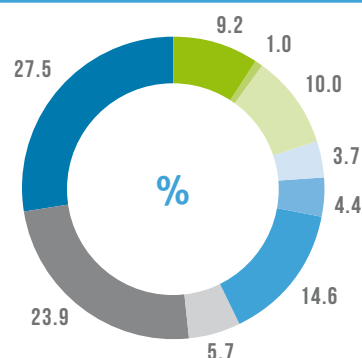
| EXPENDITURE                     | % GDP        | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|--------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>15.0%</b> | <b>34.1%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | 13.2%        | -   | 88.0%                       |
| <b>STAFF EXPENDITURE</b>        | 7.7%         | 56.8%   | 51.5%                       |
| <b>INVESTMENT</b>               | 1.8%         | 41.7%   | 11.7%                       |

The level SNG expenditure in GDP and total public spending is below the OECD average (16.6% of GDP and 40% of public spending) but above the average of OECD unitary countries (13.4% of GDP and 29% of public spending). The share of SNGs in public staff spending is particularly high (10 points higher than OECD unitary countries on average) while their role as public investors is generally more limited than in the OECD. However, the level of SNG investment in GDP is in line with the OECD average (1.9%).



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



The main categories of SNG spending include social protection, education, health and economic affairs/transport. For the municipalities, primary areas of expenditure are in the social sector and health (52%), primary schools (23%) and water supply and treatment. In comparison, half of county expenditure is allocated to education and an additional quarter to roads and transportation.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 14.3% | 25.7%   | 100%                     |
| TAX REVENUE          | 5.3%  | 17.1%   | 37.3%                    |
| GRANTS AND SUBSIDIES | 6.5%  | -   | 45.6%                    |
| OTHER REVENUES       | 2.4%  | -   | 17.2%                    |

The financing structure of Norwegian SNGs is very similar to that of the OECD on average, where grants and subsidies represented 37.6% of SNG revenue and taxes 43.8% in 2013. Regarding levels of SNG, counties are more dependent on grants and transfers than municipalities which rely more on tax revenues. Changes to SNG financing are planned in the framework of the current territorial and institutional reform.

**TAX REVENUE.** The share of SNG tax revenue in GDP and public tax revenue is in line with the average of the OECD of unitary countries. The primary source of tax revenue (88% of SNG tax revenue) is a share of income tax, raised both by counties and municipalities. It is based on the "ordinary income" of the PIT from incomes of those residents within their jurisdiction. A maximum tax rate for each level of government is decided annually by the Parliament. Other municipal taxes include a wealth tax (also shared with the central government) and a property tax while counties raise a tax on natural resources paid by companies operating in the energy sector. The property tax is an optional tax (in 2013, 77% of municipalities had introduced it) at rates ranging from 0.2% to 0.7% of the assessed value of the property. Municipalities have significant leeway regarding tax base, rates and methods of calculation. In 2013, it represented 11% of SNG revenue and 0.6% of GDP.

**GRANTS AND SUBSIDIES.** The central government system of transfers comprises both block and earmarked grants. The General Purpose Grant Scheme is a major source of revenue for SNGs (created in 1986, it replaced some 50 earmarked grants). The system includes both the grants and the tax equalisation. Tax receipts from PIT, wealth-tax revenue and natural resource taxation are redistributed between SNGs according to a formula-base, including demographic criteria. The system takes account of both structural cost differences (expenditure equalisation) as well as differences in tax revenues (income equalisation). Special grants are also available, such as rural grants, grants for small municipalities, urban grants, VAT compensation fund, discretionary grants which are granted in specific circumstances.

**OTHER REVENUES.** Revenues from service fees and charges represented 13% of SNG revenue in 2013 (water, sewage, garbage collection, day care, etc.) and those deriving from property income, 4% (interest, dividends, sales of assets), which is significant by international standards and related to SNGs links with power companies.

| OUTSTANDING DEBT        | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 14.8% | 42.5%                |

Since 2001, both municipal and county level governments that meet the balanced budget requirements are allowed to borrow in order to finance capital expenditure only (golden rule). Those that do not meet requirements must follow special approval processes by the county governor or the Ministry of Local Government and Modernisation in order to make lawful decisions about borrowing and long-term leases. These municipalities are listed in a specific register (ROBEK, *Register for Governmental Approval of Financial Obligations*). In September 2014, 54 municipalities out of 428 were listed on this register. The debt-to-GDP ratio of Norwegian SNGs is in line with the OECD average of the unitary countries (15.1%). However, the share of SNG debt in public debt is significantly higher (12%), which is also explained by the low level of overall public debt. In 2013, SNG outstanding debt was made up of loans (63%), bonds (24%) and other accounts payable (13%). Kommunalbanken Norway (KBN), a 100% owned State government funding agency created in 1926, provides loans to the SNG sector with attractive conditions (around 50% of market share).

A joint study of:



**Sources:** OECD National Accounts Statistics • OECD (2015 and 2016) Subnational Governments in OECD Countries: Key data • OECD (2016) OECD Economic Surveys: Norway 2016 • Chatry I., Hulbert C. (2016) "Multi-level governance reforms: Overview of OECD country experiences" OECD publishing • Borge L-E. (2016) Welfare services in Norwegian local governments: Has decentralization come to an end?, in J. Kim, J. Lotz and N.J. Mau (Eds.) Decentralization of education, health and social protection: Issues and challenges, The Korea Institute of Public Finance and the Danish Ministry of Economic Affairs and the Interior • Council of Europe (2015) Local and regional democracy in Norway, CG/2015(28)5PROV • Norwegian Ministry of Local Government and Modernisation (2013): "Local Government in Norway".



# POLAND

UNITARY COUNTRY

## EUROPE

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **HIGH INCOME: OECD** Local currency - **Zloty (PLN)**

#### POPULATION AND GEOGRAPHY

AREA: **312 679** km<sup>2</sup>

POPULATION: **38.484** million inhabitants (2014),  
a decrease of 0.0% per year (2010-14)

DENSITY: **123** inhabitants/km<sup>2</sup>

URBAN POPULATION: **60.6%** of national population

CAPITAL CITY: **Warsaw** (4.5% of national population)

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

#### ECONOMIC DATA

GDP: **960.2** billion (current PPP international dollars)  
i.e. 24 952 dollars per inhabitant (2014)

REAL GDP GROWTH: **3.3%** (2014 vs 2013)

UNEMPLOYMENT RATE: **9%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **17 275** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **20%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.843** (very high), **rank 36**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL                 | REGIONAL OR STATE LEVEL               | TOTAL NUMBER OF SNGs |
|---|------------------------------------|---------------------------------------|----------------------|
| <b>2 478</b><br>MUNICIPALITIES<br>(GMINA)<br>AVERAGE MUNICIPAL SIZE:<br><b>15 530 INHABITANTS</b> | <b>380</b><br>COUNTIES<br>(POWIAT) | <b>16</b><br>REGIONS<br>(WOJEWÓDZTWO) | <b>2 874</b>         |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Poland has a three-tier system of subnational government, enshrined in the Constitution ratified in 1997. The regional level (*voivodeships*) was created by the 1999 Local Government Organisation Act. The intermediate level is made up of counties which were abolished in 1975 and re-established in 1999. Among the counties, 314 are "rural counties" and 66 are urban municipalities with county status. Having more than 100 000 inhabitants, they exercise both municipal and county responsibilities. Municipalities, re-established in 1990, are divided into three categories: urban municipalities, rural municipalities and mixed municipalities. Municipalities may create sub-municipal units with a subordinate administrative role, whose statutes and tasks are defined by each municipality (*osiedle* or *dzielnica* in urban municipalities and *sołectwo* in rural areas). Poland also has a State territorial administration based on 16 prefectures managed by a prefect, appointed by the Prime Minister in charge of supervising local governments.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The 1990 Act on Municipalities gave large responsibilities in terms of spatial planning, infrastructure development including local roads, bridges and public transport, utilities (water supply and sewerage, waste management since 2013, energy), municipal housing, social services (including family benefits since 2004), pre and primary education, environmental protection, basic healthcare, recreation and culture. Counties are responsible for local issues not ascribed to municipalities and have a more limited role and influence. Their responsibilities include secondary education, public health services (general hospitals), social welfare (beyond municipal territorial boundaries), economic activity and job creation (employment offices). Regions are responsible for issues of regional importance (determined by law), playing a relatively limited role in providing public services. Their main responsibilities are regional economic development, regional roads and public transport (including railways since 2009), higher education, health (regional hospitals), social welfare, labour market, environmental protection (since 2009), etc.

### SUBNATIONAL GOVERNMENT FINANCE

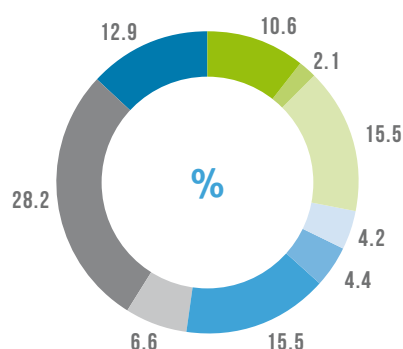
| EXPENDITURE                     | % GDP        | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|--------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>13.1%</b> | <b>31.1%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | 11.0%        | -   | 83.9%                       |
| <b>STAFF EXPENDITURE</b>        | 5.5%         | 53.2%   | 41.7%                       |
| <b>INVESTMENT</b>               | 1.9%         | 50.9%   | 14.5%                       |

With the decentralisation process, the share of SNG expenditure in total public expenditure increased by 8 percentage points, going from 23% in 1995 to 31% in 2013. Today, Polish SNGs are key economic and social actors with spending ratios below the OECD average but in line with those of OECD unitary countries only (which accounted for 13.4% of GDP and 29.0% of public expenditure in 2013). SNGs are also key public employers, in particular in the education sector. SNG role as public investor is lower than in the OECD on average (50.9% vs 58.5%), although the share of SNG investment in GDP is in line with OECD average (1.9%). Municipalities are by far the most important component of SNG expenditure (around 80%), followed by counties and then regions.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



SNG's primary area of spending is education, as SNGs are responsible for both capital and current expenditure including teachers and staff remuneration. Education is followed by healthcare and economic affairs/transport (weighing similarly in SNG expenditure) and then by social protection. In addition, SNGs are responsible for the large majority of overall public spending in the areas of environmental protection, housing and community amenities and recreation and culture (over 75% of public spending).

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 13.0% | 34.0%   | 100%                     |
| TAX REVENUE          | 4.1%  | 21.1%   | 31.8%                    |
| GRANTS AND SUBSIDIES | 7.5%  | -   | 57.9%                    |
| OTHER REVENUES       | 1.3%  | -   | 10.3%                    |

Financial provisions are laid down in the 1998 Act on Local Government revenue, further reformed in 2003 and 2004. The 2004 reform profoundly modified the financial relationship between the central government and SNGs, giving more fiscal autonomy to them. SNGs remain however dependent from central government grants. Regions and counties are essentially funded by the central government relying mostly on grants while municipalities have a more diversified structure of revenue.

**TAX REVENUE.** The SNG tax system is based on both shared taxes (for all three levels) and own-source taxes (for the municipal level only). Shared tax revenue come from the share of the PIT (48% of SNG tax revenue) and the CIT (9% of SNG tax revenue), which are redistributed to SNGs according to a fixed percentage of the total proceeds collected in their respective area. For the PIT, the share of municipalities, counties and regions are respectively 37.42%, 10.25% and 14.75% and for the CIT, 6.71%, 1.4% and 1.6%. Municipal own-source taxes include a property tax on land and buildings, an agriculture land tax and a forest tax. These three taxes on immovable property accounted for 31% of SNG tax revenue in 2013 i.e. 1.2% of GDP. Municipalities are free to set tax rates within limits set out in law and to allow certain exemptions. Other municipal taxes include a transportation tax, a tax on vehicle registration, pollution, etc.

**GRANTS AND SUBSIDIES.** The general grant (non-earmarked) constitutes the most important grant. It is made up of several shares, including the education share, the equalisation share, the balancing share and the regional share. The education share is by far the largest, accounting for over 20% of SNG revenues. It aims at covering educational expenses, including teacher's salaries, but it is not earmarked. The equalisation share (5% of SNG revenue) is allocated to all SNGs with below-average tax capacities. The balancing share (only for municipalities and counties) aims at financing social expenditure while the regional share is a general grant calculated for each region based on several criteria (demography, unemployment, GDP per capita, roads, etc.). Earmarked transfers include specific transfers for central government delegated tasks (e.g. social spending), capital expenditure, etc. Overall, capital grants represented 11% of total grants. A reform of the equalisation system is currently being explored.

**OTHER REVENUES.** The share of other revenues in total SNG revenue is lower than in the OECD on average. They include administrative fees and charges (market place selling fees, visitor fees, exploitation fees, etc. i.e. 9% of SNG revenue) and revenue from property, leasing and sales, including income from municipal companies and public utilities.

## OUTSTANDING DEBT

|                         | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 5.6%  | 9.0%                 |

The 2011 Public Finance Act already stipulated to balance local current budgets and strengthened debt limitations requiring that the sum of loan instalments and interest payments must not exceed 15% of total debt. From 2014 onwards, the mode of calculation for debt ratios is changed in order to reduce SNG debt: the debt limit – outstanding and debt service – which will no longer be set based on revenue but rather on gross savings calculated over a three-year period. Moreover, SNG debt should not exceed 60% of GDP. The level of SNG outstanding debt as a share of GDP and public debt is moderate compared to OECD average, even when considering unitary countries only for which SNG debt represented 15.1% of GDP and 12.0% of public debt in 2013. It is made up loans (69%); bonds (6%) and other accounts payable (25%).

A joint- study of:



**Sources:** OECD National Accounts Statistics Sources • OECD (2015 and 2016) Subnational Governments in OECD Countries: Key data • Council of Europe (2015) Local and regional democracy in Poland, CG/2015(28)12FINAL • OECD (2015) The state of public finance 2015 • Committee of the regions (2014) <https://portal.cor.europa.eu/divisionpowers/countries/MembersNLP/Poland/Pages/default.aspx> • Sauer A. (2013) The System of the Local Self-Governments in Poland, Association for International Affairs Research Paper • OECD (2011) Making the Most of Public Investment in a Tight Fiscal Environment: Multi-level Governance Lessons from the Crisis • OECD (2011), OECD Urban Policy Reviews: Poland 2011.



# PORTUGAL

UNITARY COUNTRY

EUROPE

## BASIC SOCIO-ECONOMIC INDICATORS

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

### POPULATION AND GEOGRAPHY

AREA: **92 226** km<sup>2</sup>

POPULATION: **10.401** million inhabitants (2014),  
a decrease of -0.4% per year (2010-14)

DENSITY: **113** inhabitants/km<sup>2</sup>

URBAN POPULATION: **62.9%** of national population

CAPITAL CITY: **Lisbon** (27% of national population)

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

### ECONOMIC DATA

GDP: **299.1** billion (current PPP international dollars)  
i.e. 28 760 dollars per inhabitant (2014)

REAL GDP GROWTH: **0.9%** (2014 vs 2013)

UNEMPLOYMENT RATE: **13.9%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **12 410**  
(BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **15%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.830** (very high), **rank 43**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL                                      | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL                   | TOTAL NUMBER OF SNGs |
|--|--------------------|---|----------------------|
| <b>308</b>   | <b>-</b>           | <b>2</b>                                  | <b>310</b>           |
| MUNICIPALITIES<br>(MUNICIPIOS)                       |                    | AUTONOMOUS REGIONS<br>(REGIÕES AUTÓNOMAS) |                      |
| AVERAGE MUNICIPAL SIZE:<br><b>33 400 INHABITANTS</b> |                    |   |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** The Constitution, ratified in 1976, recognises the principle of local government and decentralisation. Portugal has a two-tier system of local government, consisting of two overseas autonomous regions (Azores and Madeira) and 308 municipalities. The two autonomous regions have specific status and legislative power, also recognised as outermost regions at European Union level. The Constitution also provided for the creation of self-governing regions covering continental Portugal. However, the proposal to create eight self-governing regions was rejected by a referendum in 1998. Municipalities are divided into 3 091 sub-municipalities (*freguesias*), a number resulting from a 2012-13 reform which reduced their number (from 4 259). *Freguesias* have elected executive and deliberative bodies. Portugal is also divided into five mainland regions for administrative purposes. Until 2011 the country was also divided into 18 administrative districts.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Autonomous regions' responsibilities are extensive, covering health and social welfare, education, roads and transport, economic development, environment, culture, regional planning, water, tourism, etc. They are also responsible for municipal affairs (organisation, financing and supervision). At the municipal level, current legislation, adopted in 2013 Local Government Reform, reaffirms the principle of clause of general competence. Municipalities can delegate tasks to inter-municipal entities and *freguesias* and can also sign partnership agreements with the central government to exercise shared responsibilities. As a result, there is, in practice, a complex network of functions. Main municipal competences include local roads and public transport, primary education, culture and heritage, leisure and sport, healthcare (municipal centres), social welfare (elderly, nursery, municipal social programmes), housing, environment, water supply and waste, local economic development, spatial planning and urban development, municipal police and civil protection, etc. A new programme of decentralisation is currently under preparation, which would include new transfers of responsibilities in sectors such as transport, education, healthcare, culture and social assistance and reinforce inter-municipal cooperation, including at metropolitan level.

## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>6.6%</b> | <b>13.3%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | <b>5.4%</b> | <b>-</b>  | <b>81.2%</b>                |
| <b>STAFF EXPENDITURE</b>        | <b>2.2%</b> | <b>17.9%</b>  | <b>33.3%</b>                |
| <b>INVESTMENT</b>               | <b>1.1%</b> | <b>51.0%</b>  | <b>16.5%</b>                |

Despite the decentralisation process started in 2011 (cf. Green Paper) and continued with the 2013 local government reform, Portugal is still a centralised country in terms of SNG spending responsibilities. The level of SNG spending in GDP and public spending are well below the OECD average for unitary countries (13.4% of GDP and 29.0% of public spending). The SNG role as a public employer is also very low, although staff spending represents one-third of SNG expenditure. SNGs play a significant role in public investment, however this involvement is lower than in OECD unitary countries on average, where it accounted for 56.4% of public investment in 2013, representing 2.0% of GDP.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



Just below spending related to general public services, which is the top expenditure item, education and economic affairs/transport are the two main priority areas, weighing similarly in local government budget. In addition, SNGs are responsible for the large majority of overall public spending in the areas of environmental protection and housing and community amenities (over 80% of public spending).

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 6.9%  | 15.3%   | 100%                     |
| TAX REVENUE          | 2.4%  | 9.5%  | 34.3%                    |
| GRANTS AND SUBSIDIES | 2.8%  | -   | 40.6%                    |
| OTHER REVENUES       | 1.7%  | -   | 25.1%                    |

Fiscal provisions are set out in Article 238 of the Portuguese Constitution as well as in Regional Finance Law (RFL) and Local Finance Law (LFL). The LFL, adopted in 2013 (entered in force in 2014) modified the local tax system, the central government grants system (change in the methodology for the calculation of transfers) and introduced new fiscal rules and surveillance and co-ordination mechanisms.

**TAX REVENUE.** SNG tax revenue is limited, representing 2.4% of GDP to be compared to 7.0% in the OECD on average (4.9% of GDP for OECD unitary countries only). However, the two autonomous regions enjoy a certain degree of tax autonomy as they are able to retain nearly all national tax revenue generated within their territories (including PIT and CIT) and can create new taxes. They have strong control over rates and base, which has been however reduced by the 2013 RFL. Municipalities have shared taxes and own-source taxes. Since the 2007 LFL, municipalities receive a share of the PIT (IRS), capped at 5% of tax receipts collected from local residents (municipalities can decide to reduce this percentage). Own taxes include the property tax (IMI), the tax on real estate transactions (ITI), the municipal vehicle tax as well as a municipal surtax on the corporate profit tax (*derrama*) of up to 1.5% of taxable income. Property tax is levied annually on land or buildings by the municipalities which are free to set the rate within a 0.3- 0.8% bracket of the taxable value of the rural or urban property. Revenue from property tax (0.8% of GDP in 2014) is expected to increase in the near future thanks to a major initiative involving the revaluation of 4.9 million properties. The 2013 LFL also abolished the ITI tax from 2018 onwards, which will be compensated by additional transfers from central authorities.

**GRANTS AND SUBSIDIES.** Autonomous Regions receive six kinds of transfers from the central government, including a lump-sum subsidy, a regional cohesion fund, a national co-funding with EU funding, a fund to finance common interest projects, etc. Transfers from the central government to municipalities include 18.5% of the average revenue from the three major taxes (CIT, PIT and VAT), regrouped in the Financial Equilibrium Fund (*Fundo de Equilíbrio Financeiro*, FEF). The FEF is divided equally into two funds, a General Municipal Fund (*Fundo Geral Municipal*, FGM) and a Cohesion Fund (*Fundo de Coesão Municipal*, FCM). The FGM is distributed according to population, surface area, and other cost factors. The Cohesion Fund is an equalisation fund targeted at less developed municipalities. Its allocation is based on municipal tax capacity as well as by taking into account index of municipal social development. Other transfers to municipalities include earmarked grants through the Municipal Social Fund (*Fundo Social Municipal*, FSM) to finance policies in the areas of education, health, and social action. Overall, capital grants represented 36% of all regional and municipal grants in 2013.

**OTHER REVENUES.** The share of other revenues in SNG revenue is particularly high, above the OECD average of 19.0% in 2013. Service charges and fees (water, sewerage, waste collection and public transport) accounted for 15.6% and property income (rents, sales of assets), 4.1%.

## OUTSTANDING DEBT

|                         | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 8.3%  | 5.9%                 |

The 2013 LFL and RFL introduced new budgeting rules for SNGs, including regarding arrears, off-balance sheet liabilities and expenditure ceilings. The laws also strengthened net debt ceilings, borrowing constraints for municipalities and a debt service rule for the regions. An early-warning system for debt accumulation, different types of adjustment or restructuring plans for over-indebted municipalities, as well as a Municipal Resolution Fund (FAM) were also created to provide assistance to distressed municipalities. Finally fiscal co-ordination mechanisms between central and subnational governments have been improved with the creation of the Public Finance Council whose mandate covers all levels of government. Overall, in 2013, SNG debt was lower than the OECD average of unitary countries (15.1% of GDP and 12.0% of public debt). It is made up of other accounts payable (25%) and financial debt (78%), comprising most exclusively loans.

A joint- study of:



**Sources:** OECD National Accounts Statistics • OECD (2016 and 2015) Subnational Governments in OECD Countries: Key data • Chatry I., Hulbert C. (2016), "Multi-level governance reforms: Overview of OECD country experiences" OECD Publishing • OECD (2014), OECD Economic Surveys: Portugal 2014 • European Committee of the Regions (2014), Division of Powers Between the European Union, Member States, Candidate and some Potential Candidate Countries, and Local and Regional Authorities: Fiscal Decentralisation or Federalism • Portuguese Public Finance Council (2013) "Analysis of the Legal Proposals for New Subnational Finance Laws", Report No. 1/2013 • Congress of Local and Regional Authorities (2012) Local and Regional Democracy in Portugal", CG(22)11.



# ROMANIA

UNITARY COUNTRY

EUROPE

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **UPPER MIDDLE INCOME** Local currency - **Romanian Leu**

### POPULATION AND GEOGRAPHY

AREA: **238 390** km<sup>2</sup>

POPULATION: **19.913** million inhabitants (2014), a decrease of -0.41% per year (2010-14)

DENSITY: **84** inhabitants/km<sup>2</sup>

URBAN POPULATION: **54.4%** of national population

CAPITAL CITY: **Bucharest** (8.7% of national population)

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

### ECONOMIC DATA

GDP: **405.0** billion (current PPP international dollars)  
i.e. 20 339 dollars per inhabitant (2014)

REAL GDP GROWTH: **2.8%** (2014 vs 2013)

UNEMPLOYMENT RATE: **6.8%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **3 864** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **24%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.793** (high), **rank 52**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL                                  | TOTAL NUMBER OF SNGs |
|---|--------------------|--|----------------------|
| <b>3 181</b><br>LOCAL ENTITIES<br>AVERAGE MUNICIPAL SIZE:<br><b>6 260 INHABITANTS</b> | <b>-</b>           | <b>42</b><br>COUNTIES<br>(JUDETE)<br>INCLUDING BUCHAREST | <b>3 223</b>         |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Under the Constitution of Romania of 1991 and the Framework Law no. 195/2006 on decentralisation, local public administration is based on the principles of decentralisation, local autonomy and deconcentration of public services. Romania has a two tier system of SNGs with no hierarchy in between. The county level includes 41 counties and the capital city, Bucharest, which has a special dual status (municipality and county). The municipal level includes 320 towns (*orase*) of which 103 municipalities (*municipii*, the largest towns) and 2 861 communes (*commune*). In addition, there are 12 957 villages. There is also as state territorial administration 41 prefectures and 8 administrative regions for regional development purposes. A new major decentralisation and regionalisation reform is on-going, modifying the previous 2006 decentralisation law. In 2014, a new General Strategy for Decentralisation 2015-16 was drafted to transfer new responsibilities and assets to SNGs and create new autonomous regions. It was rejected in the proposed form by the Constitutional Court, but a new decentralisation project is under preparation, as greater decentralisation and regionalisation remain key objectives.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** According to the 2006 decentralisation law, SNG competences fall into three categories: exclusive, shared and delegated (by the central government). A programme passed in May 2009 gave new responsibilities to local authorities in the sectors of education, healthcare and public order:

- Counties: exclusive competences include the management of local airports, cultural institutions of county interest, public health units and primary and specialised social services (elderly).
- Local authorities' exclusive competencies include the management of local road infrastructure, local cultural institutions, pre-school and primary education (salaries and infrastructure), local public health units, urban planning, water supply and sewerage, waste, social and elderly protection, local public transport, etc.

## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>9.2%</b> | <b>26.0%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | <b>6.8%</b> | <b>-</b>  | <b>73.9%</b>                |
| <b>STAFF EXPENDITURE</b>        | <b>3.3%</b> | <b>40.2%</b>  | <b>35.5%</b>                |
| <b>INVESTMENT</b>               | <b>2.2%</b> | <b>48.2%</b>  | <b>24.0%</b>                |

Despite the intensive decentralisation process undertaken in 2006, the level of Romanian SNG spending in GDP and public expenditure remains below the EU average (respectively 15.9% and 32.8% in 2013). The share of staff expenditure in SNG expenditure is particularly high corresponding for the large part to teacher wages. Investment is a key function of SNGs representing 24% of their expenditure (compared to 10% in the EU on average) although their share in public investment is below the EU average of 55%.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



The primary sectors of SNG spending are economic affairs (mainly transport) and education (teachers and administrative staff salaries on behalf of the central government, operation and maintenance of school facilities). Since the decentralisation of health in 2010 (hospitals), SNG health expenditure has substantially increased (from 0.5% of SNG spending in 2008 to 14.1% in 2013). Other important spending items are social protection and housing and community amenities (in particular drinking water).

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 9.3%  | 28.0%   | 100%                     |
| TAX REVENUE          | 1.0%  | 5.3%  | 10.8%                    |
| GRANTS AND SUBSIDIES | 7.6%  | -   | 81.9%                    |
| OTHER REVENUES       | 0.7%  | -   | 7.3%                     |

The 273/2006 Local Public Finances Act and Title IX of the Romanian Fiscal Code (Law 571/2003 and amendments) determine the assignment of revenues to local governments. Despite the decentralisation process, SNGs are still dependant on central government transfers which constitute the bulk of their revenue while tax revenues are still limited.

**TAX REVENUE.** Local taxes include property taxes on building and land from both legal entities and individuals (68% of tax revenue and around 0.7% of GDP), tax on transportation vehicles (8%) and various taxes on stamps, transactions and issue of certificates and licences. Taxes are levied and collected both by the counties and municipalities. The base and reference rates for property tax are fixed by law but each local or county council can adopt a rate up to 50% higher or lower than the reference rates. Shared taxes (PIT, VAT) which were previously considered as local government taxes have been reclassified to the transfers' category since the new 2008 SNA methodology (implemented in 2014).

**GRANTS AND SUBSIDIES.** Intergovernmental transfers aim at equalising SNG revenues. There are two equalisation systems (vertical and horizontal) based on the share of PIT (71.5%) and VAT:

- Vertical equalisation is reached through the sharing of the PIT receipts, of which 41.75% is redistributed to municipalities and 11.35% to counties (except in the area of Bucharest where the share is higher).

- Horizontal equalisation is carried out at the county level, and consists of 18.5% of the PIT collected in a given county. In addition, there is a horizontal equalisation grant funded from the state budget (VAT sums for equalisation) which is split between the county council (27%) and the municipalities (73%) according to a formula.

Besides these transfers, SNGs receive earmarked grants from sectoral ministries (support for disabled people, abandoned children, fuel subsidies, and infrastructure) as well as subsidies from the EU.

**OTHER REVENUES.** Other revenues for local governments include local charges and fees, for instance building fees and public transportation fees, etc. With the decentralisation of hospitals in 2010, hospital fees have also become an important source of own-revenue. They also include income from assets (housing and land rentals, asset sales).

| OUTSTANDING DEBT        | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 4.7%  | 10.1%                |

SNG budgets, excluding loans to finance investment and debt refinancing, must be balanced (golden rule). From 2013 onwards, each government's budget must be balanced, excluding investment projects financed by drawings on loans contracted before 2013. If an SNG's annual debt service (principal payment, interest, commissions) exceeds 30% of its own revenues, it can no longer contract or guarantee loans. Around 40% of SNG outstanding debt is made up of commercial debts and arrears. Loans contracted in 2013 were used to repay arrears. In 2013, the share of bonds in total SNG debt was 10% while loans represented around 44%.

A joint study of:



Publication date: October 2016

**Sources:** Eurostat (Government Finance Statistics) • Network of Associations of Local Authorities of South-East Europe (2016) "Fiscal Decentralization Indicators for South-East Europe: 2006-2014" • National Institute of Statistics of Romania (2015), Romania in Figures 2014 • IMF (2015), Romania, Selected Issues • Bondar F. (2014), Quality of Government and Decentralization in Romania, International Review of Social Research Vol 4 • European Committee of the Region (2014), Division of Powers Between the European Union, Member States, Candidate and some Potential Candidate Countries, and Local and Regional Authorities • Lazin F. (2013): Local Government Reforms in Eastern Europe after the collapse of the Soviet Union: Some Observations • Council of Europe, Congress of Local and Regions authorities (2011), Local and regional democracy in Romania • Dexia (2008) Subnational Governments in the European Union: organisation, competences and finance.



# SLOVAK REPUBLIC

UNITARY COUNTRY

EUROPE

## BASIC SOCIO-ECONOMIC INDICATORS

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

### POPULATION AND GEOGRAPHY

AREA: **49 036** km<sup>2</sup>

POPULATION: **5.419** million inhabitants (2014), a decrease of -0.1% per year (2010-14)

DENSITY: **111** inhabitants/km<sup>2</sup>

URBAN POPULATION: **53.8%** of national population

CAPITAL CITY: **Bratislava** (7.4% of national population)

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

### ECONOMIC DATA

GDP: **153.5** billion (current PPP international dollars) i.e. 28 327 dollars per inhabitant (2014)

REAL GDP GROWTH: **2.5%** (2014 vs 2013)

UNEMPLOYMENT RATE: **13.2%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **85** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **21%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.844** (very high), rank 35

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL                              | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL                      | TOTAL NUMBER OF SNGs |
|--|--------------------|--|----------------------|
| <b>2 927</b>                                 | <b>-</b>           | <b>8</b>                                     | <b>2 935</b>         |
| MUNICIPALITIES (OBCI)                        |                    | HIGHER TERRITORIAL UNITS (SAMOSPRÁVNE KRAJE) |                      |
| AVERAGE MUNICIPAL SIZE:<br>1 850 INHABITANTS |                    |  |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** The Slovak Republic has a two-tier system of subnational government, whose autonomy is recognised in the 1992 Constitution and then by the 1990 municipal autonomy Act and the 2001 Act on Local Governments of Higher Territorial units. This latter created the self-governing regions. The municipal level includes cities (*mesta*), rural municipalities, city districts in Bratislava and Košice as well as three military districts. The statute of city is granted by the Parliament to municipalities which are an administrative, economic and cultural centre providing public services to neighbouring municipalities. They have, however, the same responsibilities as other municipalities. Municipalities have a small demographic size, the average municipal size in Slovakia being the penultimate in the OECD, before Czech Republic and after France. 85% of municipalities have less than 2 000 inhabitants. To tackle this problem, the government promotes inter-municipal cooperation in the framework of voluntary "joint municipal office" (233 as of May 2014). Slovakia has also a territorial state administration which has been restructured in 2013-2014 through the ESO (efficient, reliable and open state administration) reform. New 72 districts offices (*okresy*) and 8 district offices, one in the seat of each region have been created in 2013 replacing numerous state territorial entities.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Regional responsibilities since 2002 include regional roads and public transport, education (secondary, professional and vocational education), territorial planning, regional economic development, social welfare (children's homes, social policy), health (hospitals of second category and specialised services), culture, etc. Municipal tasks, extended in 2002 (416/2001 Act), include education (pre and primary schools), social welfare (elderly, children, social aid), local roads and public transport, environmental protection, utilities (water and sewerage, waste), parks, local planning and development, tourism, housing, culture, municipal police, fire-fighting, health (hospitals of first category and medical centres, first aid), etc.

## SUBNATIONAL GOVERNMENT FINANCE

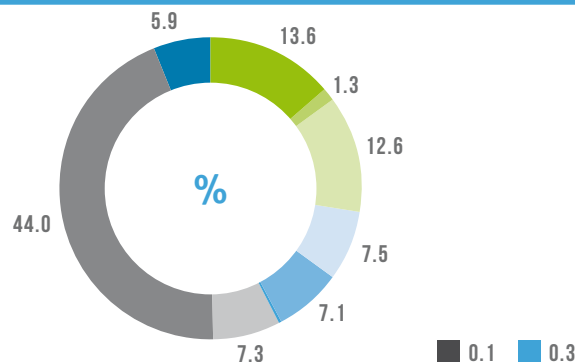
| EXPENDITURE              | % GDP | % GENERAL GOVERNMENT (same expenditure category) | % SUBNATIONAL GOVERNMENT |
|--------------------------|-------|--|--------------------------|
| TOTAL EXPENDITURE (2013) | 6.4%  | 15.7%  | 100%                     |
| CURRENT EXPENDITURE      | 5.6%  | -  | 86.5%                    |
| STAFF EXPENDITURE        | 3.1%  | 36.2%  | 47.6%                    |
| INVESTMENT               | 0.8%  | 26.4%  | 12.7%                    |

Despite the strong decentralisation process in 2002, Slovakia remains a centralised country from the local government spending responsibility perspective. The level of SNG spending in GDP and public spending are half of the OECD average of unitary countries of 13.4% of GDP and 29.0% of public spending. SNG role as public employers is comparatively significant, which is explained by the fact that SNGs are responsible for paying teacher salaries on behalf of the central government. As a result, staff spending accounted for almost half of SNG spending in 2013. In contrast, SNGs play a weak role in public investment, well below the OECD unitary countries on average where it accounted for 56.4% of public investment in 2013, representing 2.0% of GDP.



## EXPENDITURE BY FUNCTION

### % SUBNATIONAL GOVERNMENT EXPENDITURE



The primary area of SNG spending is by far education, resulting from the fact that regions and municipalities are responsible not only for the construction and maintenance of educational infrastructures but also for school-related services and the payment of teachers and staff. Other significant areas of SNG spending are general public services and economic affairs/transport followed by environmental protection and recreation and culture.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 6.7%  | 17.3%   | 100%                     |
| TAX REVENUE          | 0.7%  | 4.4%  | 11.0%                    |
| GRANTS AND SUBSIDIES | 4.6%  | -   | 69.9%                    |
| OTHER REVENUES       | 1.3%  | -   | 19.2%                    |

SNGs rely heavily on central government transfers, since the system of shared taxation established by 2005 Act on Local Financing, has been re-characterized as a system of grants in the framework of the new methodology of the system of national accounts.

**TAX REVENUE.** Tax revenues only represent a small share of municipal and regional financial resources, among the lowest level in the OECD. Until 2015, regions were only able to levy one tax, the motor vehicle tax, which is imposed on vehicles used for commercial purposes only. Today, regions have no tax revenue. Municipalities are able to levy seven different taxes, including a property tax and six specific local taxes on goods and services. Municipalities are free to decide whether or not to levy each tax, and to set the rates of all local taxes and have a large autonomy on tax bases (exemptions, rate reduction). Recurrent taxes on immovable property, levied on land, apartment and building, represented around 60% of SNG tax revenue but only 0.4% of GDP, well below the OECD average.

**GRANTS AND SUBSIDIES.** The share of central government transfers in SNG revenue is one of the highest of the OECD countries, the OECD average accounting for 37.3% in 2013. The largest transfer (non-earmarked) to SNGs is the share of PIT, re-distributed from the central government to regional governments (21.9% of tax receipts) and municipalities (65.4%). This transfer follows an equalisation principle, as the allocation for each SNG is calculated on the basis of needs, as well as population criteria (number of inhabitants, age structure, size, population density, etc.). Earmarked transfers from the central government aim at financing certain services. They represent around one third of municipal budgets. The main grant is for education, allocated according to the number of pupils and covering in particular payment of teachers' salaries. Other transfers include grants for public housing, public transport, social care, roads, etc. Capital grants represented around 12% of total grants in 2013.

**OTHER REVENUES.** Other subnational revenues represent a significant source of revenue, particularly user charges and fees (17.6% of SNG revenue) such as municipal fees for waste collection or for the use of municipal property. They also include operating surpluses of public enterprises controlled by SNGs, assets sales, etc.

## OUTSTANDING DEBT

|                         | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 3.0%  | 5.0%                 |

Since 2005, SNGs must follow a balanced budget rule, as well as debt ceilings (debt service and debt outstanding cap). They are free to borrow under the form of loans or bonds to finance capital expenditure (golden rule). The Fiscal Responsibility Constitutional Act of 2011 and the Law on Budgetary Responsibility of 1 March 2013 strengthened the fiscal rules applying to SNGs, which came into effect in 2015. A new rule stipulates that SNGs exceeding the debt limits must pay a fine imposed by the Ministry of Finance amounting to 5% of the difference between the total debt and the 60% ratio. It also reinforced the role of the National Accounting Office (NAO) which controls local and regional accounting, budgeting and public expenditures. Slovak SNG outstanding debt is well below the OECD average for unitary countries of 15.1% of GDP and 12.0% of public debt. It is made up of other accounts payable (25%) and financial debt (75%), comprising most exclusively loans.

A joint- study of:



**Sources:** OECD National Accounts Statistics • OECD (2016 and 2015) Subnational Governments in OECD Countries : Key data • OECD (2016), Making the Most of Public Investment in the Eastern Slovak Republic, OECD Multilevel Governance Studies • Council of Europe (2016), Local and regional democracy in the Slovak Republic CG30(2016)09-final • OECD (2014), OECD Economic Surveys: Slovak Republic 2014 • European Committee of the Regions (2014): "Division of Powers Between the European Union, Member States, Candidate and some Potential Candidate Countries, and Local and Regional Authorities: Fiscal Decentralisation or Federalism" • Astrauskas A. and Gecikova I. (2014), Similarities and Differences in Local Self-Government in Lithuania and Slovakia', American International Journal of Social Science Vol. 3 • Capkova S. and Roncakova L. (2014), Fiscal Equalization and Regional Growth", European Scientific Journal Vol. 1.



# SLOVENIA

UNITARY COUNTRY

EUROPE

## BASIC SOCIO-ECONOMIC INDICATORS

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

### POPULATION AND GEOGRAPHY

AREA: **20 138 km<sup>2</sup>**

POPULATION: **2.062** million inhabitants (2014),  
an increase of 0.2% per year (2010-14)

DENSITY: **102** inhabitants/km<sup>2</sup>

URBAN POPULATION: **49.7%** of national population

CAPITAL CITY: **Ljubljana** (13.4% of national population)

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

### ECONOMIC DATA

GDP: **62.7** billion (current PPP international dollars)  
i.e. 30 405 dollars per inhabitant (2014)

REAL GDP GROWTH: **2.6%** (2014 vs 2013)

UNEMPLOYMENT RATE: **9.7%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **1 030**  
(BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **20%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.880** (very high), **rank 25**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|--|--------------------|-------------------------|----------------------|
| <b>212</b>   | <b>-</b>           | <b>-</b>                | <b>212</b>           |
| MUNICIPALITIES (OBČINE)<br>AVERAGE MUNICIPAL SIZE:<br><b>9 730 INHABITANTS</b> |                    |                         |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Slovenia has a single tier of local government consisting of municipalities recognised as self-governing by the 1991 Constitution. In contrast to the pattern observed in many OECD countries, the number of municipalities has grown over the last 20 years going from 147 in 1993 to 212 today. In order to stop this increase, in 2005 the government established new criteria stipulating that municipalities must have a minimum of 5 000 inhabitants. Among the municipalities, 11 urban municipalities have a special status. There is also a structured sub-municipal level of 6 035 settlements (local communities and districts which are optional). Regionalisation reforms have been discussed for a long time as the Constitution provides for the establishment of self-governing regions by law. A 2008 draft bill creating 13 regions was rejected by referendum. A new draft law was prepared creating 6 regions but the project was abandoned in 2011 due to a lack of consensus on the number, size, responsibilities and financing of the regions. The country is also divided into 58 administrative districts representing the State at territorial level in charge of supervising municipalities.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The 1993 Local Self-Government Act was reformed in 2005 in the context of the first decentralisation reform. This new act determines the principles of municipal regulation, including their responsibilities. They include education (pre and primary school buildings and facilities), social welfare (family and youth assistance, elderly care, social assistance), health (primary health care and pharmacies), social housing, urban and spatial planning, utilities (water and sewerage, waste), local roads and local public transport, local economic development and tourism, environmental protection, culture (libraries), sports, firefighting. Cities are allowed to have greater responsibilities, but have not implemented them yet. These include urban transport, urban development, catering facilities, grammar schools, secondary, vocational and higher schools, secondary-level public health services.

## SUBNATIONAL GOVERNMENT FINANCE

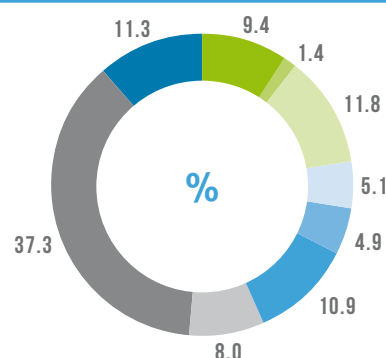
| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>9.6%</b> | <b>16.1%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | <b>7.6%</b> | <b>-</b>  | <b>78.7%</b>                |
| <b>STAFF EXPENDITURE</b>        | <b>4.3%</b> | <b>34.3%</b>  | <b>44.6%</b>                |
| <b>INVESTMENT</b>               | <b>2.0%</b> | <b>46.1%</b>  | <b>21.1%</b>                |

Slovenia ranks below OECD unitary countries in terms of SNG share in GDP and total public spending, which accounted for 13.4% of GDP and 29.0% of general government spending on average in 2013. The share of municipalities in public staff spending and SNG expenditure is significant, compared to the level of decentralisation. The municipal share in public investment is below the average of OECD unitary countries (56.4% of public investment) although capital expenditure represents an important portion of SNG expenditure and a significant percentage of GDP, slightly above the OECD average.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



The largest SNG expenditure category is by far education, municipalities mainly providing resources for operational expenditure and student transport. Municipal expenditure in this area accounted for 3.6% of GDP. Social protection, economic affairs/transport and health are the three following most important spending items, having a similar weight in municipal expenditure.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 9.5%  | 21.1%   | 100%                     |
| TAX REVENUE          | 4.0%  | 18.2%   | 42.4%                    |
| GRANTS AND SUBSIDIES | 3.9%  | -   | 41.2%                    |
| OTHER REVENUES       | 1.6%  | -   | 16.4%                    |

A new law on municipal financing went into effect on January 1, 2007, replacing the 1998 law. It introduced additional resources for municipalities in order to enlarge their financial autonomy and consolidate the system of vertical equalisation. The shares of tax revenue and grants in SNG revenue are equal and close to the OECD averages.

**TAX REVENUE.** Municipal taxes comprise both shared taxation and own-source taxes. Municipalities receive a share of the PIT, which represented 78% of their tax revenue in 2013. Until the 2007 reform, the PIT share was 35% of the total PIT revenue. With the reform, vertical tax equalisation was reinforced. The new system is based on current expenditure needs (without investment) – and comes in the form of a per capita amount required to finance municipalities' statutory functions calculated on the basis of a wide range of demographic and development criteria. It is implemented over a five-year transitional period. The per capita amount is negotiated annually between the central government and the municipalities. Own taxes include a property tax, a tax on inheritance and gifts, a tax on real estate trading, a local tourist tax, a tax on gambling, etc. The property tax (13% of local tax revenue and 0.5% of GDP in 2013) is currently under reform. A Real Estate Tax Law was adopted in 2014 but repealed by the Constitutional Court. The reform planned to establish a system by which the property tax would be shared between the central government and municipalities, who would have no longer been able to set the tax base or tax exemptions. The Slovenian government plans to prepare an alternative property tax reform.

**GRANTS AND SUBSIDIES.** Municipal financing is based upon the principles of "adequate spending" and "adequate funding". The level of adequate spending is estimated through a formula taking into account the functions devolved to municipalities and a number of demographic, geographic and development criteria, etc. The adequate funding principle aims at equalising financial resources with the level of adequate spending. If revenues from the share of the PIT and own taxes are not sufficient to cover a municipality's spending needs, it can receive additional funds from central authorities in the form of equalisation transfers. In addition, other transfers exist to finance specific measures or investments. Capital grants represented around 5% of total grants in 2013.

**OTHER REVENUES.** Other municipal revenues mainly include user charges and fees (around 15% of local revenue in 2013). Municipalities may levy various fees if they are provided for by law. They include fees for the use of public spaces (organisation of exhibitions and entertainment events, parking on public land, use of public space for camping, etc.). Other revenue comes from deposits, rents for apartments and business premises, sale of assets, etc.

## OUTSTANDING DEBT

|                         | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 3.7%  | 4.6%                 |

Local government borrowing rights are regulated by the Public Finance Act (1999) and the Financing of Municipalities Act (2006). Municipalities have the right to borrow to finance certain types of investment projects (golden rule), such as housing, water networks, and sewerage. They need prior consent of the Ministry of Finance. Amendments introduced in 2008 strengthened existing restrictions on debt service and debt outstanding. SNG debt is low compared to the OECD average of OECD unitary countries which amounted 15.1% of GDP and 12.0% of public debt in 2013. Outstanding debt is made up of a large share of other accounts payable (44%) and financial accounting (56%) in 2013. The latter is exclusively composed of loans.

A joint- study of:



**Sources:** OECD National Accounts Statistics • OECD (2015 and 2016) Subnational Governments in OECD Countries: Key data • OECD (2015), OECD Economic Surveys: Slovenia 2015 • The Law on The Financing of Municipalities • European Committee of the Regions (2014): "Division of Powers Between the European Union, Member States, Candidate and some Potential Candidate Countries, and Local and Regional Authorities: Fiscal Decentralisation or Federalism" • Kovač P. (2014) Integrative Approach to the Reorganization of Self-Government and Local State Administration" TED7 2014 • Žohar F. (2014) Possibilities to reform the system of municipalities in Slovenia Journal of Universal Excellence • OECD (2014): "OECD Regional Outlook 2014: Regions and Cities: Where Policies and People Meet".



# SPAIN

QUASI-FEDERAL COUNTRY

EUROPE

## BASIC SOCIO-ECONOMIC INDICATORS

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

### POPULATION AND GEOGRAPHY

AREA: **501 757** km<sup>2</sup>

POPULATION: **46.464** million inhabitants (2014),  
a decrease of -0.1% per year (2010-14)

DENSITY: **93** inhabitants/km<sup>2</sup>

URBAN POPULATION: **79.4%** of national population

CAPITAL CITY: **Madrid** (13% of national population)

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

### ECONOMIC DATA

GDP: **1 562.9** billion (current PPP international dollars)  
i.e. 33 638 dollars per inhabitant (2014)

REAL GDP GROWTH: **1.4%** (2014 vs 2013)

UNEMPLOYMENT RATE: **24.4%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **34 233** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **20%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.876** (very high), **rank 26**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL                                     | INTERMEDIATE LEVEL        | REGIONAL OR STATE LEVEL                           | TOTAL NUMBER OF SNGs |
|---|---------------------------|---|----------------------|
| <b>8 119</b>  | <b>50</b>                 | <b>17</b>   | <b>8 186</b>         |
| MUNICIPALITIES<br>(MUNICIPIOS)                      | PROVINCES<br>(PROVINCIAS) | AUTONOMOUS COMMUNITIES<br>(COMUNIDADES AUTÓNOMAS) |                      |
| AVERAGE MUNICIPAL SIZE:<br><b>5 605 INHABITANTS</b> |                           |   |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** According to the 1978 Constitution, Spain is a unitary state having a three-tier system of SNG whose autonomy is constitutionally recognised (article 137). In reality, Spain is a quasi-federation with autonomous communities (ACs) having a large autonomy, including the exclusive ability to decide on the organisation of municipalities and provinces within the regional territory. However, municipal and provincial functions and finances are decided in the framework of the national law and not by regional constitution or law, unlike federations. As a result, local governments are governed jointly by the central government and the regions. At regional level, decentralisation is asymmetric, with two distinct regimes: the common regime (15 ACs) and the "foral" regime (Basque Country and Navarra) which is characterised by an almost complete spending and revenue autonomy. In addition, ACs of the common regime each have their specific statute, allowing for some distinctive features, especially since the 2000s (several statutes have been reformed case by case). Municipal and provincial organisation differs from one region to another. Recently, the 27/2013 Law on the Rationalisation and Sustainability of Local Administration (LRSAL) introduced incentives to promote municipal mergers on a voluntary basis. Spain also has a structured level of 3 719 sub-municipal entities which are deconcentrated municipal organs of the municipalities without own legal personality. Spain also counts two autonomous cities in North Africa (Ceuta and Melilla), with less powers than ACs but with more than municipalities. Finally, there is a central government territorial administration including General Delegates at regional level and Sub-delegates at provincial level.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** ACs responsibilities are defined in their autonomous statute but, as a general rule, all responsibilities not expressly attributed to the central state by the Constitution are devolved to ACs, for which 23 areas of responsibilities are listed. In addition, there are also shared competencies between the centre and the regions (education, social services, universities, municipal and provincial supervision). ACs have large responsibilities which typically include education (since 2000), healthcare (since 2002), public order, planning, urbanism and housing, transport, environmental protection, agriculture, culture, social assistance, etc. Provinces are responsible for public services and investment projects of supra-municipal character as well as technical, legal, and economic assistance to small municipalities (less than 5 000 inhabitants). The LRSAL strengthened their role by recentralising some tasks of municipalities under 20 000 inhabitants at the provincial level. Municipal responsibilities vary according to their demographic size and they have mandatory "core competencies" and optional tasks (clarified by the LRSAL). They are all responsible for local public utilities (waste and water supply), public lighting, road maintenance and municipal police. Larger municipalities have additional responsibilities, including markets, public parks, social services, environmental protection, public transport, culture, sport facilities, emergency and fire-fighting services, etc.

## SUBNATIONAL GOVERNMENT FINANCE

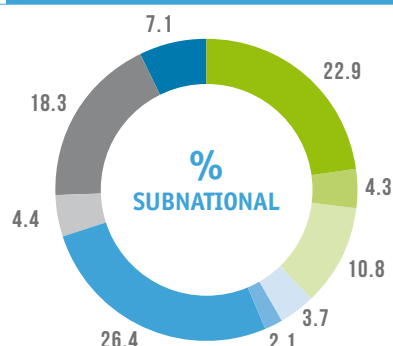
| EXPENDITURE                     | % GDP            |             | % GENERAL GOVERNMENT<br>(same expenditure category) |              | % SUBNATIONAL GOVERNMENT |             |
|---------------------------------|------------------|-------------|---|--------------|--------------------------|-------------|
|                                 | SUBNATIONAL DATA |             | LOCAL DATA ONLY                                     |              |                          |             |
| <b>TOTAL EXPENDITURE (2013)</b> | <b>21.2%</b>     | <b>5.8%</b> | <b>48.0%</b>  | <b>13.1%</b> | <b>100%</b>              | <b>100%</b> |
| <b>CURRENT EXPENDITURE</b>      | 19.4%            | 5.2%        | -   | -            | 91.2%                    | 90.5%       |
| <b>STAFF EXPENDITURE</b>        | 8.4%             | 1.9%        | 77.2%   | 17.8%        | 39.7%                    | 33.5%       |
| <b>INVESTMENT</b>               | 1.4%             | 0.5%        | 64.5%   | 23.0%        | 6.5%                     | 8.5%        |

Spain has undergone a deep process of decentralisation, shifting from a highly centralised system before 1978 to a highly decentralised one, which is reflected in the change in the share of SNG expenditure in GDP and public expenditure, which increased by respectively 5.4 and 13 percentage points between 1995 and 2013. Spain is now one of the most decentralised countries of the OECD. SNGs, in particular ACs, are key public employers in key sectors (education, healthcare). They are also key public investors, although the SNG investment as a percentage of GDP is lower than in the OECD on average (1.4% vs 1.9% in the OECD). ACs represented almost three-quarters of SNG expenditure in 2013.



## EXPENDITURE BY FUNCTION

### % SUBNATIONAL GOVERNMENT EXPENDITURE



The primary area of SNG spending is by far health (5.6% of GDP) followed by education, general public services and economic affairs/transport. Health represented 36% of ACS' expenditure and education, 23% in 2013. Municipal and provincial main categories of spending include general public services, economic affairs and transport, recreation and culture and environmental protection.

## REVENUE BY TYPE

### % GDP

### % GENERAL GOVERNMENT (same revenue category)

### % SUBNATIONAL GOVERNMENT

|                             | SUBNATIONAL DATA |             | LOCAL DATA ONLY |              |              |              |
|-----------------------------|------------------|-------------|-----------------|--------------|--------------|--------------|
| <b>TOTAL REVENUE (2013)</b> | <b>20.3%</b>     | <b>6.3%</b> | <b>54.0%</b>    | <b>16.8%</b> | <b>100%</b>  | <b>100%</b>  |
| <b>TAX REVENUE</b>          | <b>7.7%</b>      | <b>3.2%</b> | <b>35.8%</b>    | <b>14.8%</b> | <b>38.0%</b> | <b>50.4%</b> |
| <b>GRANTS AND SUBSIDIES</b> | <b>10.7%</b>     | <b>2.4%</b> | -               | -            | <b>52.7%</b> | <b>37.7%</b> |
| <b>OTHER REVENUES</b>       | <b>1.9%</b>      | <b>0.7%</b> | -               | -            | <b>9.3%</b>  | <b>11.9%</b> |

Recent fiscal decentralisation reforms modified the SNG financing structure, resulting in a significant increase of tax revenue in total SNG revenue. In particular, the Law 22/2009 on the financing of the ACs in effect since 2011 has introduced major changes. The revision of the law on funding municipalities and provinces was adopted in December 2013.

**TAX REVENUE.** Basque Country and Navarra have autonomy and benefit from all taxes except import duties, payroll taxes, VAT and excise duties. Other ACs benefit from taxes shared with the central government, on which they have some leeway. They receive 33% of the PIT, 35% of VAT receipts, 40% of excise taxes on tobacco, alcohol and petrol and 100% of revenues from tax on electricity and certain means of transport. They have autonomy over the wealth tax, inheritance and gift tax, tax on capital transfers, gambling tax, vehicle excise and hydrocarbons retail sales tax. In 2013, PIT represented 68% of ACs tax revenue. Municipalities derive a significant part of their tax revenue from own-source taxes but also from shared taxes (PIT, VAT and excise taxes) for the larger one (more than 75 000 inhabitants). Own-source taxes include a property tax (IBI), a vehicle tax (IVTM), a local business tax and two optional taxes: a tax on real estate transactions in urban areas and a tax on construction, facilities and infrastructure. Taxes on immovable properties represented 38% of municipal tax revenue i.e. 1.4% of GDP. Provinces only have the power to levy a surtax on the local business tax and are also entitled to some shared tax revenue (PIT, VAT and CIT). Overall, PIT and VAT represented respectively 13% and 15% of municipal and provincial tax revenue and the local business tax, 10%.

**GRANTS AND SUBSIDIES.** Basque Country and Navarra do not receive transfers from the central government but, on the contrary, they transfer funds to central government to participate to national general expenses. Other ACs receive general unconditional equalisation grants and conditional grants. The law 22/2009 modified substantially the grants and equalisation system, in order to reinforce interregional solidarity. There are two main funds: 1) the Guarantee of Basic Public Services Fund, non-earmarked, is intended to ensure equal funding for basic public services (health care, education and social services). It is made up of 75% of the tax revenue assigned to ACs and an extra contribution by the central government. It is redistributed by ACs according to "adjusted population criteria"; 2) the Global Sufficiency Fund is based on the assessment of the fiscal gap between expenditure needs and fiscal capacity. In addition, regions receive conditional grants aimed at fostering regional development, such as the compensation fund. Central government transfers to local governments include the State Revenues' municipal and provincial Participation (PIE) that are current equalisation non-earmarked transfers to bridge the gap between municipal/ provincial expenditure needs and revenue capacities. Local governments also receive transfers from autonomous communities. Finally, they also received earmarked grants for specific investment projects.

**OTHER REVENUES.** The share of other revenues in total SNG revenue is lower than in the OECD on average. They include mostly user charges or fees (8.3% of SNG revenue but 10.6% for local governments) as well as income for property assets (rents, sales).

## OUTSTANDING DEBT

### % GDP

### % GENERAL GOVERNMENT

|                                | SUBNATIONAL DATA |             | LOCAL DATA ONLY |             |
|--------------------------------|------------------|-------------|-----------------|-------------|
| <b>OUTSTANDING DEBT (2013)</b> | <b>29.3%</b>     | <b>5.7%</b> | <b>28.7%</b>    | <b>5.6%</b> |

Spanish SNG debt has significantly increased after the 2008 global financial crisis, in particular regional debt, to reach levels significantly above the OECD average. This situation led to profound reforms regarding fiscal rules. A constitutional reform was adopted in 2011 to underpin the fiscal consolidation targets for all Spanish administrations from 2020 onward. Moreover, an Organic Law on Budgetary Stability and Financial Sustainability passed in 2012 introduces a structural balanced budget rule and debt ceilings for all levels of governments, as well as expenditure rules for SNGs. The regional Liquidity Fund (FLA) was also established in 2012. Finally, an independent authority for Fiscal Responsibility was set up to monitor and report on compliance of all levels of government. ACs hold 80% of SNG debt. Outstanding debt is made up of financial debt (around 83%) and other account payable (17%). Bonds represented 20% of SNG debt but only 2.5% for local governments.

A joint- study of:



**Sources:** OECD National Accounts Statistics • Ministry of Finance and Public Administrations (2016), Financing mechanisms of subnational governments, <http://www.minhap.gob.es> • OECD (2016 and 2015), Subnational Governments in OECD Countries : Key data • Chatry I., Hulbert C. (2016), "Multi-level governance reforms: Overview of OECD country experiences" OECD publishing • OECD (2015), The State of Public Finances 2015, Strategies for Budgetary Consolidation and Reform in OECD Countries • Nicol S. (2014), Fiscal Devolution • Some Comparative Examples, SPICE paper • European Committee of the Regions (2014), "Division of Powers Between the European Union, Member States, Candidate and some Potential Candidate Countries, and Local and Regional Authorities: Fiscal Decentralisation or Federalism" • Congress of Local and Regional Authorities (2013) Local and regional democracy in Spain, CG(24)6FINAL.



# SWEDEN

UNITARY COUNTRY

EUROPE

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **HIGH INCOME: OECD** Local currency - **Swedish Krona (SEK)**

### POPULATION AND GEOGRAPHY

AREA: **407 340** km<sup>2</sup>

POPULATION: **9.696** million inhabitants (2014), an increase of 0.8% per year (2010-14)

DENSITY: **24** inhabitants/km<sup>2</sup>

URBAN POPULATION: **85.7%** of national population

CAPITAL CITY: **Stockholm** (15.2% of national population)

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

### ECONOMIC DATA

GDP: **439.2** billion (current PPP international dollars) i.e. 28 327 dollars per inhabitant (2014)

REAL GDP GROWTH: **2.3%** (2014 vs 2013)

UNEMPLOYMENT RATE: **8.0%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **-2 535** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **24%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.907** (very high), **rank 14**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL                                      | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL     | TOTAL NUMBER OF SNGs |
|--|--------------------|-----------------------------|----------------------|
| <b>290</b>   | <b>-</b>           | <b>21</b>                   | <b>311</b>           |
| MUNICIPALITIES (KOMMUNER)                            |                    | COUNTY COUNCILS (LANDSTING) |                      |
| AVERAGE MUNICIPAL SIZE:<br><b>33 890 INHABITANTS</b> |                    |                             |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Sweden has a two-tier system of local government, recognised in the Constitution (Article 7). It is composed of 21 county councils and 290 municipalities with no hierarchical links between them. The island of Gotland has a specific status, being a municipality which carries out county council responsibilities. Sweden has also a central government territorial administration composed of 21 counties (*län*), each of which has its own County Administrative Board and County Governor appointed by the central government. There has been an experimental regionalisation since 1999 (with Skåne and Västra-Götaland) which has been gradually extended since 2011. In 2016, among the 21 county councils, 10 have additional responsibilities, in particular regional development. They will be 14 in 2017. In the rest of the country, responsibility for regional development falls on either County Administrative Boards or on indirectly elected Regional Development Councils. In addition, a commission on regional reforms has been established. It will make proposals to merge counties, with possible implementation in 2019 and 2023.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** SNG responsibilities are laid down in the 1991 Local Government Act, amended in 2004. Municipalities have extended responsibilities, devolved to them by law and overall responsibility for local affairs. They are responsible for social protection (care for the family, child, elderly and disabled), education (pre-school, primary and secondary education) and vocational training, planning and building issues, healthcare (prevention), environmental protection, utilities (waste, water and sewerage), local roads and public transport, leisure and culture, housing, rescue services, etc. County councils' responsibilities include health care (primary care, hospitals, ambulatory care, dental care, medical services) and regional public transport. Some county councils also have responsibilities regarding regional development.

## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP        | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|--------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>25.3%</b> | <b>47.4%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | 23.2%        | -   | 91.6%                       |
| <b>STAFF EXPENDITURE</b>        | 9.6%         | 75.8%   | 37.9%                       |
| <b>INVESTMENT</b>               | 2.0%         | 45.6%   | 8.1%                        |

SNGs are providers of numerous public services and benefits in key areas, making Sweden one of the most unitary decentralised countries of the OECD. SNG expenditure as a share of GDP and public expenditure is even greater than in most OECD federal countries. SNGs employ more than three quarters of public staff, being responsible for wages of teaching, social and health employees. The role of SNGs in public investment is lower than in the OECD on average where it accounted for 59% of public investment and 11% of SNG expenditure in 2013. Municipalities account for around 70% of SNG total expenditure.



## EXPENDITURE BY FUNCTION

### % SUBNATIONAL GOVERNMENT EXPENDITURE



SNG largest areas of spending are by far social protection and healthcare, which accounted for almost 55% of subnational expenditure. They are followed by education. For the county councils, the main category of spending is health care (around 90%). For the municipalities, social protection and education are the main categories. Although some other spending areas occupy a relatively low percentage of SNG expenditure, they may represent a substantial share of total public spending in these areas, in particular housing and community amenities and recreation and culture. Comparatively to other OECD countries, spending in economic affairs and transports is lower.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 25.2% | 48.6%   | 100%                     |
| TAX REVENUE          | 13.7% | 34.3%   | 54.3%                    |
| GRANTS AND SUBSIDIES | 7.8%  | -   | 30.9%                    |
| OTHER REVENUES       | 3.7%  | -   | 14.7%                    |

The majority of SNG revenue come from taxation and other own revenues, grants accounting for less than one-third of SNG revenue. Municipalities and county council have a fairly similar revenue structure.

**TAX REVENUE.** SNG tax revenue come almost entirely from the local PIT, which is an own-source tax levied independently of the national PIT. Levied on incomes from salaries, wages, pensions, payments from health insurances and unemployment benefits, etc.), it represented 97% of SNG tax revenue in 2013. Municipalities and county councils have the same tax bases, and decide independently to set their own tax rates. Although the national Parliament has the power to cap tax rates, no limit is currently set. The property tax represented only 3% of SNG tax revenue and 0.4% of GDP in 2013, among the lowest levels of the OECD.

**GRANTS AND SUBSIDIES.** Transfers from the central government include compensations for mandatory tasks based on an ex-ante assessment, and allocated on a per capita basis as a lump sum through general or earmarked grants. Equalisation transfers are enshrined in the Constitution. The equalisation system is divided between five grants: the income equalisation grant (the most significant, it is intended to equalise tax disparities and is mainly a vertical equalisation mechanism), a cost equalisation grant (intended to neutralise disparities in the cost of services), a structural grant, a transitional grant and an adjustment grant/charge. In 2008, a new audit of the equalisation system was entrusted to a Parliamentary committee. Its aim was to identify growth deterring factors linked to the equalisation system. This audit led to the adoption of several measures in 2012 and 2014, but ultimately benefited high-revenue SNGs. Since 2015, new measures are on-going to correct this situation. 95% of grants are for current expenditure.

**OTHER REVENUES.** Other SNG revenues come mainly from charges and fees (10.4%) for local services provided such as child, elderly and health care. Municipalities and counties are to set fees but ceilings on maximum charges have been introduced on some services. Revenues from assets represented around 2% of SNG revenues in 2013. Since 2013, local governments are also able to build rainy day funds in order to reduce the cyclicity of their revenues.

| OUTSTANDING DEBT        | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 13.7% | 25.3%                |

Municipalities and county councils are subject to a balanced budget requirement. They can borrow only to fund capital expenditure (golden rule) through bonds and loans. SNG outstanding debt as a percentage of GDP is lower than in OECD unitary countries on average (15.1%). It is made up of financial debt including loans (39% of outstanding debt) and bonds (17%), pension liabilities (19%) and other accounts payable (22%). Financial debt comprises only loans. Kommuninvest i Sverige AB, a non for profit credit association owned by county councils and municipalities, is the main lender (market share about 50%).

A joint study of:



Sources:

OECD National Accounts Statistics • OECD (2016 and 2015), Subnational Governments in OECD Countries: Key data • Chatry I., Hulbert C. (2016), Multi-level governance reforms: Overview of OECD country experiences, OECD publishing • Sweden's Convergence Programme 2014 • Kommuninvest (2014), Local government borrowing • Council of Europe (2014) Local and regional democracy in Sweden • OECD (2010) Territorial review of Sweden.



# SWITZERLAND

FEDERAL COUNTRY

EUROPE

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **HIGH INCOME: OECD** Local currency - **Swiss Franc (CHF)**

### POPULATION AND GEOGRAPHY

AREA: **39 996** km<sup>2</sup> (2014)

POPULATION: **8.189** million inhabitants (2014),  
an increase of 1.0% per year (2010-14)

DENSITY: **205** inhabitants/km<sup>2</sup>

URBAN POPULATION: **73.8%** of national population

CAPITAL CITY: **Berne** (4.4% of national population)

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

### ECONOMIC DATA

GDP: **487.5** billion (current PPP international dollars)  
i.e. 59 536 dollars per inhabitant (2014)

REAL GDP GROWTH: **1.9%** (2014 vs 2013)

UNEMPLOYMENT RATE: **4.5%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **22 741** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **23%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.930** (very high), **rank 3**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL                          | TOTAL NUMBER OF SNGs |
|---|--------------------|--|----------------------|
| <b>2 294</b><br>MUNICIPALITIES<br>(COMMUNE, GEMEINDEN, COMUNI)<br>AVERAGE MUNICIPAL SIZE:<br><b>3 590 INHABITANTS</b> | <b>-</b>           | <b>26</b><br>STATES<br>(CANTON, KANTON, CANTONE) | <b>2 320</b>         |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** The Swiss Confederation has two tiers of SNGs: municipalities and states. Both have a large degree of political, administrative and fiscal autonomy, protected by the Federal Constitution of 1848 which defines the Swiss federal system. Municipalities are governed by the states under each state constitution and legislation. As a result, municipal organisation differs from one canton to another. Several cantons undertook municipal amalgamation policies over the recent years (Thurgovie, Fribourg, Vaud, Tessin, Grisons, etc.) resulting in a decrease of 20% of the number of municipalities between 1990 and 2012. For administrative purposes, most states are also divided into districts (*bezirk, ämter, district, distretto*, etc.).

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Swiss federalism is defined as a bottom-up system where the states are sovereign except to the extent that their sovereignty is limited by the Federal Constitution. States shall exercise all rights that are not vested in the Confederation, according to the principle of subsidiarity. The last constitutional reform on Fiscal Equalisation and Responsibility Assignment adopted in 2004 and in force since 2008 reassigned several policy areas to either the federal or cantonal level in order to clarify the division of tasks between them. The Confederation is now solely responsible for seven task areas (foreign affairs, monetary motorways, etc.), the cantons for ten (police, education including universities, healthcare, welfare, utilities, etc.) and the Confederation and cantons continue to assume joint responsibility for sixteen task areas (regional traffic, regional development, environmental protection, flood protection, etc.). Municipalities' autonomous and non-autonomous tasks are assigned by respective state and thus differ from one state to another. They typically include education (pre, primary and secondary schools), health and social welfare, water, electricity, and traffic, local roads, land use planning, natural resource management, recreation and culture, municipal police, etc.

## SUBNATIONAL GOVERNMENT FINANCE

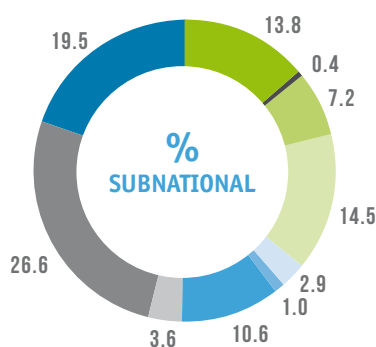
| EXPENDITURE                     | % GDP            |             | % GENERAL GOVERNMENT<br>(same expenditure category) |              | % SUBNATIONAL GOVERNMENT |             |
|---------------------------------|------------------|-------------|---|--------------|--------------------------|-------------|
|                                 | SUBNATIONAL DATA |             | LOCAL DATA ONLY                                     |              |                          |             |
| <b>TOTAL EXPENDITURE (2013)</b> | <b>20.5%</b>     | <b>6.9%</b> | <b>61.0%</b>  | <b>20.6%</b> | <b>100%</b>              | <b>100%</b> |
| <b>CURRENT EXPENDITURE</b>      | 17.5%            | 5.8%        | -   | -            | 85.4%                    | 84.3%       |
| <b>STAFF EXPENDITURE</b>        | 6.3%             | 2.2%        | 83.7%   | 29.0%        | 30.6%                    | 31.5%       |
| <b>INVESTMENT</b>               | 2.1%             | 0.9%        | 69.1%   | 30.2%        | 10.2%                    | 13.2%       |

The SNG share in GDP and public spending is among the highest of the OECD, well above the OECD averages (16.6% of GDP and 40.0% of public spending in 2013). A majority is made by the states (66%). SNGs are key employers (SNG share in public staff spending is 20 percentage points above the OECD average of 63.2%), but lower at the local level compared to OECD unitary countries. SNGs are also key investors, with a share in public investment and GDP which is higher than in the OECD on average which amounted to 58.5% and 1.9% of GDP in 2013. Municipalities were responsible for 44% of SNG investment in 2013.



## EXPENDITURE BY FUNCTION

### % SUBNATIONAL GOVERNMENT EXPENDITURE



Education is the primary area of SNG spending, representing more than one quarter. It is followed by social protection and economic affairs/transport. In addition, SNGs are responsible for the large majority of total public spending in the areas of education, recreation and culture, health, housing and community amenities, security and public order (more than 90%). Primary areas of spending are roughly the same for states and municipalities. However, states expenditure is also concentrated on health while municipalities spend more in relative terms in the areas of recreation and culture and environmental protection.

## REVENUE BY TYPE

### % GDP

### % GENERAL GOVERNMENT (same revenue category)

### % SUBNATIONAL GOVERNMENT

|                             | SUBNATIONAL DATA |             | LOCAL DATA ONLY |              |             |             |
|-----------------------------|------------------|-------------|-----------------|--------------|-------------|-------------|
| <b>TOTAL REVENUE (2013)</b> | <b>20.2%</b>     | <b>7.0%</b> | <b>60.2%</b>    | <b>20.9%</b> | <b>100%</b> | <b>100%</b> |
| <b>TAX REVENUE</b>          | 10.9%            | 4.1%        | 53.0%           | 20.1%        | 53.9%       | 58.7%       |
| <b>GRANTS AND SUBSIDIES</b> | 4.3%             | 0.9%        | -               | -            | 21.4%       | 13.3%       |
| <b>OTHER REVENUES</b>       | 5.0%             | 2.0%        | -               | -            | 24.6%       | 28.0%       |

According to the Constitution, the states may determine their revenue and their taxes provided they are not assigned to the Confederation. In particular, while indirect taxation is a confederal responsibility, direct taxation is a shared competence of the municipal, state and confederal levels. As a result, Switzerland is one of the most OECD decentralised countries in fiscal terms. The share of tax revenue in total revenue is one of the highest while the dependence on transfers (from federal or state governments) is one of the lowest. In addition, SNGs have a high degree of taxing power (rates and bases).

**TAX REVENUE.** In 2013, states represented 62% of SNG tax revenue and municipalities, 38%. Cantons can levy any kind of tax that it is not exclusively attributed to the Confederation. These include in particular a tax on personal and corporate income, a tax on the earned income of foreigners without a residence permit, a wealth tax, a tax on equity, inheritance and gift taxes, a lottery income tax, real estate and real estate transfer taxes, taxes on motor vehicles, etc. Municipalities can levy taxes to the extent they are authorised by the cantons. Municipal main taxes include PIT, CIT, a tax on net wealth, a real estate and real estate transfer taxes, etc. They are mostly levied as a percentage of the basic cantonal tax. Overall, current taxes on income represented around 80% of SNG tax revenue in 2013, with a similar share for states and municipalities. Taxes on immovable properties accounted for 13% of SNG tax revenue i.e. 1.4% of GDP.

**GRANTS AND SUBSIDIES.** Transfers include a large system of equalisation established in 1958 and further reformed by the 2008 reform. The cantonal equalisation system is both vertical and horizontal and is mainly based on three building blocks: 1) a resource equalisation fund that aims to reduce fiscal disparities among cantons by providing each canton with at least 85% of the average financial means. The fund is financed by the federal government but it includes a horizontal contribution from cantons having a high revenue potential; 2) a cost equalisation fund that compensates for the excessive charges that some cantons incur because of their topography, demography, or social characteristics. It is financed by the federal government; 3) a temporary "neutralization" fund that is set to temporarily compensate for the effect of implementing the new equalisation system. In addition, each canton also has its own grants and equalisation system for its municipalities. With the 2008 reform, the share of non-earmarked transfers increased from 24% to 40%. Overall, capital expenditure grants accounted for around 10% of total SNG grants.

**OTHER REVENUES.** The share of other revenue is significant, amounting for one quarter of total SNG revenue, and even more municipalities. User charges and fees represented 20.5% of SNG revenue while revenue from property (assets sales, rents) accounted for 3.7%.

## OUTSTANDING DEBT

### % GDP

### % GENERAL GOVERNMENT

|                                | SUBNATIONAL DATA |              | LOCAL DATA ONLY |              |
|--------------------------------|------------------|--------------|-----------------|--------------|
| <b>OUTSTANDING DEBT (2013)</b> | <b>22.3%</b>     | <b>10.2%</b> | <b>47.1%</b>    | <b>21.6%</b> |

States borrowing is not restricted, but most states introduced self-imposed balanced budget rules and fiscal rules, including debt brake and sanctions in case of non-compliance in the 1990s. However these rules vary greatly across cantons. Municipalities also have the right to borrow. Borrowing constraints vary across states, depending on each state constitution and fiscal law, etc. Overall, SNG debt as a percentage of GDP is in line with OECD average but is significantly higher when considering the share in total public debt. Outstanding debt is made up of financial debt (63%), other accounts payable (32%) and pension liabilities (5%). States and municipalities issue bonds which accounted for around 20% of total public debt in 2013.

A joint- study of:



**Sources:** OECD National Accounts Statistics • Eurostat Government Finance Statistics (COFOG) • OECD (2016 and 2015) Subnational Governments in OECD Countries : Key data • OECD (2015), OECD Economic Surveys: Switzerland 2015 • Federal Department of Finance (2015) Federal, Cantonal and Communal Taxes • S. Nicol (2014): Fiscal Devolution • Some Comparative Examples, SPICE paper • OECD Regional Outlook 2014: Regions and Cities: Where Policies and People Meet • Maissen S. (2014) Federalism in Switzerland: Current Issues and Challenges • Blöchliger, H. and C. Vammalle (2012), Reforming Fiscal Federalism and Local Government: Beyond the Zero-Sum Game.



# UNITED KINGDOM

UNITARY COUNTRY

EUROPE

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **HIGH INCOME: OECD** Local currency - **Pound Sterling (GBP)**

### POPULATION AND GEOGRAPHY

AREA: **242 509** km<sup>2</sup>

POPULATION: **64.597** million inhabitants (2014),  
an increase of 0.7% per year (2010-14)

DENSITY: **266** inhabitants/km<sup>2</sup>

URBAN POPULATION: **82.3%** of national population

CAPITAL CITY: **London** (16% of national population)

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

### ECONOMIC DATA

GDP: **2 597.4** billion (current PPP international dollars)  
i.e. 40 210 dollars per inhabitant (2014)

REAL GDP GROWTH: **2.9%** (2014 vs 2013)

UNEMPLOYMENT RATE: **6.1%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **45 457** (BoP, current  
USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **17%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.907** (very high), **rank 14**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSABILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL                              | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|--|---|-------------------------|----------------------|
| <b>389</b>   | <b>27</b>                                       | <b>3</b>                | <b>419</b>           |
| LOCAL AUTHORITIES<br>AVERAGE MUNICIPAL SIZE:<br><b>166 060</b> INHABITANTS | COUNTY COUNCILS AND GREATER<br>LONDON AUTHORITY | DEVOLVED NATIONS        |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** The United Kingdom is a unitary state composed of four constituent countries (England, Northern Ireland, Scotland and Wales) and three devolved administrations (Northern Ireland, Scotland and Wales), having their own elected assembly and government since the devolution process in 1998. The project of devolution of limited political powers to elected regional assemblies in England has been suspended indefinitely following the rejection of the first referendum held in the North-East of England in 2004. The territorial organisation is highly complex and differs greatly between the different countries. England is composed of 324 district councils (including metropolitan boroughs, London boroughs, non-metropolitan districts, unitary authorities) and 27 county councils and Greater London Authority (GLA) at the intermediary level. Wales has 22 unitary councils, Scotland, 32 unitary councils and Northern Ireland, 11 local councils (26 until Local Government Reform, effective as of April 2015). In addition, there is a structured sub-municipal level of approximately: 9 500 parish councils in England, 730 community councils in Wales, and 1 200 in Scotland.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** At regional level, the system of devolution is sound but asymmetric, the three devolved nations enjoying different levels of legislative, administrative and budgetary autonomy. At local level, responsibilities vary from one constituent country to another but they typically include education, local economic development, housing, social services, local roads and public transport, culture and recreation, waste management, environmental protection and parks, health and public safety, etc. Several decentralisation processes are underway in Northern Ireland (Local Government Reform) and in England where the Localism Act 2011 gave local authorities a general power of competence and transferred new responsibilities (housing, public health and social protection). In addition, the Cities and Local Government Devolution Act 2016 allowed greater devolution of powers (housing, transport, planning and policing powers) to "combined authorities" and the introduction of directly-elected mayors.

## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP        | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|--------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>11.6%</b> | <b>25.5%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | 10.4%        | -   | 90.1%                       |
| <b>STAFF EXPENDITURE</b>        | 4.0%         | 40.5%   | 34.2%                       |
| <b>INVESTMENT</b>               | 0.9%         | 35.6%   | 8.0%                        |

Spending decentralisation in the UK is lower than in the OECD on average. However, it is worth noting that UK figures are under-estimated as fiscal data regarding the devolved administrations in Scotland, Wales and Northern Ireland are not included in SNG but in central government sector. Therefore, data presented in the tables relate to local councils only. These latter are key public employers in significant sectors (education, social care, police force). However, their role as public investor is significantly lower than in the OECD on average where SNG investment represented 58.5% of public investment and 1.9% of GDP in 2013.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



The two main local government categories of spending are by far social protection and education. They are followed by three areas that weigh similarly: security and public order (police and fire services), general public services and economic affairs/transport. In addition, SNGs are responsible for the large majority of overall public spending in the area of housing and community amenities (over 80% of public spending).

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 11.3% | 28.5%   | 100%                     |
| TAX REVENUE          | 1.6%  | 5.9%  | 14.3%                    |
| GRANTS AND SUBSIDIES | 7.8%  | -   | 69.1%                    |
| OTHER REVENUES       | 1.9%  | -   | 16.6%                    |

As for expenditure, revenue data do not include devolved nations of Scotland, Northern Ireland and Wales. Greater devolution of taxing power is, however, taking place in devolved nations, such as in Scotland where 2012 Scotland Act gave additional fiscal powers, including a Scottish rate of income tax (10% of income tax from April 2016 onwards). Local government fiscal framework varies from one country to another but, in general, local governments are highly dependent on central/devolved government transfers.

**TAX REVENUE.** In England, Scotland and Wales, tax revenue comes from the council tax and a share of the business rates, which are both property taxes on immovable property, representing 1.6% of GDP. The council tax is based on the rental value of individual property and is paid by the resident, based on the residence value, the situation of the resident and income levels. The business rates are levied on non-domestic lands and buildings. The receipts of business rates are pooled and then redistributed by the UK government in England or the devolved nations on a per capita basis. In England, the 2011 financial reform increased local government taxing power through the localisation of the council tax and the business rates retention scheme as of 2013. In Northern Ireland, local tax revenue comes from district rates that include taxes on domestic and non-domestic properties.

**GRANTS AND SUBSIDIES.** In England, the main grants (excluding housing grant) are referred to collectively as Aggregate External Finance (AEF). AEF includes Revenue Support Grant (distributed according to formula), redistributed business rates and certain specific grants (distributed by individual government departments such as dedicated Schools Grant and Public Health Grant). From 2011-12 a new unringfenced general grant called Local Services Support Grant was set up to regroup previous earmarked grants. From 2013-14 the Business Rates Retention scheme replaced the Formula Grant which was used to redistribute business rates. In Wales, the Revenue Support Grant – non-earmarked – is allocated by the Welsh Government according to a population-based formula. The Scottish Government provides a block grant which is broken down into three constituent parts (Revenue Support Grant, Non Domestic Rates Income and Specific Grants). In Northern Ireland, transfers include the “de-rating” grant (compensating for the loss of income from de-rated properties), the rates support grant (for councils with greater expenditure needs than revenues), and specific earmarked grants.

**OTHER REVENUES.** Other revenues include fees and charges, especially in the education, transport, social care and cultural sectors (12.8% of local government revenue) and revenue from property (rents and sales).

| OUTSTANDING DEBT        | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 9.8%  | 9.4%                 |

In England, Scotland and Wales, local governments are able to issue long-term debt to finance capital investments only (golden rule). Local government must follow the CIFPA Prudential Code, which sets indicators to be respected regarding affordability, sustainability and prudence. In Northern Ireland, borrowing is subject to an approval by the Ministry of the Environment, and must aim at financing capital projects only. Overall, local government debt is well below the OECD average. It is made up of financial debt (52%, including mainly loans), pension liabilities (37%) and other accounts payable (11%).

A joint- study of:



**Sources:** OECD National Accounts Statistics • OECD (2015 and 2016), Subnational Governments in OECD Countries: Key data • Chatry I., Hulbert C. (2016), “Multi-level governance reforms: Overview of OECD country experiences” OECD Publishing • European Committee of the Regions (2014) Division of Powers Between the European Union, Member States, Candidate and some Potential Candidate Countries, and Local and Regional Authorities: Fiscal Decentralisation or Federalism • Congress of Local and Regional Authorities (2014) Local and regional democracy in the United Kingdom”, CG(26)10FINAL • Center for Cities (2014) “Devolution and decentralisation in the UK • Department for Communities and Local Government: (2014) Local Government Financial Statistics England.



# ARGENTINA

FEDERAL COUNTRY

## LATIN AMERICA

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **UPPER MIDDLE INCOME** Local currency - **Argentina peso (ARS)**

#### POPULATION AND GEOGRAPHY

AREA: **2 766 890 km<sup>2</sup>**

POPULATION: **42.980** million inhabitants (2014),  
an increase of 1.0% per year (2010-14)

DENSITY: **15** inhabitants/km<sup>2</sup>

URBAN POPULATION: **91.8%** of national population

CAPITAL CITY: **Buenos Aires** (35% of national population)

Sources: World Bank database ; Instituto nacional de estadística y censos, UNDP-HDR , ILO

#### ECONOMIC DATA

GDP: **754.5** billion (current PPP international dollars)  
i.e. 17 554 dollars per inhabitant (2014)

REAL GDP GROWTH: **0.5%** (2014 vs 2013)

UNEMPLOYMENT RATE: **7.3%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **6 055** (BoP, current  
USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **19.5%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.836** (very high), **rank 40**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL   | TOTAL NUMBER OF SNGs |
|--|--------------------|---|----------------------|
| <b>2 218</b>   | <b>-</b>           | <b>24</b>   | <b>2 242</b>         |
| <b>MUNICIPALITIES (MUNICIPIOS)</b><br>AVERAGE MUNICIPAL SIZE:<br><b>19 378 INHABITANTS</b> |                    | <b>23 PROVINCIAS (STATES) +<br/>THE AUTONOMOUS CITY OF<br/>BUENOS AIRES</b> |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Argentina is a federal country divided into 23 States (*Provincias*) and one autonomous city (Buenos Aires). These autonomous governments are divided into 2218 autonomous municipalities (*municipios*), with an exception for the City of Buenos Aires which is divided into 15 communes (*comunas*) subdivided into 48 neighborhoods (*barrios*). As the Provinces have a political, judicial, administrative and financial autonomy, the scope of municipal autonomy is determined by the Province they depend on, before to be developed by each municipal government through the drafting of municipal charters. According to the 1994 Federal Constitution of Argentina, Provinces can vote their own constitutions and laws. They have the power to elect their authorities and organize their own administrations of justice. The National Constitution also establishes the principle of the autonomy of municipalities, which involves the election of their own authorities, Service Management and Public Works, the police authority, budget management and the ability to create taxes.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Adelineation of powers between central government and the provincial states is based on the general principle that all provinces have the power not delegated by the Constitution to the federal state. We can distinguished exclusive competences, and shared competences between federal state and the provinces. The provinces may create regions for socio-economic development or bodies with powers in order to achieve goals, and may also, with the knowledge of the National Congress, sign international agreements, to the extent that they would not conflict with the foreign policy of the Nation nor would affect the powers delegated to the Federal Government or the public credit of the Nation. The provinces also manage the natural resources in their territories ; and they may be responsible for secondary education. College education, health care, bus stations, housing and energy (electricity and gas) are competences shared between the federal government and the provinces. Municipalities have both exclusive and shared competences. Exclusive powers account waste management, roads construction, sewerage, markets and cemeteries, public transportation and public roads regulation. They also share with the State level primary education, primary health care, water and sewerage, regional roads construction and maintenance. Municipalities even *de facto* provide for school buildings maintenance and health care services.

### SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP            |             | % GENERAL GOVERNMENT<br>(same expenditure category) |             | % SUBNATIONAL<br>GOVERNMENT |             |
|---------------------------------|------------------|-------------|---|-------------|-----------------------------|-------------|
|                                 | SUBNATIONAL DATA |             | LOCAL DATA ONLY                                     |             |                             |             |
| <b>TOTAL EXPENDITURE (2013)</b> | <b>16.3%</b>     | <b>1.9%</b> | <b>44.7%</b>  | <b>5.3%</b> | <b>100%</b>                 | <b>100%</b> |
| <b>CURRENT EXPENDITURE</b>      | 15.7%            | 1.6%        | -   | -           | 95.9%                       | 83.1%       |
| <b>STAFF EXPENDITURE</b>        | 8.5%             | 1.0%        | 80.8%   | 4.9%        | 52.2%                       | 52.4%       |
| <b>INVESTMENT</b>               | 1.8%             | 0.3%        | 65.7%   | 11.5%       | 10.9%                       | 16.1%       |

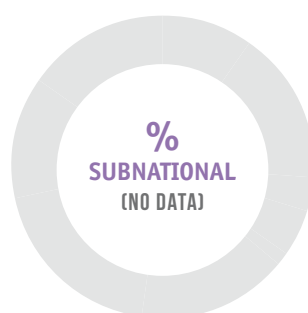
Subnational governments in Argentina are playing a major role in the financing and implementation of public policies. Being one of the most decentralized country on the continent, Argentina has made its provinces a key level for services delivery, and the share of subnational level to general government spendings is still growing. Provinces were responsible for 59.2% of total public expenditures in 2013, and municipalities for 16.3%. The weight of current expenditure in subnational budget is particularly important (91%), which leaves few share for public investments.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



Due to the large share of subnational funding dedicated to operating current expenditures, the allocation of the rest of expenditures is very limited. Key sectors of expenditures of provinces are education and culture, health and social assistance.

## REVENUE BY TYPE

### % GDP

### % GENERAL GOVERNMENT (same revenue category)

### % SUBNATIONAL GOVERNMENT

■ SUBNATIONAL DATA □ LOCAL DATA ONLY

| TOTAL REVENUE (2013) | 14.7% | 1.9% | 43.2% | 16.2% | 100%  | 100%  |
|----------------------|-------|------|-------|-------|-------|-------|
| TAX REVENUE          | 12.6% | 0.9% | 53.3% | 4.0%  | 85.3% | 50.0% |
| GRANTS AND SUBSIDIES | 0.6%  | 0.4% | -     | -     | 3.8%  | 19.0% |
| OTHER REVENUES       | 1.6%  | 0.6% | -     | -     | 10.9% | 31.0% |

Provinces in Argentina can perceive incomes from natural resources exploitation and from income tax and taxes on property and vehicles. They also receive funds from intergovernmental transfers coming from the federal state according to a principle of „coparticipation“. Provinces have granted very few fiscal powers to their municipalities, depending on the category of municipality and the provincial tax-sharing laws. Municipalities can perceive taxes on municipal services, on businesses, as well as an environmental tax. In addition to these taxation revenues, municipal resources are constituted by subsidies aiming to support municipal services, and permanent transfers from the Provinces on which they are mostly relying.

**TAX REVENUE.** Tax revenues represent for the provinces the most important subnational financial resource in 2013, up to 73%. Provincial taxes, which represent in 2013 13.6% of total tax revenues, include: property tax, gross income tax, ownership, registry, use or transfer of automobiles; stamps and gift taxes, and taxes or provincial or municipal rates provided for in the rules on tax creation. Few municipalities have the authority to collect taxes (Córdoba, Chaco, Chabut, Formosa, Salta).

**GRANTS AND SUBSIDIES.** In Argentina, the Federal Tax-Sharing Law 23.548 assigns fixed percentages of funding allocated to each province, and does not establish specific percentages to be distributed to municipalities. On the other hand, the financial support of the Provinces to the municipalities is mostly going through the sharing of the disposable revenue base of each province. Each province establishes the composition and distribution of these revenues.

**OTHER REVENUES.** Revenues other than fiscal resources differ from a municipality to another and can be raised through property rents, business licenses or user fees. This source represents a high share of municipal revenues, as due to their fiscal limitations, they most collect rates for public services: lighting, street cleaning, inspection, safety and hygiene, sanitation services, road maintenance, building permits, office rights, contribution of improvements, etc.

## OUTSTANDING DEBT

### % GDP

### % GENERAL GOVERNMENT

■ SUBNATIONAL DATA □ LOCAL DATA ONLY

| OUTSTANDING DEBT (2013) | 4.3% | - | 10.0% | - |
|-------------------------|------|---|-------|---|

Argentina is one of the most decentralized country in terms of borrowing decentralization. Under the Argentine constitution, provinces have the right to borrow Argentina up to 25% of their current revenue. Provincial debt is subjected to provincial legislatures, and municipal debt to municipal legislatures.

A joint- study of:



**Sources:** Instituto Estadística Nacional • Ministerio de Finanzas on <http://www2.mecon.gov.ar/hacienda/dncfp/municipal2.php> • Observatoire de l'Amérique latine (2005), *Bilan des politiques de décentralisation en Amérique Latine* • Ministère des Affaires Étrangères, DGCID, *Bilan de la décentralisation en Amérique Latine* (2007) • M.Astudillo Moya, M.I. García Morales (2013), Inter-Governmental fiscal relationships of municipalities and provinces in Argentina and Mexico, *International journal of accounting and taxation*, vol.3, No1, pp15-30 • Constitución nacional de Argentina available on <http://www.senado.gov.ar/deInteres> • L. Von Daniels (2016), *Fiscal Decentralization and Budget Control*



# BRAZIL

FEDERAL COUNTRY

## LATIN AMERICA

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **UPPER MIDDLE INCOME** Local currency - **REAL**

#### POPULATION AND GEOGRAPHY

AREA: **8 515 770** km<sup>2</sup>

POPULATION: **202.769** million inhabitants (2014), an increase of 1.5% per year (2010-14)

DENSITY: **24** inhabitants/km<sup>2</sup>

URBAN POPULATION: **85.4%** of national population

CAPITAL CITY: **Brasília** (2.0% of national population)

Sources: OECD, World Bank, UNDP, ILO, Instituto Brasileiro de Geografia e Estatística (IBGE).

#### ECONOMIC DATA

GDP: **3 275.2** billion (current PPP international dollars) i.e. 16 153 dollars per inhabitant (2014)

REAL GDP GROWTH: **0.1%** (2014 vs 2013)

UNEMPLOYMENT RATE: **6.8%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **96 895** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **21%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.755** (high), **rank 75**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL  | TOTAL NUMBER OF SNGs |
|--|--------------------|--|----------------------|
| <b>5 570</b><br>MUNICIPALITIES (MUNICÍPIOS)<br>AVERAGE MUNICIPAL SIZE:<br>36 400 INHABITANTS | -                  | <b>27</b><br>26 STATE GOVERNMENTS (ESTADOS) AND<br>1 FEDERAL DISTRICT (DISTRITO FEDERAL) | <b>5 597</b>         |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** The federal, state, and local governments obtained their respective autonomy from the 1988 Federative Pact. The 26 States and the federal district have their own constitution. The 5 570 municipalities are not a creation of the states and are not governed by them as it is the case in most federations. They are granted the status of federal entities, at the same level as the states and are governed by an organic law, which must comply with federal and state constitutions. There is great discrepancy in the size (geographical area and population), and social and economic indicators among the subnational jurisdictions but all Brazilian municipalities enjoy the same legal status. In 2015, 17 municipalities had more than 1 million inhabitants, representing 22% of population; 44% of municipalities had less than 10 000 inhabitants on average and are home of 6.3% of the population. Municipalities are subdivided into districts (around 8 000 in total), which are deconcentrated municipal localities.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The Brazilian Constitution determines which activities are to be performed or regulated exclusively by the federal level, and which are the responsibility of the municipalities. As for the states, they may carry out all functions that are not explicitly foreclosed to them under the Constitution. There is no clear division of responsibilities in a number of areas, such as health care, education, social security, welfare, agriculture and food distribution, environmental protection, sanitation and housing, tourism, etc. With few exceptions (e.g. defence), responsibilities are shared, with frequent overlaps of responsibilities across levels of government. A few competencies are mostly or exclusively devolved to the municipalities; those related to the provision of public services of local interest (public transport, early childhood and primary education programs, and public health services) and the management of urban planning.

### SUBNATIONAL GOVERNMENT FINANCE

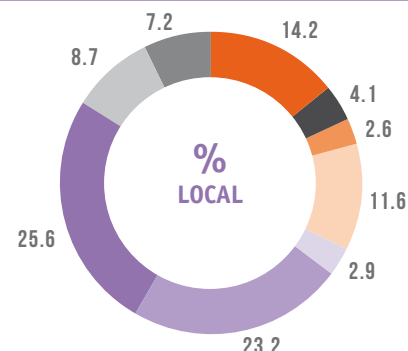
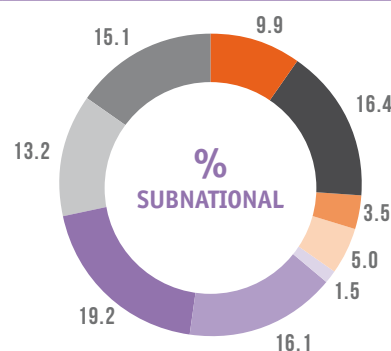
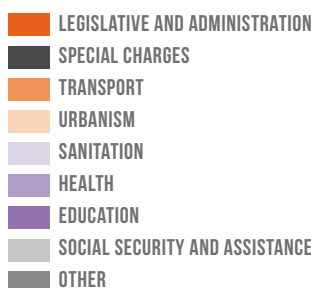
| EXPENDITURE                     | % GDP            |             | % GENERAL GOVERNMENT (same expenditure category) |              | % SUBNATIONAL GOVERNMENT |             |
|---------------------------------|------------------|-------------|--|--------------|--------------------------|-------------|
|                                 | SUBNATIONAL DATA |             | LOCAL DATA ONLY                                  |              |                          |             |
| <b>TOTAL EXPENDITURE (2013)</b> | <b>22.7%</b>     | <b>9.0%</b> | <b>53.3%</b>                                     | <b>21.1%</b> | <b>100%</b>              | <b>100%</b> |
| <b>CURRENT EXPENDITURE</b>      | 21.0%            | 8.2%        | -  | -            | 92.2%                    | 91.3%       |
| <b>STAFF EXPENDITURE</b>        | 9.0%             | 4.1%        | 68.2%  | 31.1%        | 39.5%                    | 45.4%       |
| <b>INVESTMENT</b>               | 1.7%             | 0.8%        | 56.8%  | 25.8%        | 7.5%                     | 8.6%        |

Both States and municipalities are significant economic and social actors. They represent a large share of public spending (above the OECD average) and have important spending responsibilities in key sectors. The share of staff expenditure in public staff expenditure and in SNG expenditure is above the OECD average. SNGs also play a significant role in public investment.



## EXPENDITURE BY FUNCTION

### % SUBNATIONAL GOVERNMENT EXPENDITURE



Apart from special charges (e.g. refinancing and public debt service and constitutional and legal transfers) which represent an important share of state expenditure, main spending areas at state level are social security, education and health. At the municipal level, the main spending areas are education, health, administration and urbanism. Spending on education and health is regulated by laws which establish minimum standards.

## REVENUE BY TYPE

### % GDP

### % GENERAL GOVERNMENT (same revenue category)

### % SUBNATIONAL GOVERNMENT

■ SUBNATIONAL DATA

□ LOCAL DATA ONLY

|                             | % GDP        | % GDP       | % GDP        | % GDP        | % SUBNATIONAL GOVERNMENT | % SUBNATIONAL GOVERNMENT |
|-----------------------------|--------------|-------------|--------------|--------------|--------------------------|--------------------------|
| <b>TOTAL REVENUE (2013)</b> | <b>22.0%</b> | <b>8.9%</b> | <b>56.4%</b> | <b>22.8%</b> | <b>100%</b>              | <b>100%</b>              |
| <b>TAX REVENUE</b>          | 10.9%        | 2.5%        | 41.2%        | 9.6%         | 49.3%                    | 28.4%                    |
| <b>GRANTS AND SUBSIDIES</b> | 7.8%         | 5.1%        | -            | -            | 35.2%                    | 57.4%                    |
| <b>OTHER REVENUES</b>       | 3.4%         | 1.3%        | -            | -            | 15.5%                    | 14.1%                    |

To secure decentralisation, the 1988 Constitution allocated a substantial amount of taxes and compulsory transfers to state and municipal governments. For this reason, access to constitutionally guaranteed revenue is larger than in most Latin American countries. Tax revenue and other own-source revenue (tariffs and fees, property income) represent 65% of SNG revenue while grants and subsidies account for 35% (but respectively 43% and 57% for the municipal level alone).

**TAX REVENUE.** SNGs have considerable tax autonomy, greater than in most other OECD countries, and unlike the latter, the structure of revenue is heavily tilted towards indirect taxes (however common in Latin America). The states collect and administer the main VAT (*Impostos sobre Comercialização de Mercadorias e Serviços* or ICMS), which represent almost 80% of their tax revenue. They also receive the tax on motor vehicle and tax on heritage. States are free – within limits – to set tax rates and bases of all these taxes. This autonomy has, however, led to intense tax competition and strong regional disparities. Representing 28% of their revenue, tax revenues are less significant for municipalities than for the States. Municipalities collect three main taxes: taxes on urban property (IPTU), taxes on transfers of real estate titles (ITBI) and taxes on services (ISSQN, excluding those services covered under state collection rights and exported services). States and municipalities also receive other smaller own-source and shared taxes (with the federal government).

**GRANTS AND SUBSIDIES.** SNGs receive two main types of grants: - Constitutional transfers are the State Participation Fund (FPE) and the Municipality Participation Fund (FPM), which come from tax-sharing arrangements (share of the revenue from the federal income tax and selective VAT). They are formula-based for general purpose. - Earmarked transfers are mainly expended by “national programmes”, in particular in the health and education sectors (the national Unified Health System; funds for primary and lower-secondary education), for both the states and municipalities. Subject to federal managing and monitoring, they tend to increase.

**OTHER REVENUES.** SNGs receive other different types of income: user charges and fees (hospital services, transportation services, sale of goods, inspection services, etc.), return on financial investments, rents and dividends paid on municipal properties and industrial and agricultural activities, economic contributions on electricity services and royalties coming from the exploitation of natural resources (oil and gas, minerals, and water).

## OUTSTANDING DEBT

### % GDP

### % GENERAL GOVERNMENT

■ SUBNATIONAL DATA

□ LOCAL DATA ONLY

|                                | % GDP       | % GDP       | % GDP       | % GDP       |
|--------------------------------|-------------|-------------|-------------|-------------|
| <b>OUTSTANDING DEBT (2013)</b> | <b>2.6%</b> | <b>0.4%</b> | <b>4.6%</b> | <b>0.7%</b> |

After several defaults by SNGs in the 90's, the federal government enacted in 1997 a deal for the restructuring of state debt. It was followed in 2000 by the adoption of the Fiscal Responsibility Law (*Lei de Responsabilidade Fiscal e Finanças Públicas Municipais*) to prevent states and municipalities from running excessive budget deficits. It introduced borrowing restrictions and spending constraints (including limits on staff expenditure) and imposed public reporting on key fiscal indicators for SNGs.

A joint- study of:



**Sources:** Instituto Brasileiro de Geografia e Estatística (IBGE) • Banco Central do Brasil (debt data) • Souza C. (2001) “Brazil’s System of Local Government, Local Finance and Intergovernmental Relations” • Berganza J-C. (2012) Fiscal rules in Latin America: a survey, Documentos Opcionales. N.º 1208, Banco de España • Gardner E. (2013): “Essays on municipal public finance in Brazil”, UC Berkeley Electronic Theses and Dissertations • OECD (2013) Territorial Reviews: Brazil 2013 • Afonso J. R. and de Mello L. (2014) “The Global Crisis and Brazilian federalism: effects and perspectives”, Seminar on “Rebuilding Fiscal Federalism in the Aftermath of the Financial Crisis” • Fretes Cibils V. and Ter-Minassian T. (2015) Decentralizing revenue in Latin America: why and how.



# CHILE

UNITARY COUNTRY

## LATIN AMERICA

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **HIGH INCOME: OECD** Local currency - **Chilean peso (CLP)**

#### POPULATION AND GEOGRAPHY

AREA: **740 243** km<sup>2</sup>

POPULATION: **17.83** million inhabitants (2014),  
an increase of 0.87% per year (2010-14)

DENSITY: **24** inhabitants/km<sup>2</sup>

URBAN POPULATION: **89.4%** of national population

CAPITAL CITY: **Santiago** (36.4% of national population)

Sources: OECD, World Bank, UNDP, ILO

#### ECONOMIC DATA

GDP: **392.0** billion (current PPP international dollars)  
i.e. 23 980 dollars per inhabitant (2014)

REAL GDP GROWTH: **1.9%** (2014 vs 2013)

UNEMPLOYMENT RATE: **6.4%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **22 002** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **21%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.832** (very high), **rank 42**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL            | TOTAL NUMBER OF SNGs |
|--|--------------------|------------------------------------|----------------------|
| <b>345</b><br>MUNICIPALITIES<br>(MUNICIPIOS)<br>AVERAGE MUNICIPAL SIZE:<br><b>51 335 INHABITANTS</b> | <b>-</b>           | <b>15</b><br>REGIONS<br>(REGIONES) | <b>360</b>           |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Chile has two tiers of SNGs, regions and municipalities. The 1992 Organic Law of Municipalities (Law n° 18.695) established municipal autonomy. The first universal suffrage elections for mayors and municipal councillors were held in 1992. A municipal reform has been ongoing since 2013 with the aim of modernising the municipal system providing municipalities with the tools, capacities, financial resources and legitimacy to improve their autonomy and performance. Administrative regions were created in 1974 based on previous 25 provinces (12 regions and the metropolitan region of Santiago in 1974, and 2 more regions in 2006 following the subdivision of existing regions). Since 1993, they have been progressively transformed into self-governing entities: the 1993 constitutional reform established a mixed regional system with a regional executive (the intendant - *Intendente*) appointed by the President of the Republic and a regional council (*consejo regional* or CORE) elected indirectly by the municipalities; the 2009 constitutional reform provided for the direct election of the regional council which took office in March 2014. Since 2013, a draft bill on decentralisation has been under discussion at the senate to allow direct election of the intendants. Chile is also divided into 346 communes and 54 provinces for administrative purposes.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** According to Law N°18.695, municipalities have many statutory competences, exercising exclusive functions (6) and non-exclusive responsibilities (shared with other levels of government in 13 areas). Own competences include the municipal zoning plan, local development, local transport regulation, hygiene services, urbanism and construction norms. Shared responsibilities include public health, primary and secondary education, culture, training and economic development, tourism, traffic regulations, social housing, sanitary infrastructure and citizen safety. Regional government responsibilities, defined in the Organic Constitutional Law No. 19.175 on Government and Regional Administration, are still limited, including regional development (approbation of the regional development plan and regional investments funded by the National Fund for Regional Development), social and cultural development, the promotion of productive activities, municipal advice, rural roads, land management, etc. An ongoing decentralisation process, initiated in 2013 (cf. Appointment of a Presidential Advisory Commission for Decentralisation and Regional Development to prepare a roadmap) plans to modernise and strengthen municipal functions and transfer new competences to the new self-governing regions in three areas: economic development, social development and infrastructure and housing.

### SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL GOVERNMENT |
|---------------------------------|-------------|---|--------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>3.0%</b> | <b>13.1%</b>  | <b>100%</b>              |
| <b>CURRENT EXPENDITURE</b>      | <b>2.8%</b> | <b>-</b>  | <b>91.3%</b>             |
| <b>STAFF EXPENDITURE</b>        | <b>1.6%</b> | <b>27.4%</b>  | <b>53.4%</b>             |
| <b>INVESTMENT</b>               | <b>0.3%</b> | <b>12.0%</b>  | <b>8.7%</b>              |

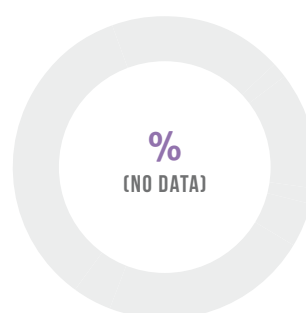
Chile ranks among OECD countries in which the weight of SNG spending in GDP and public expenditure is the lowest (alongside Greece and Ireland). Over half of expenditure is dedicated to employee remuneration while investment is very limited, in SNG expenditure, GDP as well as total public investment. Chile ranks last in the OECD as regards SNG involvement in public investment.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

GENERAL PUBLIC SERVICES  
 DEFENCE  
 SECURITY AND PUBLIC ORDER  
 ECONOMIC AFFAIRS  
 ENVIRONMENTAL PROTECTION  
 HOUSING AND COMMUNITY AMENITIES  
 HEALTH  
 RECREATION, CULTURE AND RELIGION  
 EDUCATION  
 SOCIAL PROTECTION



| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL<br>GOVERNMENT |
|----------------------|-------|---|-----------------------------|
| TOTAL REVENUE (2012) | 3.2%  | 14.0%   | 100%                        |
| TAX REVENUE          | 1.4%  | 7.6%  | 45.1%                       |
| GRANTS AND SUBSIDIES | 1.5%  | -   | 48.0%                       |
| OTHER REVENUES       | 0.2%  | -   | 6.8%                        |

Central government transfers and tax revenue are the main two sources of SNG revenue, with comparable weight.

**TAX REVENUE.** Although tax revenue represents a large share of SNG revenue, it is significantly lower than the OECD average both in terms of percentage of GDP and general government tax revenue (respectively 7.0% and 31.7% in 2013). In fact, only municipalities are allowed to receive tax revenue (this situation could change as the draft bill on decentralisation under discussion seeks to create a system of regional financing based on own-source revenues). The most important tax is property tax (41% of municipal tax revenue in 2013, i.e. 0.6% of GDP), applicable at a fixed rate of the fiscal value of rural and urban land and buildings. There is an extensive exemption structure associated with property tax. Other significant municipal taxes are business licences (26% of municipal tax revenue) paid on commercial activities undertaken in the municipal area, and vehicle tax (16%). Business tax is the only tax for which municipalities may vary the rate within a given range. Tax collection for business and vehicle tax is under the responsibility of the municipality, while property tax is taken care of by the central government (municipalities remain responsible for assessing property value).

**GRANTS AND SUBSIDIES.** Transfers to municipalities include a large horizontal equalisation scheme (the Municipal Common Fund, FCM) and vertical transfers from the central government:

- The FCM provides unconditional grants to all municipalities. The Fund is self-financed, as all municipalities allocate a share of their tax revenue to the scheme. Grants are distributed according to a formula, based on criteria such as the number of municipalities, population, exempt properties, poverty and local revenue.

- Vertical transfers from the central government include earmarked transfers for health and education (delegated functions), as well as access to specific funds mainly for social and investment programmes.

Transfers to regions include grants from the National Fund for Regional Development (Fondo Nacional de Desarrollo Regional, FNDR), which aims at financing municipal investment approved by the region.

**OTHER REVENUES.** Other revenues for municipalities include municipal rights income, hygiene rights, concessions, municipal property rents, etc. Other revenues for regions include donations, service fees, concession permits, etc.

## OUTSTANDING DEBT

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

SNG borrowing is prohibited for both current and capital financing: Chile is the only OECD country where this is the case. However, in practice, a few municipalities are allowed to generate debt, but with limitations. Others must apply to Congress for the ability to do so. In addition, SNGs hold a non-financial debt through their debt to suppliers (commercial debt), arrears and leasing contracts.

A joint- study of:



Publication date: October 2016

**Source of Statistics:** • OECD national accounts • OECD calculations based on IMF data • OECD (2015) Subnational governments in OECD countries: Key data (brochure and database) • F. Pacheco et al. (2014), A Longitudinal Parametric Approach to Estimate Local Government Efficiency, MPRA Paper No. 54918 • OECD (2013) Urban Policy Reviews, Chile 2013 • Bravo J. (2013) The Income Effect of Unconditional Grants: A Reduction in the Collection Effort of Municipalities, Documento de Trabajo IE-PUC, N° 437 • Leonardo Letelier S. (2010), Theory and evidence of municipal borrowing in Chile • C. A. Llancar Etcheverry (2009), Descentralización: La Experiencia Chilena, un Estudio Sobre los Gobiernos Regionales, Revista de Estudios Politécnicos Vol 7 • OECD (2009) Territorial Reviews, Chile 2009 • Letelier S. L. (2006) Local Government Organization and Finance in Chile, In: Shah, A. (ed.) Local Governance in Developing Countries. Public Sector Government and Accountability Series (Washington D. C.: World Bank).



# COLOMBIA

UNITARY COUNTRY

## LATIN AMERICA

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - UPPER MIDDLE INCOME Local currency - Colombian Peso (COP)

#### POPULATION AND GEOGRAPHY

AREA: **1 141 748** km<sup>2</sup>

POPULATION: **47.791** million inhabitants (2014),  
an increase of 1.0% per year (2010-14)

DENSITY: **42** inhabitants/km<sup>2</sup>

URBAN POPULATION: **76.2%** of national population

CAPITAL CITY: **Bogotá** (19.5% of national population)

Sources: OECD, World Bank, UNDP, ILO

#### ECONOMIC DATA

GDP: **638.4** billion (current PPP international dollars)  
i.e. 13 357 dollars per inhabitant (2014)

REAL GDP GROWTH: **4.6%** (2014 vs 2013)

UNEMPLOYMENT RATE: **10.1%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **16 151** (BoP, current  
USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **26%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.720** (high), rank **97**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL  | TOTAL NUMBER OF SNGs |
|---|--------------------|--|----------------------|
| <b>1101</b><br>MUNICIPALITIES<br>(MUNICIPIOS)<br>AVERAGE MUNICIPAL SIZE:<br><b>43 370</b> INHABITANTS | -                  | <b>33</b><br>32 DEPARTMENTS<br>(DEPARTAMENTOS) AND CAPITAL<br>DISTRICT OF BOGOTÁ | <b>1134</b>          |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Colombia has a two-tier local government structure enshrined in the 1991 Constitution. The upper level is made up of 32 departments and the Capital District of Bogotá (which has its own status, giving the city similar power to those of departments). The second tier is made up of 1 101 municipalities. Among them, five are categorised as special districts (*distritos especiales*) due to their particular political, commercial, historical, industrial, cultural or environmental characteristics, among other important factors, which allows them to enjoy certain prerogatives according to a new regime adopted in 2013. The 1991 Constitution also gives a special status for certain territories: 817 indigenous territories, home to 1.4 million inhabitants, and 6 metropolitan areas which are legislated territorial jurisdictions (*Áreas Metropolitanas*, Ley 1625 de 2013).

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Colombia has experienced rapid changes linked to decentralisation reforms over the past three decades. The decentralisation process started in 1986, and was strengthened by the 1991 Constitution. It has been further reinforced since 2010. Although the 2011 L00T law contributed to clarifying the rules for decentralisation, distribution of competencies across levels of government remain complex. There is a dual system of decentralised and delegated responsibilities and the majority of competences are shared between all levels of government (education, health, water and sewerage, housing). The departments are responsible for planning and promoting the economic and social development of their territory. They exercise administrative functions of co-ordination and intermediation with the municipalities. Municipalities also provide services such as electricity, urban transport, cadastre, local planning and municipal police. They are classified as being "certified" or "non-certified" for the provision of certain competences (such as health, education, water and sanitation).

### SUBNATIONAL GOVERNMENT FINANCE

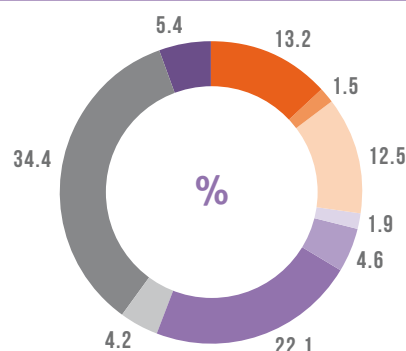
| EXPENDITURE              | % GDP        | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|--------------------------|--------------|---|-----------------------------|
| TOTAL EXPENDITURE (2013) | <b>12.8%</b> | <b>35.0%</b>  | <b>100%</b>                 |
| CURRENT EXPENDITURE      | 10.9%        | -   | 85.4%                       |
| STAFF EXPENDITURE        | 3.9%         | 47.6%   | 30.8%                       |
| INVESTMENT               | 1.9%         | 48.4%   | 14.6%                       |

Colombia is one of the most decentralised unitary countries of Latin America. In 2013, SNG expenditure represented almost 13% of GDP (against 6.2% in 1994) and 35% of public expenditure. The high share of SNG in public staff expenditure results from the fact that SNGs are responsible for paying teachers and health employees. Within the subnational sector, municipalities represent around two-thirds of expenditure and revenues; departments represent one-third. SNGs are key investors, with a share in GDP equivalent to the OECD average. However, the SNG share in public investment is lower than in the OECD (approximately 59%).



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



SNGs play a key role as public service providers, in particular in education (one-third of SNG budget in 2013) and health (22%), for which they receive earmarked funding. Other important spending items are general public services and economic affairs and transport.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2012) | 13.0% | 38.0%   | 100%                     |
| TAX REVENUE          | 3.7%  | 20.7%   | 28.5%                    |
| GRANTS AND SUBSIDIES | 6.8%  | -   | 52.5%                    |
| OTHER REVENUES       | 2.5%  | -   | 18.9%                    |

SNG dependency on central government funding is high in Colombia, as transfers and grants represent over half of their resources (to be compared to 38% in the OECD), and tax revenue is less than 30%. Property income (royalties) are a major source of revenue for SNGs.

**TAX REVENUE.** Despite the power to levy their own taxes, SNGs have limited taxing autonomy and little room for manoeuvre over tax rates and bases. Several taxes are earmarked for specific use defined by the law. Taxes represent 30% of municipal revenues and around 20% for departments. Departmental tax revenues include receipts from the excise taxes (beer, tobacco, liquor i.e. around 60% of their tax revenues), vehicle tax (10%), register tax and gasoline tax. There are around twenty different municipal taxes but 80% of tax receipts come from only three of them: Industry and Commerce tax (ICA, around 40% of municipal tax revenues), property tax (Predial, around 33%) and gasoline surtax (7%).

**GRANTS AND SUBSIDIES.** The General System of Transfers (*Sistema General de Participaciones*, SGP) is the most important central government transfer. SGP funds are earmarked for the most part, and their distribution between key sectors (education, health and water supply and sewerage) is determined by law according to a formula based on a combination of population coverage, social equity and efficiency criteria. Approximately 10% of SGP is for municipal general purpose expenditure. Other grants, coming from co-financing schemes and ministerial subsidies, are also earmarked and conditional to projects funding in specific sectors (e.g. road or urban infrastructure).

**OTHER REVENUES.** Property income resulting from the extraction of non-renewable resources, mainly coal and oil (royalties), are collected by the central government, who then returns the funds to SNGs. A reform, adopted in 2012, substantially modified royalty allocations between SNGs making them no longer reserved exclusively for the SNGs located in the producing regions, but benefitting all SNGs through the General System of Royalties (*Sistema General de Regalías* or SGR). The SGR is composed of six sub-funds. The two regional funds and the Science, Technology and Innovation fund are earmarked for investment projects only. Other property income includes dividends from municipal enterprises and user tariffs and fees (especially for large municipalities).

## OUTSTANDING DEBT

|                         | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 7.5%  | 17.1%                |

Recourse to borrowing is regulated by strict prudential rules, established in 1997 ("Traffic Light Law" or *Ley de Semáforo 358/1997*), in 2000 and in 2003 (law on Fiscal Transparency and Responsibility) to curb the growing subnational government indebtedness observed during the 1990's. SNG debt levels are now fairly moderate, in particular financial debt, which amounted to 1.3% of GDP and 3.9% of public debt in 2013. In fact, loans and bonds accounted for respectively 14% and 2% of SNG debt, the main part being composed of insurance technical reserves (65%). Since 2003, departments and large municipalities must obtain satisfactory credit ratings from international rating agencies before they can borrow.

A joint study of:



Sources: OECD National Accounts Statistics • DANE (2013) *Gastos del Gobierno por finalidad 2012-2013* • OECD (2016), Making the most of public investments in Colombia: working effectively across levels of government • OECD (2014), Territorial Review Colombia • Juan Mauricio Ramirez et al. (2014) Decentralization in Colombia: Searching for social equity in a bumpy economic geography, ECINEQ Working Paper • Departamento Nacional de Planeación (2014) Desempeño fiscal de los departamentos y municipios 2013 • OECD (2013), Colombia: Implementing Good Governance, OECD Public Governance Reviews.



# COSTA RICA

UNITARY COUNTRY

## LATIN AMERICA

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **UPPER MIDDLE INCOME** Local currency - **Costa Rican Volón (CRC)**

#### POPULATION AND GEOGRAPHY

AREA: **51 100** km<sup>2</sup>

POPULATION: **4.758** million inhabitants (2014),  
an increase of 1.1% per year (2010-14)

DENSITY: **93** inhabitants/km<sup>2</sup>

URBAN POPULATION: **75.9%** of national population

CAPITAL CITY: **San José** (23.4% of national population)

Sources: OECD, World Bank, UNDP, ILO.

#### ECONOMIC DATA

GDP: **71.0** billion (current PPP international dollars)  
i.e. 14 918 dollars per inhabitant (2014)

REAL GDP GROWTH: **3.5%** (2014 vs 2013)

UNEMPLOYMENT RATE: **8.3%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **2 578** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **19%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.766** (high), rank **69**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|---|--------------------|-------------------------|----------------------|
| <b>81</b><br>MUNICIPALITIES<br>(CANTONES)<br>AVERAGE MUNICIPAL SIZE:<br><b>58 735</b> INHABITANTS | <b>-</b>           | <b>-</b>                | <b>81</b>            |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** According to the constitution, Costa Rica is divided into seven provinces, 81 municipalities and 478 districts. However, the seven provinces (directed by a government appointed by central authorities) have gradually weakened and are basically mere electoral districts. The only level of local self-government in the country is the municipality, led by municipal governments. These governments have been democratically elected since the new Municipal Code of 1998 (first elections held in 2002). While the districts also possess a democratically elected representative, their sole function is to communicate with municipalities on needs and requirements for the local population. Moreover, in 1970, the country was divided into six planning regions for administrative purposes, each hosting regional development councils formed by central government representatives to manage regional development.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The allocation of responsibilities to local governments is described in the new 9329 general law on the transfer of competence and resources adopted in 2010 (*Ley General de Transferencia de Competencias y Recursos a los Municipios*) aimed at promoting decentralisation. The law stipulates that any function not explicitly granted to central authorities is "decentralisable" (with the exception of education and healthcare). However, numerous responsibilities are not carried out by municipalities because of insufficient resources. Municipalities have both own and shared competencies. Their own competencies include urban planning, waste management, road maintenance, public lighting, parks, libraries, sport facilities etc., while shared competencies include participation to national health programmes, environmental protection, management of social subventions, public order and local economic development.

### SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>1.2%</b> | <b>4.1%</b>   | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | 1.0%        | -   | 83.5%                       |
| <b>STAFF EXPENDITURE</b>        | 0.5%        | 4.1%  | 41.8%                       |
| <b>INVESTMENT</b>               | 0.2%        | 11.6%   | 15.9%                       |

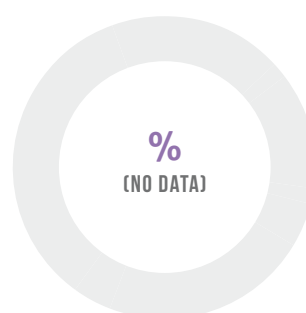
Costa Rica is a centralised country. Compared with the OECD countries, the SNG role in GDP and public expenditure is very low. Municipalities deliver few policies and services to citizens and play a marginal role in public investment. The lion's share of SNG expenditure is made up of staff expenditure.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

GENERAL PUBLIC SERVICES  
DEFENCE  
SECURITY AND PUBLIC ORDER  
ECONOMIC AFFAIRS  
ENVIRONMENTAL PROTECTION  
HOUSING AND COMMUNITY AMENITIES  
HEALTH  
RECREATION, CULTURE AND RELIGION  
EDUCATION  
SOCIAL PROTECTION



| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL<br>GOVERNMENT |
|----------------------|-------|---|-----------------------------|
| TOTAL REVENUE (2012) | 1.2%  | 4.9%  | 100.0%                      |
| TAX REVENUE          | 0.7%  | 4.6%  | 53.9%                       |
| GRANTS AND SUBSIDIES | 0.2%  | -   | 15.3%                       |
| OTHER REVENUES       | 0.4%  | -   | 30.9%                       |

The majority of SNG resources come from taxation and other sources of own income (property income and user tariffs and fees), the share of central government transfer being particularly low.

**TAX REVENUE.** Municipal taxes include a property tax (40% of municipal tax revenue .i.e. 0.3% of GDP, a tax on economic activity (patents), liquor, public events, etc. All in all, taxes on goods and services represented 55% of municipal tax revenue in 2013. Tax rates are fixed by central authorities. Since the 1995 reform, municipalities have been in charge of collecting property tax instead of the central government. However, they cannot set the tax rate or base. Municipalities can propose new types of tax at the Legislative Assembly.

**GRANTS AND SUBSIDIES.** According to the Constitution, the central government has to transfer funds to local governments. The 2010 Law on the transfer of competence and resources provides the possibility to transfer 10% of national budget resources to the municipalities with a seven-year plan to reach this decentralisation objective. This law is currently being implemented. According to the law, distribution criteria for distribution of funds will be as follows: 30% distributed equally, 20 % distributed according to the number of inhabitants, 40% according to the municipal area and 10% based on the municipal poverty rate. Moreover, following the introduction of the Law for Simplification and Budgetary Efficiency, municipalities are granted a 7.5% share of fuel tax, and this transfer is earmarked for the maintenance and/or construction of roads. Most grants are capital grants.

**OTHER REVENUES.** Other revenues include property income (market stalls rents), municipal stamps and mainly sales of goods and services (licenses, water, waste management, parking fees, street cleaning). Their share in SNG revenue is twice that of central government transfers.

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

Municipalities can borrow only to finance investment projects (golden rule). They can contract debt towards the national banking system and the Institute of Municipal Development and Assistance (*Instituto de Fomento y Asesoría Municipal* – IFAM), a public organisation established in 1970, to promote and help develop municipalities, providing, among other activities, loans to the municipalities at preferential rates. Municipal borrowing is subject to authorisation from central authorities.

A joint- study of:



Publication date: October 2016

**Sources:** IMF: Government Finance Statistics • Instituto Nacional de Estadística y Censos • <http://presidencia.go.cr/prensa/comunicados/gobierno-impulsa-proyecto-que-garantiza-mas-recursos-y-competencias-a-municipalidades> • OECD (2015), Costa Rica: Good Governance, from Process to Results, OECD Public Governance Reviews • Union National de Gobiernos Locales (2014) Resultados del Índice de Gestión Municipal del periodo 2013 • Municipalidad de la Union (2014) Modelo Electronico de Liquidación Presupuestaria • Torrealba A. et al (2014) Visión General Del Sistema Tributario Municipal • Galilea S. et al (2011) Descentralización de servicios esenciales. Los casos de Brasil, Chile, Colombia, Costa Rica y México en salud, educación, residuos, seguridad y fomento, Publicación de las Naciones Unidas • Ordóñez J. (2010) Descentralización y gobiernos locales en Costa Rica: Bases para una reforma jurídica e institucional, Asociación Estudios para el Futuro.



# DOMINICAN REPUBLIC

UNITARY COUNTRY

LATIN AMERICA

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **UPPER MIDDLE INCOME** Local currency - **Dominican Peso (DOP)**

### POPULATION AND GEOGRAPHY

AREA: **48 734** km<sup>2</sup>

POPULATION: **10.405** million inhabitants (2014),  
an increase of 1.3% per year (2010-14)

DENSITY: **214** inhabitants/km<sup>2</sup>

URBAN POPULATION: **79%** of national population

CAPITAL CITY: **Santo Domingo** (27.6% of national population)

Sources: OECD ; UNDP-HDI ; World Bank database, ILO

### ECONOMIC DATA

GDP: **138** billion (current PPP international dollars)  
i.e. 13 262 dollars per inhabitant (2014)

REAL GDP GROWTH: **7.3%** (2014 vs 2013)

UNEMPLOYMENT RATE: **14.5%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **2 385** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **21.5%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.715** (high), **rank 101**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT COMPETENCES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL          | TOTAL NUMBER OF SNGs |
|---|--------------------|----------------------------------|----------------------|
| <b>159</b>  | <b>-</b>           | <b>32</b>                        | <b>191</b>           |
| MUNICIPALITIES (MUNICIPIOS) +<br>SANTO-DOMINGO NATIONAL DISTRICT<br>(DISTRITO NACIONAL)<br>AVERAGE MUNICIPAL SIZE:<br><b>65 440 INHABITANTS</b> |                    | DEPARTEMENTOS<br>(DEPARTAMENTOS) |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** The Dominican Republic is a unitary State with a one-tier subnational government structure, made of a total of 159 municipalities (Municipios). Besides, 32 Provinces (Provincias) are considered as deconcentrated entities as their governor is nominated by the government. According to the 2010 Constitution, geographical regions are the basic unit for the articulation and formulation of public policy in the country, and Provinces the intermediate political demarcation in the territory. They are divided into municipalities, municipal districts, sections and places. Municipalities, as well as the city of Santo Domingo with its special status, compose the first tier of decentralization. They form the only elected level of government, and are "legal persons of public law, responsible for their actions, they enjoy their own assets, budgetary autonomy, with regulatory, administrative and land use authority, established expressly by law and subject to the power of control of the State and control social citizenship, under the terms established by this Constitution and laws."

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Municipal competences are defined by the Law on municipal governments provisions, and are divided between mandatory and optional responsibilities. Mandatory functions include : public lighting, potable water , cemeteries, markets, roads located on municipal territory. Optional functions include : civil protection, school equipment, health and leisure, planning (regulation, zoning, permitting, land registry). In 2013 the Constitutional Court clarified the degree of autonomy of municipal districts in relation to municipalities and gave constitutional support to open access to public information.

## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE              | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|--------------------------|-------------|---|-----------------------------|
| TOTAL EXPENDITURE (2013) | <b>0.7%</b> | <b>3.4%</b>   | <b>100%</b>                 |
| CURRENT EXPENDITURE      | 0.6%        | -   | 81.6%                       |
| STAFF EXPENDITURE        | 0.3%        | 5.7%  | 35.5%                       |
| INVESTMENT               | 0.1%        | 4.9%  | 18.2%                       |

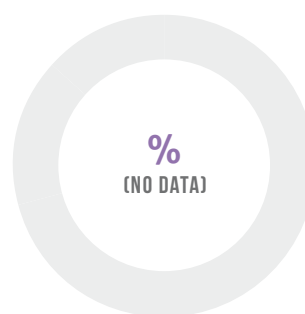
Dominican republic has one of the lowest share of local expenditures compared to total public expenditures of the region, reaching 5.4% of local expenditures, which is there reflecting a long-time trend in Dominican Republic. However, the share of direct investments has progressed over the last years.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



For a number of LGs, municipal expenditures in Dominican Republic is dedicated to wages payment and current spendings. Despite compulsory spending of earmarked transfer revenues, most local governments spending therefore go to current and staff expenditures instead of provision of public services and utilities to meet the population needs.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 0.7%  | 3.6%  | 100%                     |
| TAX REVENUE          | 0.1%  | 0.7%  | 13.1%                    |
| GRANTS AND SUBSIDIES | 0.6%  |   | 77.2%                    |
| OTHER REVENUES       | 0.1%  |   | 9.7%                     |

Financial autonomy of Dominican LGs appears to be limited as they do not have full control of their budget, and their revenues relies mostly on earmarked transfers. However, this transfer system generates territorial inequalities between provinces and municipalities. To increase local financial capacities, some tools have recently been established: participatory budgeting, Integrated Municipal Finance System (SIFMUN) and National Municipal training system (Sinacam).

**TAX REVENUE.** Municipalities may perceive taxes and fees at their level, in accordance with national laws. Although LGs are free to establish rates and taxes, their autonomy is *de facto* limited, as the due process induces that tax has to be previously submitted to the central government for approval. Furthermore, the Constitution states that the President has the possibility to cancel by motivated decree an excise tax established by a municipality.

**GRANTS AND SUBSIDIES.** Earmarked intergovernmental transfer represent the largest share of LGs revenues. According to the Transfer law, the grant is equal to 10% of national income which are distributed proportionally to the number of inhabitants registered in the last Census of Population and Housing. This criteria has long been discussed, as its based on the idea to measure municipalities' needs through their amount of population, but it is also creating inequalities between largest and smallest municipalities. As the grant is earmarked, the funds allocated have to be managed through a system of proportionalities based on three items: investment in capital works (40%), services (35%) and payroll (25%). The Republic Treasury, in charge of allocating the transfers, is in charge of control and inspection over town councils.

**OTHER REVENUES.** Other revenues include revenues from capital and land revenues.

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

Municipalities are authorized to access borrowing if being primarily approved by the central government. A limited number of municipalities of importance (in particular Santo Domingo, etc.) have borrowed over the years.

A joint- study of:



**Sources:** BID (2010), República Dominicana: Las finanzas de los gobiernos locales y alternativas para su fortalecimiento, No. IDB-DP-132 • Oficina Nacional de Estadística, Dominicana en cifras 2014 • Chona y Pineda Mannheim (ICF/FMM) (2009), *Nota técnica, Descentralización y Finanzas Municipales en República Dominicana* • D.Matias, La descentralización en Republica Dominicana • Constitución de la Republica Dominicana • Observatorio político dominicano • Federación Dominicana de Municipios FEDOMU (2012), Alternativas para el fortalecimiento de las finanzas municipales



# ECUADOR

UNITARY COUNTRY

LATIN AMERICA

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **UPPER MIDDLE INCOME** Local currency - **US Dollars (USD)**

### POPULATION AND GEOGRAPHY

AREA: **256 370 km<sup>2</sup>**

POPULATION: **16.3** million inhabitants (2014),  
an increase of 1.6% per year (2010-14)

DENSITY: **64** inhabitants/km<sup>2</sup>

URBAN POPULATION: **63.7%** of national population

CAPITAL CITY: **Quito** (10.42% of national population)

Sources: IMF-GFS, World Bank Development Indicators, Banco Central del Ecuador, ILO

### ECONOMIC DATA

GDP: **180.8** billion (current PPP international dollars)  
i.e. 11 092 dollars per inhabitant (2014)

REAL GDP GROWTH: **3.7%** (2014 vs 2013)

UNEMPLOYMENT RATE: **3.8%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **773** (BoP, current USD  
millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **29%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.732** (high), **rank 88**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL   | TOTAL NUMBER OF SNGs |
|--|--------------------|---------------------------|----------------------|
| <b>221</b>   | <b>-</b>           | <b>22</b>                 | <b>243</b>           |
| MUNICIPALITIES (MUNICIPIOS/CANTON)<br>± 1 METROPOLITAN DISTRICT<br>(DISTRITO METROPOLITANO DE QUITO)<br>AVERAGE MUNICIPAL SIZE:<br><b>73 756 INHABITANTS</b> |                    | PROVINCES<br>(PROVINCIAS) |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Ecuador is a unitary state, with a two-tier structure of decentralization. The country is divided into 22 provinces (*Provincias*) which are formed by one or several *canton*. According to the 2008 Constitution, these provinces may also gather to create an autonomous region, but with only geographical significance. The lower level of decentralization is constituted by 221 municipalities called Canton or Municipios. These entities are further subdivided into around 1500 parishes (*parroquias*) which are small politico-territorial divisions that may be classified into rural or urban parishes. They are under the authority of a municipality which has the power to create or modify them. This subsidiary tier of decentralization aims to be an intermediary between people and municipalities. The 2008 Constitution consecrated the previous legislation dedicated to decentralization, as the government launched a national plan on decentralization in 2012. This plan, created under the realm of the Buen Vivir program for the reinforcement of democratic State in Ecuador, aims to deepen the decentralization and deconcentration processes. It relies on the provisions of the organic code on LGUs, with the creation of a National Council of competences, a technical body composed of one representative of each level of local government, which coordinates the process of transfer of powers from the central government to LGUs. This Council was responsible for the definition of the National Decentralization Plan through a participatory process including all stakeholders (mayors, prefects, presidents of parishes, civil society, etc.).

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The National Decentralization Plan aims to organize and plan the devolution of powers and resources from the central state to the LGUs for the next decades. The Organic code on territorial organization and decentralization stipulates that the division of local responsibilities is mainly driven by principles of subsidiarity and complementarity, as well as balanced development of territories and equal access to basic services for all. The code also clearly defined the competences of the different subnational governments and refers to a "National Skills System". These competences are classified into different categories: Exclusive whose ownership belongs to only one level of government, but whose management can be performed concurrently on several levels, as it is the case of urban sustainability and land use in municipal governments or support for agricultural activity in the case of provincial governments; Concurrent, whose ownership belongs to several levels of management and are managed concurrently; Additional, which can be transferred to a government gradually and under the principle of subsidiarity, as they are part of the sectors or common materials and not expressly assigned by the Constitution and law; Residual, defined by law as custodial and exclusive powers of the central government not being allocated in Constitution and not being part of the strategic sectors, that hence may be assigned to a particular government by the National Council of competences.

## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE              | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|--------------------------|-------------|---|-----------------------------|
| TOTAL EXPENDITURE (2013) | <b>4.4%</b> | <b>11.9%</b>  | <b>100%</b>                 |
| CURRENT EXPENDITURE      | 1.0%        | -   | 23.3%                       |
| STAFF EXPENDITURE        | 0.5%        | 6.0%  | 12.4%                       |
| INVESTMENT               | 2.8%        | 31.8%   | 63.1%                       |

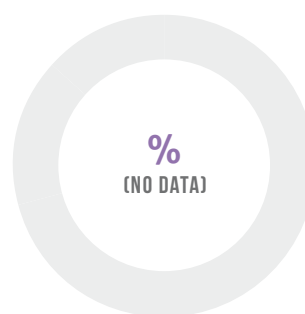
Overall subnational expenditures accounted for almost 12% of general government expenditures in 2013, corresponding to 4.4% of national GDP. This is a relatively high share, given that national expenditures in this year accounted for up to 36.81% of GDP. Specifically, subnational governments were responsible for 31.8% of overall public investment (63.1% of subnational expenditures).



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



A surprisingly large part of Ecuadorian public investments appears to be carried by local governments. The recently renewed decentralisation process resulted in an increasing devolution of competences, hence devolution of spendings to the local governments especially for the Provinces.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 4.5%  | 14.3%   | 100%                     |
| TAX REVENUE          | 0.8%  | 4.9%  | 18.1%                    |
| GRANTS AND SUBSIDIES | 3.5%  | -   | 78.2%                    |
| OTHER REVENUES       | 0.2%  | -   | 3.8%                     |

LGUs revenue are defined by the organic code on decentralisation. They are coming from own financial resources, transfers from the general government budget, other transfers and donations, and different other incomes. As autonomous local governments, rural parishes benefit from own income, and from revenue delegated by other levels of government.

**TAX REVENUE.** Local governments own revenues are mainly coming from taxes, with LGU having the power to create taxes for specific purposes on their own territories. According to the organic code on decentralization, tax application shall be guided by the principles of generality, progressiveness, efficiency, administrative simplicity, retroactivity, transparency and revenue adequacy. Main taxes are : the tax on inheritances, bequests and donations; tax on property and on motor vehicles; the special consumption tax on motor vehicles (aircrafts, helicopters, yacht, etc.). Regional, provincial, municipal and metropolitan autonomous governments can create, modify or delete, by their own regulations, taxes and special contributions of general or specific improvements for services that are under their responsibility and for the works to be executed within the scope of their powers or territorial constituency.

**GRANTS AND SUBSIDIES.** Transfers for central State constitutes the main financial resources for LGUs in 2013. Three types of transfers can be distinguished : permanent grants from State current budget, which are entrenched by the national budget law ; transfers defined to compensate the costs induced by the charges devolved to local governments through the decentralisation process ; and transfers aiming to compensate for inequalities of development among local governments territories. LGUs may also receive non-permanent capital transfers. Yet, the subnational governments of Quito and Guayaquil receive the greatest share of transfers. In 2013, current grants accounted for only 13.8% of total grants, against 86.2% for capital grants.

**OTHER REVENUES.** Local autonomous entities may also perceive fees and special contributions; incomes from the sale of goods and services; investment income as well as revenues from the sale of non-financial assets and recovery of investments; raffles and sweepstakes revenues ; fines. In addition to these resources, local governments can receive funds from participation to the exploitation or industrialization of non-renewable natural resources, or from financial funds.

## OUTSTANDING DEBT

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

According to the organic code on decentralization, the local government debt cannot exceed 100% of their revenues, and annual debt service shouldn't be over 40% of the revenues. The code also states that loans may only be contracted to fund local investments, and guarantees supporting external borrowing can only be obtained through the Central bank.

A joint- study of:



**Sources:** Ministerio de Finanzas, available on <http://www.finanzas.gob.ec/estados-financieros/> • <http://www.buenivir.gob.ec> ; • Secretaría nacional de planificación y desarrollo on <http://www.planificacion.gob.ec/> • Código Orgánico Organización Territorial Autonomía Descentralización (COOTAD), available on [http://www.finanzas.gob.ec/wp-content/uploads/downloads/2012/09/CODIGO\\_ORGANIZACION\\_TERRITORIAL.pdf](http://www.finanzas.gob.ec/wp-content/uploads/downloads/2012/09/CODIGO_ORGANIZACION_TERRITORIAL.pdf) • H Batallas Gomez (2013), El actual modelo de descentralización en el Ecuador: un desafío para los gobiernos autónomos descentralizados, FORO Revista de Derecho, n.º 20, UASB-Ecuador / CEN, Quito • Instituto nacional de estadística y censos.



# EL SALVADOR

UNITARY COUNTRY

LATIN AMERICA

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOWER MIDDLE INCOME** Local currency - **US Dollar (USD)**

### POPULATION AND GEOGRAPHY

AREA: **21 041** km<sup>2</sup>

POPULATION: **6.426** million inhabitants (2014),  
an increase of 0.3% per year (2010-14)

DENSITY: **305** inhabitants/km<sup>2</sup>

URBAN POPULATION: **66.7%** of national population

CAPITAL CITY: **San Salvador** (17.1% of national population)

Sources: World Bank Development Indicators, UNDP-HDI, ILO

### ECONOMIC DATA

GDP: **51** billion (current PPP international dollars)  
i.e. 7 936 dollars per inhabitant (2014)

REAL GDP GROWTH: **2%** (2014 vs 2013)

UNEMPLOYMENT RATE: **6.2%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **475** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **13.6%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.666** (medium), **rank 116**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL                                      | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|--|--------------------|-------------------------|----------------------|
| <b>262</b>   | <b>-</b>           | <b>-</b>                | <b>262</b>           |
| MUNICIPALITIES<br>(MUNICIPIOS)                       |                    |                         |                      |
| AVERAGE MUNICIPAL SIZE:<br><b>24 527 INHABITANTS</b> |                    |                         |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Salvador is a unitary State with a one-tier structure of decentralization made up of 262 municipalities. Aside these local self-government, 14 departments (*departamentos*) represent the central State at the local level. The legal basis of decentralization have been set by the Constitution of Salvador, and enforced by the Municipal Code and the Municipal Tax Code. The Constitution guarantees decentralized territorial authority to municipalities and states that "Municipalities are autonomous, economic, technical and administrative, and governed by a municipal code" and that "the municipality is the primary policy and administrative unit within the state organization". Although decentralization policy in its traditional definition with a devolution of powers to local self-government has been adopted in 2007, it can be said that effective decentralization process actually primarily started in the early 2000's, with the central State vesting public and private companies, as well as other organizations, with competences for the provision of certain public services at the local level.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Local governments are responsible for service provision regarding education, potable water provision, health and roads, since the early 200s. Later, governments then aimed to reform the decentralization system between 2009 and 2014, to empower municipalities further, and thus promote local development. According to the Municipal Code, competences of municipalities are 28 and may be classified into four types: development and implementation of plans and programs of economic and social development at the local level ; provision of public services ; control and regulation of activities of individuals ; advocacy and promotion of activities of its inhabitants. To exercise these responsibilities, municipalities can join Regional Municipal Corporations or Departments (such as the Corporación de Municipalidades del Área Metropolitana de San Salvador) to mutualize financial expertise.

## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>2.5%</b> | <b>10.4%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | <b>1.6%</b> | <b>-</b>  | <b>63.6%</b>                |
| <b>STAFF EXPENDITURE</b>        | <b>0.7%</b> | <b>7.3%</b>   | <b>26.7%</b>                |
| <b>INVESTMENT</b>               | <b>0.9%</b> | <b>31.3%</b>  | <b>36.4%</b>                |

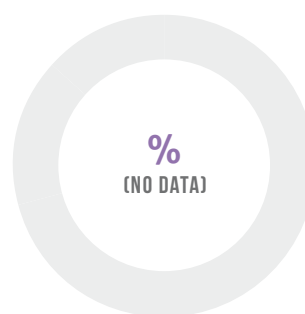
Investment represent up to 36.4% of total subnational expenditures, while current expenditures represent 63.6%. Investment expenditures have significantly increased over the last years because of large investment programs at the national level, including massive investments in social infrastructures. Yet total subnational expenditures represent a small share of national GDP, taking into account that most municipalities are of small and medium-size, with very limited financial capacities.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



Expenditures within the municipal sphere are highly concentrated on current expenditures, especially for the smallest rural cities with limited resources. The share of local government expenditures in GDP is very low, as a large part of the education and social protection spending is supported by independent public bodies. The share of local expenditures in total public expenditures slightly increased from 7% in 2007 to 10.4% in 2013.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 2.3%  | 10.2%   | 100%                     |
| TAX REVENUE          | 0.3%  | 2.1%  | 14.1%                    |
| GRANTS AND SUBSIDIES | 1.2%  |   | 52.4%                    |
| OTHER REVENUES       | 0.8%  |   | 33.4%                    |

Municipalities revenues can be divided into current revenues and capital revenues. As municipalities situations appear to be very heterogeneous, local governments resources account for a very small share of GDP in 2013. The share of local revenues in total public revenue has remained stable from 9.3% in 2007 to 10.2% in 2013.

**TAX REVENUE.** Tax revenues (corrientes) come from direct taxes paid by individuals and companies which develop an economic activity in the municipality's territory. Main revenues are added-value taxes, and property taxes.

**GRANTS AND SUBSIDIES.** Municipalities receive their main financial resource from central State grants. The largest transfer is allocated through the Fund for economic and social development of the municipalities of El Salvador (Fondo para el Desarrollo Económico y Social de las Municipalidades - FODES), allocating 6% of the national budget to municipal governments, 80% for investment and 20% for expenses operating. The law provides for criteria for allocation of resources, which consist of population, poverty, equity and land area where percentages are established as follow: population 50%, 25% equity, poverty 20% and land area 5%.

**OTHER REVENUES.** Municipalities can perceive non-tax revenues : fees and charges (administrative acts, business licenses, fees for services rendered by the municipality, imported goods, ect.) ; revenues from sale of good and services (provision of various services that are not in charges and fees), fines ; donation from public or private sector ; and contributions for special services as Salvador has created 5 special contributions that has to be paid for benefits that are derived from the execution of public works by the municipality, such as expanding public services inducing land valuation. Municipalities may also receive resources from the sale of fixed assets such as land or buildings, capital transfers received from public sector entities and recoveries of loans and financial investments in securities.

| OUTSTANDING DEBT        | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 1.6%  | 2.8%                 |

Local governments' overall debt in El Salvador has increased from representing only 1.9% of general government debt in 2007 to 2.8% in and respectively from 0.8% of GDP to 1.6% in 2016.

A joint study of:



**Source of Statistics:** Municipal code of El Salvador (Codigo municipal de El Salvador) • Constitution of the Salvador Republic • Secretaría técnica de la presidencia, Política nacional de descentralización, 2007 • Ministerio de Hacienda, Evolución de la política de descentralización y desarrollo local en El Salvador, Boletín Presupuestario n°3 Julio-Septiembre 2010 • A. Montalvo (2010), Descentralización del estado Salvadoreño, la nueva reforma democrática, Universidad Dr. José Matías Delgado de El Salvador • IMF-GFS • FESPAD - Dinámica de las finanzas públicas en El Salvador (2012 - 2014) • Art.4 Ley de creación del FODES



# GUATEMALA

UNITARY COUNTRY

LATIN AMERICA

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOWER MIDDLE INCOME**

Local currency - **Guatemalan Quetzal (GTQ)**

### POPULATION AND GEOGRAPHY

AREA: **108 890** km<sup>2</sup>

POPULATION: **16.02** million inhabitants (2014),  
an increase of 2.1% per year (2010-14)

DENSITY: **147** inhabitants/km<sup>2</sup>

URBAN POPULATION: **51.6%** of national population

CAPITAL CITY: **Ciudad de Guatemala (Guatemala City)**  
(17.8% of national population)

Sources: World Bank World Development Indicators, UN World Urbanisation Prospects, ILO

### ECONOMIC DATA

GDP: **119.4** billion (current PPP international dollars)  
i.e. 7 453 dollars per inhabitant (2014)

REAL GDP GROWTH: **4.2%** (2014 vs 2013)

UNEMPLOYMENT RATE: **2.8%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **1 205** (BoP, current  
USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **13.5%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.627** (medium), **rank 128**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|--|--------------------|-------------------------|----------------------|
| <b>334</b>   | <b>-</b>           | <b>-</b>                | <b>334</b>           |
| MUNICIPALITIES<br>AVERAGE MUNICIPAL SIZE:<br><b>47 964 INHABITANTS</b> |                    |                         |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Guatemala is a unitary country with one level of sub-national governments, autonomous municipalities. Besides the 334 municipalities, there are 22 districts, and 8 regions for administrative purposes. Districts are led by governors appointed by the central government, and are the representation of the central government in each jurisdiction. They are not responsible for any investment project or service besides those expressly assigned to them by a state Ministry. Municipalities are independent from the central government; they are led by a municipal council presided by a mayor, democratically elected every four years. Departments have the highest authority among sub-national governments, but they must respect the autonomy of municipalities.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Municipal competences include own and delegated competencies. Own competences are the same for all municipalities and are mandatory; they include urban planning, public transport, waste collection, water supply, cemeteries, public spaces, road maintenance, etc. Delegated competences are competences devolved by the central government through agreements (which have to be accepted by the municipality), in the framework of the General Law for Decentralization (Decreto 14-2002). When a function is delegated to a local authority, the central government must provide sufficient financial resources to cover its cost. Delegated competences vary from one municipality to another; they may include primary education, healthcare services, etc. Municipalities are in charge of coordinating and financing entities called "Municipal Councils for urban and rural development – COMUDE".

## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>0.7%</b> | <b>3.7%</b>   | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | <b>0.5%</b> | <b>-</b>  | <b>66.9%</b>                |
| <b>STAFF EXPENDITURE</b>        | <b>0.2%</b> | <b>-</b>  | <b>24.4%</b>                |
| <b>INVESTMENT</b>               | <b>0.2%</b> | <b>19.6%</b>  | <b>31.9%</b>                |

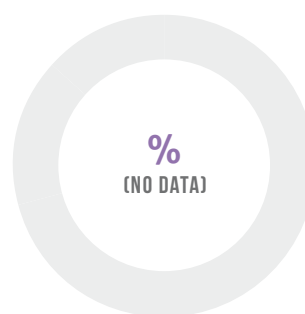
The share of local expenditures within total public expenditures and within the GDP remains very low in Guatemala. Yet, a relatively large part of these local expenditures are dedicated to investments (31.9%), while 67% go to current operating expenditures.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



There is no available data on local public expenditures classified by economic function for 2013 in Guatemala. Legally, besides functions allocated through the General Law of Decentralization, several other laws give specific powers and functions to local governments: Health and Education code, electoral law, budget law, NGO's law, etc. To restore trust towards central and local governments, some experiments of participatory budgeting have been launched in the country.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 0.7%  | 4.0%  | 100.0%                   |
| TAX REVENUE          | 0.1%  | 0.5%  | 8.1%                     |
| GRANTS AND SUBSIDIES | 0.5%  | -   | 72.8%                    |
| OTHER REVENUES       | 0.1%  | -   | 19.1%                    |

Regarding financial resources of local governments, most municipalities are highly dependent upon national transfers. Lack of fiscal powers is a great obstacle to municipal autonomy and accountability. On average, subnational governments perceived 4% of total revenue in 2013.

**TAX REVENUE.** Municipalities in Guatemala can only levy taxes that are assigned to them by the central government. These include a property tax (IUSI) which generates the bulk of tax receipts, and smaller taxes such as sales taxes, ornament tickets (boleto de ornato, a tax for maintaining public areas), a tax on the use of cable infrastructures, etc.

**GRANTS AND SUBSIDIES.** Transfers from the central government are subdivided in four main categories. 10% of the central government's recurrent revenues are transferred to local authorities; this transfer is enshrined in the article 257 of the Constitution. 90% of these funds must be used for programmes and projects in education, healthcare, infrastructures and public services. The remaining 10% can be used for financing operating costs. Local authorities also receive 12.5% of the receipts from the VAT tax. 75% of these transfers are earmarked for investments in education, healthcare, infrastructures and public services. Municipalities receive 50% of the tax receipts from the tax on the circulation of land vehicles (earmarked for the construction and maintenance of roads), 20% of the tax on boats (earmarked for water infrastructures and maintenance), and 30% of the tax on plane circulation (earmarked for infrastructures and maintenance for electricity). A share of the profits made on oil is also transferred to municipalities, and is earmarked for transport and road infrastructure and maintenance. All of these funds are distributed according to a formula based on the size of municipal population, municipal own revenues per capita, a share is distributed equally across all municipalities, etc.

**OTHER REVENUES.** Other municipal revenues include service fees and charges, property revenues, revenues from the sale of assets, etc. In contrast to taxes, municipalities have a large autonomy to create and price charges and fees for services.

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

According to the Municipal Code, municipalities are able to borrow from domestic banks without any kind of approval from the central government. They need approval however if they seek to borrow from international banks, or through securities. They can use tax and transfer revenues as guarantees for borrowing. Since 2010, they cannot borrow for a longer period than the local government mandate.

A joint study of:



**Source of Statistics:** Ministerio de Finanzas Publicas: Liquidación del presupuesto general de ingresos y egresos del estado y cierre contable del ejercicio fiscal de enero-diciembre(2013) • J. and F. Rueda (2013), Esfuerzo Fiscal Municipal en Guatemala, Banco Interamericano de Desarrollo NOTA TÉCNICA n. IDB-TN-513 • USAID (2014), Guía para mejorar los ingresos propios municipales • Bonet, J. and F. Rueda (2013), Esfuerzo Fiscal Municipal en Guatemala, Banco Interamericano de Desarrollo NOTA TÉCNICA n. IDB-TN-513 • Gobiernos locales Guatemala (2015), Respuesta al Cuestionario Comité Asesor Consejo de Derechos Humanos de Naciones Unidas • Constitución de la Republica de Guatemala (1992) • <http://www.segeplan.gob.gt>



# HONDURAS

UNITARY COUNTRY

LATIN AMERICA

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOWER MIDDLE INCOME** Local currency - **Honduran lempira (HNL)**

### POPULATION AND GEOGRAPHY

AREA: **112 492** km<sup>2</sup>

POPULATION: **7.962** million inhabitants (2014),  
an increase of 1.5% per year (2010-14)

DENSITY: **71** inhabitants/km<sup>2</sup>

URBAN POPULATION: **54.7%** of national population

CAPITAL CITY: **Tegucigalpa** (13.33% of national population)

Sources: World Bank World Development Indicators, UN World Urbanisation Prospects, <http://publications.europa.eu>, ILO

### ECONOMIC DATA

GDP: **39.1** billion (current PPP international dollars)  
i.e. 4 909 dollars per inhabitant (2014)

REAL GDP GROWTH: **3.1%** (2014 vs 2013)

UNEMPLOYMENT RATE: **3.9%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **1 294** (BoP, current  
USD millions, 2014)

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

HUMAN DEVELOPMENT INDEX: **0.606** (medium), **rank 131**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|---|--------------------|-------------------------|----------------------|
| <b>298</b>  | <b>-</b>           | <b>-</b>                | <b>298</b>           |
| MUNICIPALITIES<br>AVERAGE MUNICIPAL SIZE:<br>26 718 INHABITANTS |                    |                         |                      |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Honduras is a unitary country with a single level of sub-national governments composed of 298 municipalities. The country is also divided into 18 departments (departamentos) for administrative purposes. Departments are hierarchically above municipalities. They are headed by departmental governors appointed by the central government, and represent central authorities in each department; they are in charge of monitoring the compliance of municipal policies with national policies. Municipalities are enshrined in the Constitution. They are autonomous, and are led by a municipal council (corporacion) led by a mayor. Municipal authorities are elected democratically.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** According to the Municipalities Law passed in 1990, municipal competences are largely focused on local services and small scale infrastructures. Local functions include urban planning, sanitation, water supply, construction and maintenance of municipal roads, cemeteries, markets, environmental protection, parks, fire brigades, etc. Since this law that initiated the decentralization process, numerous reforms have been launched towards strengthening decentralization, yet, they have been partially implemented. Besides, as there is only one-tier of local governments, subnational governments in Honduras are very heterogeneous and the Secretariat of Interior and Population divides municipalities into four categories: A (High Capacity), B (Intermediate Capacity), C (Poor Capacity), and D (Very Poor Capacity). Only a small set of municipalities (approximately 23) have substantive administrative capacity to assume greater responsibilities.

## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE              | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|--------------------------|-------------|---|-----------------------------|
| TOTAL EXPENDITURE (2013) | <b>3.0%</b> | <b>10.4%</b>  | <b>100%</b>                 |
| CURRENT EXPENDITURE      | 1.3%        | -   | 42.8%                       |
| STAFF EXPENDITURE        | 0.5%        | 4.3%  | 17.8%                       |
| INVESTMENT               | 1.7%        | 37.2%   | 57.2%                       |

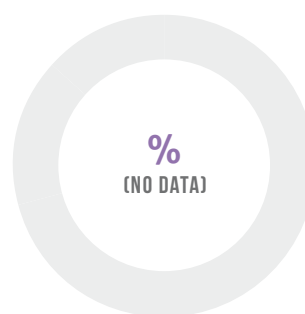
Municipal investments have been steadily increasing, and it represents a growing share (57.2% of total public investments in 2013) of total public investment, as capital spending at the national level have been relatively low (3.4% of GDP in 2012). Yet it still represent an insufficient share of GDP (1.7%) and investments are very concentrated in large urban areas, which means that numerous smaller municipalities do not meet investment targets.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



With around 27 000 inhabitants on average, most municipalities in Honduras lack the capacity to efficiently finance and manage high-level services. Besides, there is a lack of concise data at the municipal level regarding expenditure by economic function. The central government is still responsible for the management and financial of main social services (health, education).

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 2.9%  | 11.8%   | 100%                     |
| TAX REVENUE          | 0.7%  | 4.0%  | 22.8%                    |
| GRANTS AND SUBSIDIES | 1.8%  | -   | 62.4%                    |
| OTHER REVENUES       | 0.4%  | -   | 14.7%                    |

The Central government of Honduras has pledged to increase the share of revenues transferred to local governments from 5 in 2010 to 20% by 2017 and 40% by 2038. In 2013, this share was of 11.8%.

**TAX REVENUE.** 30% of municipal tax revenues (on average over 2002-2011) come from the tax on industry, trade and services. The second largest source of municipal fiscal revenues is the property tax (15% of tax revenues); municipalities can also collect a personal income tax (6% of tax revenues). Municipalities are not able to set taxes; all taxes must be established by the National Congress, which is an important constraint to local governments' exercise of their responsibilities. In 2011, in response to the initiative of several mayors who imposed municipal security taxes to meet public security needs, and which in some cases raised significant revenues for the municipalities, the central governments designed a unified system for security tax collection to be implemented in 2012. This system should function through tax collection by the State through the SEFIN, and then reallocation to local governments units. Yet, the new system is very slow to be implemented and in the meantime, some municipalities, who had lost funding from the previous tax, have created a new mechanism to replace it under a new tax rate: "governability rate"

**GRANTS AND SUBSIDIES.** According to the Municipalities Law, transfers to municipalities to the central government are divided into two types: monthly transfers from the Finance State Secretary (*Secretaría de Estado en el Despacho de Finanzas*, SEFIN), and quarterly transfers from the SEIP. SEFIN funds consists in 11% of budgeted national tax revenues. Transfers are distributed according to the following formula: 50% equally across municipalities, 20% according to municipal population, and 30% based on the share of population under the poverty threshold. The transfer system aims to encouraging public investments, to accompany decentralizing public investment responsibilities, and 90% of the grants are capital grants. 1% of transfers are earmarked for programmes in favor of children and adolescents, 2% for programmes in economic development and gender equality, 13% for operating and maintainance in social infrastructure. Growing fiscal deficit at the central level make mandated intergovernmental transfers difficult and costly to ensure on a regular basis

**OTHER REVENUES.** Other municipal revenues include municipal fees, municipal rights, fines, property revenues, sale of assets, etc.

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

Municipalities are able to borrow with the approval of the central government. Moreover, borrowing is mostly limited to the period of the municipal government mandate (4 years maximum). Repayment of debt should not exceed 30% of transfer receipts.

A joint- study of:



**Source of Statistics:** IMF Government Finance Statistics • Asociación de Municipios de Honduras AMHON • Ley de Municipalidades • USAID (2012), Análisis Integrado de Finanzas Municipales, Base Económica, y Seguridad Ciudadana en Honduras • World Bank (2013), Republic of Honduras Tegucigalpa Municipality PEFA • World Bank (2013), Honduras public expenditure review, towards restoring fiscal consolidation



# JAMAICA

UNITARY COUNTRY

## LATIN AMERICA

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **UPPER MIDDLE INCOME** Local currency - **Jamaica dollar (JMD)**

#### POPULATION AND GEOGRAPHY

AREA: **10 830** km<sup>2</sup>

POPULATION: **2.7** million inhabitants (2014),  
an increase of 0.3% per year (2010-14)

DENSITY: **251** inhabitants/km<sup>2</sup>

URBAN POPULATION: **54.8%** of national population

CAPITAL CITY: **Kingston** (21.6% of national population)

Sources: World Bank World Development Indicators, UN World Urbanisation Prospects, Eurostat, ILO

#### ECONOMIC DATA

GDP: **24.2** billion (current PPP international dollars)  
i.e. 8 878 dollars per inhabitant (2014)

REAL GDP GROWTH: **0.7%** (2014 vs 2013)

UNEMPLOYMENT RATE: **13.7%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **595** (BoP, current USD  
millions, 2014)

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

HUMAN DEVELOPMENT INDEX: **0.719** (high), **rank 99**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|--|--------------------|-------------------------|----------------------|
| <b>14</b><br>12 PARISHES AND<br>2 MUNICIPALITIES<br>AVERAGE MUNICIPAL SIZE:<br>194 357 INHABITANTS | -                  | -                       | <b>14</b>            |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Jamaica is a unitary country with a single level of sub-national government (12 parishes and 2 municipalities, Kingston and St Andrew and Portmore). Each parish has a capital town (typically the center of commerce), and two of these capitals (Montego Bay and Kingston) have city status. The country is further divided into three historic counties, with no administrative relevance. Parishes are both political and administrative; their political arm is composed by councillors led by a mayor, while their administrative arm headed by a manager advising and implementing the policies of the council. A major reform of sub-national governments is under way in Jamaica. This reforms aims at enshrining local governments in the Constitution, and create three strategic laws increasing local autonomy, modifying accounting and financial management practices at the local level, and regulate the local work-force.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Local authorities' responsibilities include basic services that meet directly the needs of the citizens, which include mainly: water supply, parks, cemeteries, markets, abattoirs, parking, parochial roads, local planning, street lighting, drains, infirmaries, poor relief, etc.

### SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE              | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|--------------------------|-------------|---|-----------------------------|
| TOTAL EXPENDITURE (2012) | <b>0.8%</b> | <b>1.9%</b>   | <b>100%</b>                 |
| CURRENT EXPENDITURE      | -           | -   | -                           |
| STAFF EXPENDITURE        | -           | -   | -                           |
| INVESTMENT               | -           | -   | -                           |

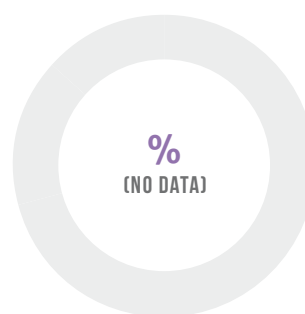
A large part of the local revenues is spent on administrative support to local authorities functioning and operating costs, given the low amount of local expenditures, that reaches 0,78% of GDP and represents 1,91% of total public expenditures.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



The most popular and recognisable sectors on which the local revenues are spent are property related services, including street lighting, solid waste management and disposal, and rehabilitation of parochial roads, assisting community development projects.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL<br>GOVERNMENT |
|----------------------|-------|---|-----------------------------|
| TOTAL REVENUE (2012) | 0.8%  | 3.3%  | 100%                        |
| TAX REVENUE          | 0%    | 0%  | 0%                          |
| GRANTS AND SUBSIDIES | 0.5%  | -   | 58.7%                       |
| OTHER REVENUES       | 0.3%  | -   | 41.3%                       |

Jamaican parish councils in general are lacking revenues necessary to be able to provide the necessary services to the citizens, despite increasing improvement of tax collection. The main source of funding are transfers and tax-sharing perceived through central collection of the property tax. To compensate for the lack of other tax revenues, local governments are empowered to tap into other sources of funding to generate their own revenues, such as licenses and fees.

**TAX REVENUE.** Property taxes are collected in every parish by the Tax Administration on behalf on parish councils, and is here included as grant and subsidy. These funds are credited the next day to the parish. Yet the administration faces challenges to collect the tax due to the low level of compliance of the citizens.

**GRANTS AND SUBSIDIES.** Transfers to local authorities come from the Parochial Revenue Fund and the General Assistance and Specific Grant. All transfers are formula-based and non conditional. The Parochial Revenue Fund (PRF) is a major source of transfers to local governments in Jamaica. The Parochial fund is based on receipts from a property tax, and 2/3 of receipts from the tax on motor vehicles. 10% of the receipts from the property tax are used as an equalisation fund. General assistance grants aim at funding local retiring benefits, executive direction, administration, roads and technical services, etc. Specific grants cover exactly the amount of service costs; they include for instance transfers for poor relief and minor water supplies.

**OTHER REVENUES.** Other revenues from local governments include a wide variety of fees whose importance vary according to the various Parish Councils, the most important ones being the motor vehicle licensing fee and building and subdivision fee. Other types of revenues include: licenses for hairdressers, , trade, market and cemetery fees, charges from transportation centers, parking fees, place of amusement, inspection fees, litter fines, numbering fees, encroachment, income from investment, metro/animal pound, shop fees and licences, etc.

| OUTSTANDING DEBT        | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2012) | -     | -                    |

Local authorities are able to borrow, but they rarely use their borrowing power.

A joint- study of:



**Sources:** Statistical Institute of Jamaica • Commonwealth Local Government Forum (2013), Country Profile: The local government system in Jamaica • ADE (2013), Repeat PEFA Assessment – Jamaica, Final Report • UN Habitat (2012), Jamaica National Urban Profile • <http://www.ksac.gov.jm/property-tax/background>



# MEXICO

FEDERAL COUNTRY

## LATIN AMERICA

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **UPPER MIDDLE INCOME** Local currency - **Mexican Peso (MXN)**

#### POPULATION AND GEOGRAPHY

AREA: **1 959 248** km<sup>2</sup>

POPULATION: **119.713** million inhabitants (2014),  
an increase of 1.2% per year (2010-14)

DENSITY: **61** inhabitants/km<sup>2</sup>

URBAN POPULATION: **79%** of national population

CAPITAL CITY: **Mexico City** (16.8% of national population)

Sources: OECD, World Bank, UNDP, ILO

#### ECONOMIC DATA

GDP: **2 171** billion (current PPP international dollars)  
i.e. 18 135 dollars per inhabitant (2014)

REAL GDP GROWTH: **2.2%** (2014 vs 2013)

UNEMPLOYMENT RATE: **4.9%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **24 154** (BoP, current  
USD millions, 2014)

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

HUMAN DEVELOPMENT INDEX: **0.756** (high), rank 74

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL  | TOTAL NUMBER OF SNGs |
|---|--------------------|--|----------------------|
| <b>2 457</b><br>MUNICIPALITIES<br>(MUNICIPIOS)*<br>AVERAGE MUNICIPAL SIZE:<br><b>45 740 INHABITANTS</b> | <b>-</b>           | <b>32</b><br>31 STATES (ESTADOS) AND<br>1 FEDERAL DISTRICT<br>(DISTRITO FEDERAL) | <b>2 489</b>         |

\* Mexico City 16 boroughs which are today only administrative entities, are not included in the count of municipalities.

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** The federal system is defined in the Constitution of the United Mexican States, approved in 1917 and revised several times. Mexico has a two-tier system of SNG. Federated entities include 31 states and one Federal District (Mexico City). The local level is composed of municipalities whose autonomy was recognised by constitutional reforms in 1983 (article 115) and 1999. Municipalities are governed by state constitution and legislation. There has been a trend towards greater decentralisation since the late 1980s. A nationwide political reform in 2014 introduced, among other things, the re-election of municipal mayors (until then, a second term was prohibited). In January 2016, the Federal District of Mexico became an autonomous entity taking on some state responsibilities and powers with its own constitution and congress. The 16 boroughs (*delegaciones*) will become municipalities, headed by a mayor.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** According to the Constitution, the powers that are not expressly given to the Federation are understood as reserved to the states. In reality, it is more complex. The Constitution defines powers given to the federation, those given in an explicit or tacit way to the states, those prohibited to the federation or to the states, coinciding powers, coexisting powers, aid powers, etc. Overall, federal powers are extensive and also overlapping. States' joint responsibilities with the federal government include primary education (since 1992), healthcare (since 1996), poverty alleviation, social protection and water (since 1983). Other responsibilities include spatial planning, regional transport, municipal affairs, etc. Municipal tasks include urban planning and development, utilities (water distribution, waste), local roads and public transport, street lighting, markets, parks, public safety. Municipalities are co-responsible for school buildings and implementation of social programmes. Municipalities can delegate some responsibilities to the state by agreement (water, urbanism, road, tax collection).

### SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP            |             | % GENERAL GOVERNMENT<br>(same expenditure category) |             | % SUBNATIONAL GOVERNMENT |             |
|---------------------------------|------------------|-------------|---|-------------|--------------------------|-------------|
|                                 | SUBNATIONAL DATA |             | LOCAL DATA ONLY                                     |             |                          |             |
| <b>TOTAL EXPENDITURE (2013)</b> | <b>12.4%</b>     | <b>1.8%</b> | <b>50.6%</b>  | <b>7.3%</b> | <b>100%</b>              | <b>100%</b> |
| <b>CURRENT EXPENDITURE</b>      | 10.3%            | 1.3%        | -   | -           | 83.5%                    | 71.8%       |
| <b>STAFF EXPENDITURE</b>        | 5.9%             | 0.7%        | 64.5%   | 7.7%        | 47.9%                    | 39.5%       |
| <b>INVESTMENT</b>               | 1.6%             | 0.5%        | 73.6%   | 23.4%       | 12.8%                    | 28.2%       |

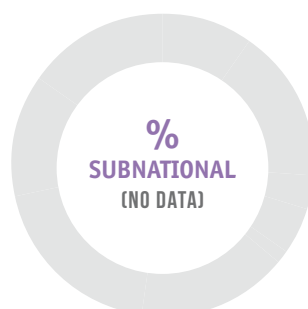
While SNGs accounted for 10% of public spending in 1990, they now account for 50%, a level in line with the OECD average of the nine federal countries. SNG expenditure share in GDP is however below the OECD federal country average (19.2%). SNGs are key public employers as well as key public investors as their share in public investment is significantly above the OECD average. However, despite its federal structure and the strong decentralisation process, Mexico remains a centralised country. Large spending areas are delegated and controlled by the federal government. In addition, decentralisation at the local level is very limited. Local government expenditure and investment shares in GDP and public spending are among the lowest of the OECD countries.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

- LEGISLATIVE AND ADMINISTRATION
- SPECIAL CHARGES
- TRANSPORT
- URBANISM
- SANITATION
- HEALTH
- EDUCATION
- SOCIAL SECURITY AND ASSISTANCE
- OTHER



The states carry out the majority of subnational spending (86% in 2013) and have responsibility over major areas of spending such as health and education. In these areas, SNGs are in charge of school and health facilities and employees including teachers. Municipal spending (14% of SNG spending) is concentrated on the provision of local services and education.

## REVENUE BY TYPE

### % GDP

### % GENERAL GOVERNMENT (same revenue category)

### % SUBNATIONAL GOVERNMENT

■ SUBNATIONAL DATA □ LOCAL DATA ONLY

| TOTAL REVENUE (2013) | 12.6% | 1.9% | 51.3% | 7.5% | 100%  | 100%  |
|----------------------|-------|------|-------|------|-------|-------|
| TAX REVENUE          | 0.9%  | 0.2% | 7.3%  | 1.9% | 7.2%  | 13.0% |
| GRANTS AND SUBSIDIES | 11.5% | 1.6% | -     | -    | 91.5% | 86.2% |
| OTHER REVENUES       | 0.2%  | 0.0% | -     | -    | 1.3%  | 0.7%  |

The fiscal framework, set out in the Constitution and the Fiscal Co-ordination Law (LCF), determines the distribution of the General Participation Fund among the states, Mexico City and the municipalities. Several reforms of the LCF took place in 1980 (creation of National Fiscal Co-ordination System), 1997, 2007 and 2013. Under the fiscal system, states accept to yield part of their tax powers to the federation in exchange for obtaining a share in federal revenue i.e. participation in the federal funds. SNGs are mainly funded through grants, the share of taxes in SNG revenue being the lowest of all OECD federal and unitary countries (except Estonia), while the share of grants is by far the highest, leading to strong vertical imbalance. SNGs have very limited financial autonomy, despite having extensive spending assignments.

**TAX REVENUE.** SNG taxes only account for a very small share of SNG revenue, of GDP and of public tax, among the lowest ratios in the OECD. Reforms in 2007 and 2013 introduced new taxes to the states, transferred the power of the vehicle tax and increased incentives for SNGs to raise tax. However, states and municipalities are reluctant to use their taxing power. State taxes include the payroll tax (80% of state tax revenue), vehicle tax, gasoline tax, etc. Municipalities derive the bulk of their tax revenues (73%) from property tax (*impuesto predial*), over which they have little control as rates are approved by state congress. Property tax represented only 0.2% of GDP, one of the lowest levels of the OECD.

**GRANTS AND SUBSIDIES.** The system of intergovernmental transfers combines revenue sharing (non-earmarked) transfers (*participaciones*), a myriad of earmarked transfers (*aportaciones*), and some matching transfers (*convenios*). The Public Finance reform of 2007 introduced changes in the allocation formulas of transfers. The revenue-sharing grant scheme imposes that 20% of federal tax revenues are allocated to the states as unconditional transfers based on different demographic, fiscal and compensatory criteria. This system (the General Participation Fund, *Fondo General de Participaciones*, or Ramo 28) only benefits the states but they must transfer 20% the Fund to the municipalities. The second largest transfers are *aportaciones* (or Ramo 33). The largest are the two funds earmarked for financing education and healthcare. Others have mostly an equalisation purpose (e.g. Social Infrastructure Fund). Finally, states also receive matching transfers from federal ministries and agencies. Since 2007, municipalities receive, via the states, in addition to their share of 20% of FGP, an additional share of federal revenue (*Fondo de Fomento Municipal*). This is allocated on the basis of municipal residential property tax and water fees collection. They also receive earmarked and non-earmarked grants from their state.

**OTHER REVENUES.** Other sources of revenue are negligible. One example is water services fees which generate relatively little revenue for municipalities.

## OUTSTANDING DEBT

### % GDP

### % GENERAL GOVERNMENT

■ SUBNATIONAL DATA □ LOCAL DATA ONLY

| OUTSTANDING DEBT (2013) | - | - | - | - | - | - |
|-------------------------|---|---|---|---|---|---|

Mexico passed the 2013 reform to the Fiscal Responsibility Law (FRL) which establishes a structural fiscal rule in Mexico. An equivalent law for states and local governments is currently being prepared to address subnational deficit, debt limits and expenditure control. The reform would make constitutional changes to impose stricter controls on SNG debt, based on revenue and debt levels. The reform would create a system of alerts as well as single debt registry to monitor SNG debt. The federal government would offer guarantees for states engaging in good debt management. Today, SNG governments can borrow to finance productive investments (golden rule) and have access both to loans and bond markets. According to national sources, SNG debt accounted for 3.1% of GDP in 2014, well below the OECD average of 23.9% but it expanded rapidly since 2008, and especially in 2013.

A joint- study of:



**Sources:** OECD National Accounts Statistics • OECD (2015 and 2016) Subnational Governments in OECD Countries: Key data • OECD (2015) OECD Urban Policy Reviews: Mexico 2015: Transforming Urban Policy and Housing Finance • Sánchez A. (2013) Improving Fiscal Federal Relations For A Stronger Mexico", OECD Economics Department Working Papers No. 1078 • Sour L. (2013) The Flypaper Effect In Mexican Local Governments", *Estudios Economicos*, vol. 28 • Smith H. (2013) Explaining Borrowing Patterns of Mexican Cities: The Case of the State of Guanajuato" *Economic Alternatives*, Issue 2.



# PARAGUAY

UNITARY COUNTRY

## LATIN AMERICA

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **UPPER MIDDLE INCOME** Local currency - **Paraguayan guaraní (PYG)**

#### POPULATION AND GEOGRAPHY

AREA: **406 752** km<sup>2</sup>

POPULATION: **6.553** million inhabitants (2014),  
an increase of 1.4% per year (2010-14)

DENSITY: **16** inhabitants/km<sup>2</sup>

URBAN POPULATION: **59.7%** of national population

CAPITAL CITY: **Asunción** (35.2% of national population)

Sources: World Bank World Development Indicators, UN World Urbanisation Prospects, ILO

#### ECONOMIC DATA

GDP: **58,4** billion (current PPP international dollars)  
i.e. 8 912 dollars per inhabitant (2014)

REAL GDP GROWTH: **4.7%** (2014 vs 2013)

UNEMPLOYMENT RATE: **6%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **523** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **16%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.679** (medium), **rank 112**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL                     | TOTAL NUMBER OF SNGs |
|--|--------------------|---|----------------------|
| <b>238</b><br>MUNICIPALITIES<br>(MUNICIPIOS)<br>AVERAGE MUNICIPAL SIZE:<br><b>27 533 INHABITANTS</b> | <b>-</b>           | <b>17</b><br>DEPARTMENTS<br>(DEPARTAMENTOS) | <b>255</b>           |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Paraguay is a unitary country with a two-tier structure of sub-national governments, composed of 238 municipalities and 17 departments. All departments have similar functions, enshrined in the Constitution. Municipalities are local government entities with political, administrative and normative autonomy, as well as autonomy in the collection and investment of their own resources (Articles 166 to 171 of the National Constitution). The municipal government is headed by a mayor and a municipal assembly, and is elected by direct vote since 1991. Departmental governments are presided by a mayor and department council (Junta Departamental), also directly elected. Municipalities and departments are enshrined in the Constitution since 1992, and both are democratically elected since 1991. According to the Law 3966/10, municipalities are divided into 4 groups based on the size of their budget compared to departments' capitals budget; the first group consists of municipalities in which this share is greater than 50%, the second group between 12 and 50%, the third group between 3% and 12%, and the fourth group below 4%. The belonging of a municipality to a given group determine the number of members in Municipal Councils; municipalities in the last group are granted an additional source of funding. The municipality of Asunción is independent from the other 17 departments that constitute the Republic of Paraguay.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Due to its long tradition of centralization, central government still carries out a major role in delivering basic public services in Paraguay. According to the Constitution, departments' competences include energy supply, water supply, departmental planning, environmental protection, protection of indigenous populations, etc. Municipal functions include, as stipulated in the Article 168 of the National Constitution, urban planning, public transport, tourism, education, culture, healthcare and social protection, road maintenance, waste collection, cemeteries, markets, parks, etc.

### SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2012)</b> | <b>2.2%</b> | <b>8.6%</b>   | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | <b>1.7%</b> | <b>-</b>  | <b>78.8%</b>                |
| <b>STAFF EXPENDITURE</b>        | <b>0.7%</b> | <b>5.7%</b>   | <b>33.3%</b>                |
| <b>INVESTMENT</b>               | <b>0.5%</b> | <b>13.6%</b>  | <b>21.2%</b>                |

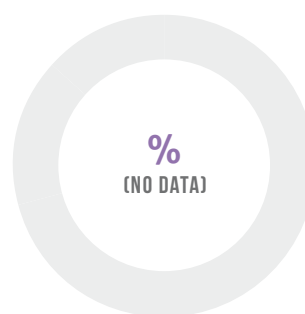
Subnational levels of governments represented 8.6% of total public expenditures in 2012, which marks a slight increase since 2007 (6.3%). More than 78% of these expenditures are spent on operating expenditures, while local investments represent only 13.6% of total public investment.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



Despite Paraguay initiative on improving quality of expenditures at the municipal level that led to the creation of a database on expenditure data for municipal governments, this data does not include programmatic or functional classifications yet. Yet, one can note that excepted a few large-size municipalities, most local governments are very limited in their functions because of their lack of resources.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL<br>GOVERNMENT |
|----------------------|-------|---|-----------------------------|
| TOTAL REVENUE (2012) | 2.9%  | 11.8%   | 100%                        |
| TAX REVENUE          | 0.7%  | 5.1%  | 36.0%                       |
| GRANTS AND SUBSIDIES | 0.9%  | -   | 45.9%                       |
| OTHER REVENUES       | 0.3%  | -   | 18.1%                       |

Municipalities in Paraguay depend relatively strongly on locally-generated resources compared to other countries in the region. They rely heavily on tax and fees. On the contrary, department are highly dependent upon transfers from central governments, and have a very limited pool of revenues.

**TAX REVENUE.** Departments are not funded by any kind of own tax revenues. Municipal taxes include, as the major source of tax revenue, the property tax, whose rates are set in the Constitution, and are considered to be under-assessed; 70% of tax receipts are kept by municipalities, 15% are transferred to departments, and the remaining are distributed to poorer municipalities (municipalities of type 4). Other municipal taxes include taxes for unused urban land (waste land) and for large plots of land, industry and business tax, a tax on vehicle registration and passenger transportation tax.

**GRANTS AND SUBSIDIES.** Besides receipts of the property tax transferred by municipalities, transfers to departments include taxes shared with the central government (30% of the tax on gambling, 15% of the tax on VAT), 10% of royalties receipts. Transfers to municipalities include shared taxes (30% of receipts from the gambling tax), and other transfers from the central government. In particular, the National Public Investment Fund (Fondo Nacional de Inversión Pública y Desarrollo) is a fund for funding local investments in line with national priorities. Municipalities and departments also benefit from earmarked grants from specific national funds, such as through the National Public Investment and Development Fund (FONACIDE, created by Law 4758), towards the education sector.

**OTHER REVENUES.** Other revenues for municipalities include royalties, fines, service fees (public lighting, cemeteries, waste collection fees, park fees, etc), charges for the rental of municipal land, etc. Yet the rates of tariffs and fees are closely regulated by the National government. The City of Asunción and other large-size cities benefit more from other revenues and fees, in particular car-parking fees.

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

According to the Municipal Law, municipalities are able to borrow, once validated by the municipal council. Yet in practice, this is quite restricted by the central level.

A joint- study of:



**Sources:** IMF Government Finance Statistics • Organización Paraguaya de Cooperación Intermunicipal : <http://www.opaci.org.py> • R. Gaete (2012), Estudio de la descentralización de los servicios esenciales para el caso del Paraguay, UN CEPAL • Ley Orgánica Municipal • Ministerio de Hacienda: "Transferencias a Gobiernos Municipales: Enero a Diciembre 2013" • P. Katsamunskaya, A. Rosenbaum (2014), Institutionalizing Local Government as an Instrument of Democratic Consolidation: The Cases of Bulgaria and Paraguay • Paraguay, Selected issues, IMF Country Report N° 16/117 (2016)



### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **UPPER MIDDLE INCOME** Local currency - **Peruvian Nuevo Sol (PEN)**

#### POPULATION AND GEOGRAPHY

AREA: **1 285 220 km<sup>2</sup>**

POPULATION: **30.973** million inhabitants (2014),  
an increase of 1.3% per year (2010-14)

DENSITY: **24** inhabitants/km<sup>2</sup>

URBAN POPULATION: **78.3%** of national population

CAPITAL CITY: **Lima** (31.6% of national population)

Sources: OECD, World Bank, UNDP, ILO.

#### ECONOMIC DATA

GDP: **371.3** billion (current PPP international dollars)  
i.e. 11 989 dollars per inhabitant (2014)

REAL GDP GROWTH: **2.4%** (2014 vs 2013)

UNEMPLOYMENT RATE: **3.3%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **7 885** (BoP, current  
USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **26%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.734** (high), **rank 84**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL   | TOTAL NUMBER OF SNGs |
|--|--------------------|---|----------------------|
| <b>1 866</b><br>1 671 DISTRICT MUNICIPALITIES<br>(MUNICIPALIDADES DISTRITALES) AND<br>195 PROVINCIAL MUNICIPALITIES*<br>(MUNICIPALIDADES PROVINCIALES)<br>AVERAGE MUNICIPAL SIZE:<br><b>18 535 INHABITANTS</b> | <b>-</b>           | <b>25</b><br>24 REGIONS (DEPARTAMENTOS)<br>AND THE CONSTITUTIONAL<br>PROVINCE OF CALLAO | <b>1 891</b>         |

\*Excluding the Constitutional Province of Callao

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Peru has a two-tier subnational system of SNG. The regional level includes 24 departments set as regional governments in 2012 with elected representatives as well as the Constitutional Province of Callao which has the status of a department. The municipal level comprises two sub-levels: provincial municipalities at the upper level and districts municipalities at the lower level. These two municipal levels are independent; however, provincial municipalities have a co-ordination role across district municipalities within the province. The central government passed a law on Municipal Amalgamation in 2007 encouraging the consolidation of districts through fiscal incentives but districts did not make use of it. A referendum on departmental mergers took place in 2005 which led to the rejection of the proposal (the programmed 2009 and 2013 referenda were postponed indefinitely).

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** SNG competences are determined by the 2002 Basic Law of Decentralisation (*Ley de Bases de la Descentralización*) which established a distinction between exclusive, shared and delegated competences. The Basic Law was followed by organic laws for each level providing more details but resulting in overlaps across all levels of government. Regional competences include education (preschool, primary, secondary, and higher non-university education), public health, environmental, forest and biodiversity protection, promotion of employment, support to economic and productive activities and SMEs, land-use planning, tourism, culture and citizen participation (shared or delegated). Provincial and district municipalities have the same responsibilities. However, in addition, provincial municipalities have several other service responsibilities that extend to the district municipalities within provincial boundaries. Municipal competences include urban and rural development, regulation of land zoning, housing and urban renovation (exclusive), public safety, education, public transport and urban transit, environmental protection, culture and recreation, tourism, public health, management of social programs, waste (shared).

### SUBNATIONAL GOVERNMENT FINANCE

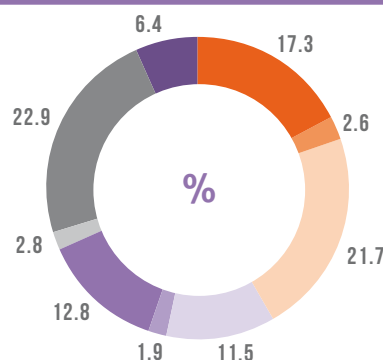
| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>8.6%</b> | <b>41.9%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | <b>4.6%</b> | <b>-</b>  | <b>53.5%</b>                |
| <b>STAFF EXPENDITURE</b>        | <b>2.2%</b> | <b>42.4%</b>  | <b>25.4%</b>                |
| <b>INVESTMENT</b>               | <b>3.9%</b> | <b>65.6%</b>  | <b>45.4%</b>                |

Peru is one of the most decentralised unitary countries of Latin America (with Colombia). SNGs have a key role in the economic and social development of the country. With the decentralisation process, but also thanks to the increase in revenues resulting from the boom in commodities revenue (canon funds), SNG expenditure rose from 33% in 2004 to over 40% in 2013, with 42% of public staff expenditure made at the SNG level (SNGs are responsible on behalf central government for the payment of wages and pensions in the sectors of education and health). One distinguishing feature in Peru is the high share of public investment made at the subnational level, almost 64% of the total, above the OECD average (59%). Regions represented 47% of SNG expenditure in 2013 and municipalities 53%.



## EXPENDITURE BY FUNCTION

### % SUBNATIONAL GOVERNMENT EXPENDITURE



The vast majority of SNG expenditure responsibilities is shared with the national government, SNGs having little spending discretion in several areas. Education as well as economic affairs/transport, are the two primary expenses, representing almost 45% of SNG expenditure. Education expenditure is mainly done at the regional level while transport expenditure has more to do with municipalities. Other significant items after “general services expenditure”, are health (mainly the regions) and environmental protection (mainly the municipalities).

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2012) | 4.1%  | 18.8%   | 100%                     |
| TAX REVENUE          | 0.5%  | 3.1%  | 11.8%                    |
| GRANTS AND SUBSIDIES | 2.8%  | -   | 69.8%                    |
| OTHER REVENUES       | 0.7%  | -   | 18.5%                    |

Peru has a lower degree of decentralisation in revenue than in expenditure. SNGs depend heavily on central government transfers while the share of tax revenue is very limited. However, SNGs benefit from an important source of revenue, coming from the exploitation of natural resources (royalties redistributed through Canon funds). Regions have nearly no own-source revenue.

**TAX REVENUE.** Regions have no assigned taxes. In contrast, provincial and district municipalities receive several taxes, but with no ability to set either bases or rates. These are set by the Central Government through the Municipal Taxation Act. The most important tax is the property tax (*Predial*) which is assigned to districts. It is based on property value in urban and rural areas, including land and buildings. Districts and provincial municipalities are also assigned the tax on property transactions (*Impuesto de Alcabala*). Both of these taxes on property represented around 60% of SNG tax revenue and 0.26% of GDP in 2013. Provincial municipalities also benefit from the vehicle tax and gambling and lottery taxes. All these taxes represent a small share of GDP, public tax revenue and SNG revenue, well below the OECD average (respectively 7%, 32% and 44% in 2013).

**GRANTS AND SUBSIDIES.** There are seven types of transfers which are the main source of funding for SNGs. The primary transfers are the following: FONCOMUN (*Fondo de Compensación Municipal*, formula based on demographic, geographic, socio-economic and fiscal criteria - for municipalities), FONCOR (*Fondo de Compensación Regional*, formula based - for the regions), ordinary transfers (discretionary - for regions and municipalities mostly earmarked to cover the payment of wages and pensions in the sectors of education and health) and *canons* and royalties (mines, hydroelectricity, fishery, oil, gas, forestry *canons*). These later are formula-based and benefit both regions and municipalities. However, only producing subnational governments receive Canon which generates high disparities across SNGs. They are earmarked to finance capital investment. Regions are almost fully financed through ordinary transfers from the central government. *Canons* and royalties represent 10% of their revenues. *Canons* and royalties represent a large share of municipal resources (37%), the second source being FONCOMUN. The importance of Canon explains the importance of capital transfers in total transfers as well as the high level of SNG investment.

**OTHER REVENUES.** Revenues from user charges and fees, including street cleaning, road tolls, parks maintenance, public safety services, administrative fees, etc. are typically larger than tax revenues. This category also includes revenues from property (sales, rents and dividends) and fines and penalties.

## OUTSTANDING DEBT

|                         | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 4.0%  | 20.4%                |

Fiscal discipline is a key pillar in the Peruvian decentralisation process. The revised Fiscal Responsibility and Transparency Law (Law 30099) enacted in 2013 reformed the previous Fiscal Responsibility and Transparency Law 27245 and the associated Decree No. 955 which were too complex (eight fiscal rules). Most SNGs did not comply with them. The new law streamlines the rules into two rule and aligns them with those for the national macro-fiscal framework: a) the level of debt can be no higher than 100% of the average total current revenues of last four years; b) the annual growth of non-financial expenditure can be no higher than the moving average growth of annual revenue over the past four years. SNGs can only borrow under the state guarantee and only for capital investment projects (“golden rule”). The new debt rule tackles the problem of other liabilities, by including them in its definition of total debt. Today, the level of debt is not a pressing issue for SNGs, especially financial debt (loans, as bond issuing is forbidden for most SNGs) which represented 11% of total SNG debt (0.4% of GDP) in 2013. Pension liabilities accounted for 27% of SNG debt while other accounts payable were at 62%.

A joint- study of:



Publication date: October 2016

**Sources:** Instituto Nacional de Estadística e Informática • INEI (2015), Directorio Nacional de Municipalidades Provinciales, Distritales y Centros Poblados • Central Bank of Peru • Ministerio de Economía y Finanzas databases • OECD (2016) Territorial Review of Peru • Ministerio de Economía y Finanzas (2015), Reporte Fiscal sobre el saldo de deuda de los gobiernos regionales y gobiernos locales, Ministerio de Economía y Finanzas • Ministerio de Economía y Finanzas (2013), Reporte Fiscal Subnacional y Social Dirección General de Descentralización Fiscal y Asuntos Sociales • Gonzalo Neyra Araoz (2013), Fiscal Decentralization in Peru: Achievements, XXV Seminario Regional de Política Fiscal de la CEPAL • Martínez-Vázquez J. (2013), Fiscal Decentralization in Peru: A Perspective on Recent Developments and Future Challenges, International Center for Public Policy • Canavire-Bacarreza G., Martínez-Vázquez, J., Sepúlveda C. (2012), Sub-national revenue mobilization in Peru, Inter-American Development Bank.



## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **HIGH INCOME: OECD** Local currency - **New Israeli Shekel (ILS)**

### POPULATION AND GEOGRAPHY

AREA: **21 643** km<sup>2</sup>

POPULATION: **8.212** million inhabitants (2014), an increase of 1.9% per year (2010-2014)

DENSITY: **379** inhabitants/km<sup>2</sup>

URBAN POPULATION: **92.1%** of national population

CAPITAL CITY: **Jerusalem** (10.6% of national population)

Sources: OECD, World Bank, UNDP, ILO

### ECONOMIC DATA

GDP: **276.9** billion (current PPP international dollars) i.e. 33 718 dollars per inhabitant (2014)

REAL GDP GROWTH: **2.6%** (2014 vs 2013)

UNEMPLOYMENT RATE: **5.9%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **6 7384** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **20%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.894** (very high), **rank 18**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|---|--------------------|-------------------------|----------------------|
| <b>255</b><br>LOCAL AUTHORITIES<br>AVERAGE MUNICIPAL SIZE:<br><b>33 190</b> INHABITANTS | -                  | -                       | <b>255</b>           |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Israel has a single tier of local government, composed of 76 municipalities (cities with at least 20 000 inhabitants), 125 local councils (towns with fewer than 20 000 inhabitants) and 54 regional councils. The latter are responsible for governing a number of settlements spread across rural areas (mainly *kibbutzim* and *moshavim*). Mayors and chairpersons of local and regional councils are elected through direct elections since 1975 Law on Local Authorities – effective in 1978. In addition, there are six districts – North, South, Centre, Jerusalem, Tel Aviv and Haifa – all administrative districts. Israel is undergoing a decentralisation process, aimed at creating a better public administration and increasing accountability, transparency and financial responsibility. The “Municipalities Bill 2007” and the “Planning and Construction Bill 2013” are aimed at giving more discretion to local governments over local policy.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Israel has no written constitution, and while the Municipalities Bill of 2007 introduces some degree of delimitation between central and local functions, the allocation of responsibilities between levels of governments remains relatively unclear. Local government responsibilities include delegated and own functions. Education (upper-secondary schools only) and social services (in-kind social services and day care for infants) are provided jointly by municipalities and the central government. Own local services include water supply, sewerage, garbage disposal, road maintenance, public gardens and parks, social services, primary health, sports and culture.

## SUBNATIONAL GOVERNMENT FINANCE

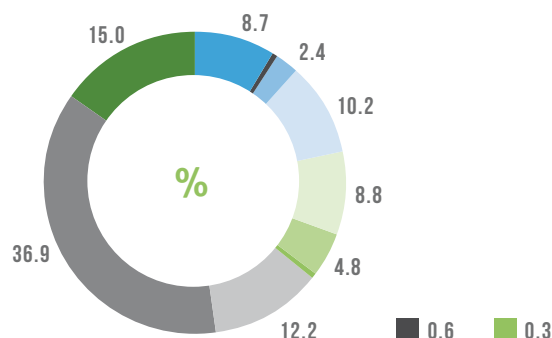
| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>5.9%</b> | <b>14.2%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | <b>4.5%</b> | -   | <b>76.7%</b>                |
| <b>STAFF EXPENDITURE</b>        | <b>1.6%</b> | <b>15.3%</b>  | <b>27.3%</b>                |
| <b>INVESTMENT</b>               | <b>1.3%</b> | <b>59.5%</b>  | <b>22.6%</b>                |

Although some responsibilities have been decentralised, Israel remains a centralised country from the local government spending responsibility perspective. Levels of SNG spending in GDP and public spending are well below the OECD average (16.6% of GDP and 40.0% of public spending), even when the OECD average for unitary countries is considered (13.4% of GDP and 29.0% of public spending). The SNG role as public employers is also very low, although staff spending represents almost 30% of SNG expenditure. However, SNGs are key public investors, carrying out almost 60% of public investment, close to the OECD average. Investment is one of SNG's main functions (one quarter of SNG expenditure), even though they often act on behalf of the central government to implement national investment programmes.



## EXPENDITURE BY FUNCTION

### % SUBNATIONAL GOVERNMENT EXPENDITURE



Education is by far the primary area of SNG spending, representing almost 40% of SNG expenditure. Other main areas of spending include social protection, recreation, culture and religion and economic affairs/transport. In addition, SNGs are responsible for the vast majority of overall public spending in the areas of environmental protection (85% of public spending) and housing and community amenities (64% of public spending). In some sectors, such as education and social affairs, local governments are still subject to control by the central government and have only limited discretionary powers.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 5.7%  | 15.4%   | 100%                     |
| TAX REVENUE          | 2.3%  | 8.8%  | 39.3%                    |
| GRANTS AND SUBSIDIES | 3.0%  | -   | 52.7%                    |
| OTHER REVENUES       | 0.5%  | -   | 8.0%                     |

Local government derive their income from two sources: taxation and other own revenue (47%) and intergovernmental transfers (53%) in the form of grants. SNGs are highly dependent on central government transfers, as are a majority of OECD unitary countries (grants and subsidies represented 50.1% of SNG revenue in the OECD unitary countries on average in 2013 while tax revenues accounted for 36.8%).

**TAX REVENUE.** By far the largest source of SNG tax revenue is the local property tax (*arnona*). In 2013, it represented 81% of SNG tax revenue and 2.0% of GDP, among the highest level in the OECD (3rd in rank with Japan after France, Canada and the United States). It is levied on land and building according to the size of the property, its location, use and age of the property, whether residential or commercial. Each local government determines the classification of buildings and neighbourhood zoning for the purpose of calculating the annual municipal tax rates per square metre. Local authorities also receive a Land Betterment Tax (*Hetel Hashbacha*, 14% of local tax revenue) paid upon sale of investment property that has benefited from an increase in value due to a land-use zoning change or the approval of additional building rights. The tax is 25% of the calculated real betterment accrued during ownership.

**GRANTS AND SUBSIDIES.** Transfers from the central government include transfers for general funding, balance grants and other grants. General transfers include "service grants" for education and social welfare, originating from the Ministry of Welfare and the Ministry of Education, as the central government provides 75% of the funding for municipal education and social welfare services. Balance grants are equalisation funds from the Ministry of Internal Affairs which aim at bridging the gap between local government revenues and expenditure. They are allocated according to different criteria reflecting the socio-economic development of the municipality. The Ministry of Interior also provides development grants for specific local projects and special fiscal recovery grants are given to local authorities that have accumulated deficits and are engaged in the fiscal recovery programme. Other grants are for specific purposes such as implementing the national agenda or the capital grant for the city of Jerusalem, etc. Capital grants represented 15% of all grants in 2013.

**OTHER REVENUES.** Other revenues for local governments include charges and fees for the use of local educational, cultural and recreational services, bylaws-generated income, tolls, revenues from local assets, etc. The share of user charges and fees (3.8% of SNG revenue) is particularly low compared to the OECD average (15.2%).

| OUTSTANDING DEBT        | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 2.5%  | 3.3%                 |

The Ministry of Internal Affairs is responsible for overseeing local governments. In co-operation with the Ministry of Finance, it approves the SNG budget and audits their accounts. Authorities that fail to meet certain budgetary performance criteria are put under administration (the "fiscal recuperation" programme) and run by a state accountant. Since 2001, local authorities that fulfil certain performance standards related to fiscal stability have been granted more independence from central authorities, and are exempted from obtaining approval with respect to wages, hiring, bank loans, enactment of municipal by-laws and other regular operations. Municipalities can borrow for investment (golden rule) and total outstanding loans must not exceed 75% of own revenue (including grants) in any fiscal year. SNG debt is low by international standards, well below the OECD unitary country average at 15.1% of GDP and 12.0% of public debt. In 2013, outstanding debt was made up of other accounts payable (38%) and financial debt (62%), which comprised only loans.

A joint- study of:



**Sources:** • OECD National Accounts Statistics • OECD (2015 and 2016) Subnational Governments in OECD Countries: Key data • Knesset (2015) [http://www.knesset.gov.il/lexicon/eng/LocalAuthorities\\_eng.htm](http://www.knesset.gov.il/lexicon/eng/LocalAuthorities_eng.htm) • Beer I. (2013): "Governmental Strategies towards Poorly-Performing Municipalities: From Narrow Perceptions to Ineffective Policies", Lex Localis Vol. 11; Local authorities in Israel (2013) official government paper available at: [http://www.cbs.gov.il/publications13/local\\_authorities11\\_1531/pdf/h\\_print.pdf](http://www.cbs.gov.il/publications13/local_authorities11_1531/pdf/h_print.pdf) • European Union Committee of the Regions (2013) FACT SHEET, Division of Powers by Policy Area, Vertical Division of Power • OECD (2011) OECD Economic Surveys: Israel 2011 • OECD (2009) OECD Economic Surveys: Israel 2009.



### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **UPPER-MIDDLE INCOME** Local currency - **Jordanian Dinar**

#### POPULATION AND GEOGRAPHY

AREA: **92 300** km<sup>2</sup>

POPULATION: **7.690** million inhabitants (2014), an increase of 2.2 % per year (2010-2014)

DENSITY: **73** inhabitants/km<sup>2</sup>

URBAN POPULATION: **83.7%** of national population

CAPITAL CITY: **Amman** (15% of national population)

Sources: World Bank; OECD; UNDP-HDR, ILO

#### ECONOMIC DATA

GDP: **79.6** billion (current PPP international dollars)  
i.e. 10 353 dollars per inhabitant (2014)

REAL GDP GROWTH: **3.1%** (2014 vs 2013)

UNEMPLOYMENT RATE: **11.9%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **1 760** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **28%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.748**(high), rank 80

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|--|--------------------|-------------------------|----------------------|
| <b>94</b><br>93 MUNICIPALITIES (BALADYAT) +<br>GREATER AMMAN MUNICIPALITY (GAM)<br>AVERAGE MUNICIPAL SIZE:<br>81 808 INHABITANTS | -                  | -                       | <b>94</b>            |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** The Kingdom of Jordan is a unitary country with a one-tier subnational government system, made of the municipal level. As of today, the country has a strong tradition of deconcentration with 12 governorates keeping most of the powers related to local policies and public service provision. The implementation of the 2007 Municipal Act introduced a considerable shift towards greater decentralization and the direct election of municipal councils, with the exception of the Greater Amman Municipality. The decentralization process is still on-going in 2016 and should lead to a future empowerment of municipalities, with extended competences. Among these new powers, municipalities would be able to form inter-municipal alliances to promote their independence and enhance the public services they offer. The future reforms could also lead to direct election of governorates councils, instead of being appointed by the central government, which would become self-governing entities. The law should also review the allocation of financial system funds distributed by the state to make it more equitable. After a massive amalgamation of cities in 2001, the country now accounts 93 municipalities and the special status city of Amman, as the capital-city and surrounding communities gathered in 1987 to form the Greater Amman Municipality (GAM). Despite this special status, the city has a limited autonomy as the Amman City Council has 20 of its 40 members appointed by the Prime Minister in order to represent public institutions and civil society organizations. The other half is elected through local elections. Other municipalities are ruled by elected official but they still placed under the supervision of the Ministry of municipal affairs. As such they are much more considered as semi-public entities providing public services than as autonomous self-governed authorities.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** According to the Municipal Act, municipalities are responsible for urban planning, public health, education, culture and sport; public safety, etc. However, it should be noted that the central government had a tendency to privatize certain competences that should be a priori devolved to municipalities, and the range of their responsibilities is now limited to solid waste management, street lighting, storm water drainage, public markets and others. Nevertheless, in parallel, there has been a consolidation of municipalities in their duties through the opportunity offered to them to gather in inter-communal entities in order to implement more effectively the public services they are responsible for.

### SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>2.1%</b> | <b>5.8%</b>   | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | <b>1.4%</b> | <b>-</b>  | <b>47.4%</b>                |
| <b>STAFF EXPENDITURE</b>        | <b>1.1%</b> | <b>15.8%</b>  | <b>51.2%</b>                |
| <b>INVESTMENT</b>               | <b>0.7%</b> | <b>12.9%</b>  | <b>32.4%</b>                |

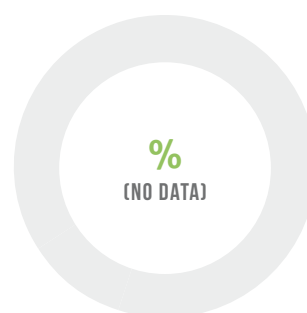
Both States and municipalities are significant economic and social actors. They represent a large share of public spending and have important spending responsibilities in key sectors. The share of staff expenditure in public staff expenditure and in SNG expenditure is above the OECD average. SNGs also play a significant role in public investment.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



Investment expenditures represented almost a quarter of the general government public investment, mostly to fulfill the needs of cities in matter of urban development. Nevertheless, these needs are not fully addressed as the devolution of financial resources does not follow the delegation of competences to the municipal level, generating overlaps between resources and needs. The lack of financial autonomy of the municipal entities doesn't allow them to adjust their fiscal policy in order to address these gaps.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL<br>GOVERNMENT |
|----------------------|-------|---|-----------------------------|
| TOTAL REVENUE (2013) | 2.1%  | 6.1%  | 100%                        |
| TAX REVENUE          | 0.8%  | 5.0%  | 38.6%                       |
| GRANTS AND SUBSIDIES | 0.0%  | -   | 1.9%                        |
| OTHER REVENUES       | 1.2%  | -   | 59.5%                       |

To fulfill their competences, municipalities benefit from a budget funded by local taxation, fees and charges, and for a major part by transfers from the central government. Municipal revenues hence represent a share of more than 2% of GDP, which is a high level in comparison to regional standards, but own-source revenue mobilization is still weak because of in-efficient tax and fees enforcement and collection. Moreover, there is a very big inequality between the Great Municipality of Amman and all of the other Jordanian municipalities.

**TAX REVENUE.** Municipalities can perceive two taxes : the tax on fuel, and the tax on property. The later has been defined as a local tax by the Municipal Law, however, the central Government, which collects the tax on the behalf of municipalities, is also for both the determination and the actualization of the tax rate, and also has a role in the determination of the amount transferred to the municipalities.

**GRANTS AND SUBSIDIES.** Municipalities budgets are for a large part funded by financial allocations from the central government whose amount varies depending on the number of inhabitants. However, these transfers are for a large part accounted on other accountability categories.

**OTHER REVENUES.** According to distribution criteria, 6% of produced oil derivatives made by Jordan Oil Refinery Company is redistributed between municipalities taking into account their population, their level of contribution to state revenue, the specificity of their situation and their responsibilities. this budget is severely limited compared to the national budget and the governorates. Other revenues also include income coming from fines, customs taxation.

## OUTSTANDING DEBT

## % GDP

## % GENERAL GOVERNMENT

### OUTSTANDING DEBT (2013)

-

-

The only source for financing capital expenditure, in addition to central fiscal transfers, is borrowing from the Cities and Villages Development Bank (CVDB) which is the official lending agency and intermediary for fiscal transfers and grant administration in the municipal sector.

A joint- study of:



**Sources:** Ministry of Finance (2013) on <http://www.mof.gov.jo/en-us/datacenter/> • Secondary cities revitalization study, Analysis of the municipal sector, Annex B (2005) • EuropeAid (2010), Building development capacities of Jordanian capacities – Baladiaty, The quest for decentralizing government in the Hashemite Kingdom of Jordan : some preliminary findings of a situation analysis • *Forum Méditerranéen du service public* • UCLG Observatory on governance in Mediterranean area • Myriam Ababsa (2013), Municipalities and Issue of Local Governance, in Atlas of Jordan, Presses de l'Ifpo, Institut français du Proche-Orient



# PALESTINIAN TERRITORIES

UNITARY COUNTRY

MIDDLE EAST  
AND WEST ASIA

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOWER MIDDLE INCOME** Local currency - **Israeli new shekel (ILS)**

### POPULATION AND GEOGRAPHY

AREA: **6 020** km<sup>2</sup>

POPULATION: **4.295** million inhabitants (2014), an increase of 3% per year (2010-2014)

DENSITY: **713** inhabitants/km<sup>2</sup>

URBAN POPULATION: **75.3%** of national population

CAPITAL CITY: **Ramallah** (2% of national population)

Sources: World Bank; UNDP-HDR, ILO

### ECONOMIC DATA

GDP: **19.4** billion (current PPP international dollars)  
i.e. 4 509 dollars per inhabitant (2014)

REAL GDP GROWTH: **-1.5%** (2014 vs 2013)

UNEMPLOYMENT RATE: **26.9%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **127** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **18.6%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.677** (medium), **rank 113**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|--|--------------------|-------------------------|----------------------|
| <b>483</b><br>LOCAL GOVERNMENTS -<br>MUNICIPALITIES (BALADIYEH)<br>AVERAGE MUNICIPAL SIZE:<br><b>8 892</b> INHABITANTS | -                  | -                       | <b>483</b>           |

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** The Palestinian Authority was born from the Oslo Agreements. Palestine is divided into two main geographical units: the West Bank and the Gaza Strip. It is still an ongoing State construction. The official government of Cisjordania is governed by a President, while the Gaza area is governed by the Hamas. Up to now, most governmental functions are ensured by the State of Israel. In 1994, and upon the establishment of the Palestinian Ministry of Local Government (MoLG), 483 local government units were created, encompassing 103 municipalities and village councils and small clusters. Besides, 16 governorates are also established as deconcentrated level of government. Over the past years, reforms are tending to reduce the number of local governments units (municipalities and villages), with mitigated success. Finally, the governments is rather turning towards pooling municipalities together through intercommunal entities, called Joint Services Councils (JSC), that can have one specific or several functions (water, electricity, solid waste, planning). We can count around 100 JSCs but they are not all operating.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The functions and responsibilities of the Palestinian Authority are not homogenous over the territory as a whole. The territory is split between areas A, B and C (Area C represents 60% of the Palestinian territory and is under the control of the Israeli authorities. The Local Authorities Law stipulates 27 areas that are under the LGUs' responsibility, namely: town planning; building licensing and construction control; water supply; electricity supply; sewage; licensing of trades and businesses; public health monitoring; collection and disposal of solid waste; public parks; cultural and sport activities; public transport; disposal of remnants of roads; social services for the poor; cemeteries; precautions against natural disasters; budget approval and management, etc. Some municipalities take over additional such as providing emergency services and constructing and maintaining schools.

## SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>3.3%</b> | <b>10.2%</b>  | <b>100%</b>                 |
| <b>CURRENT EXPENDITURE</b>      | 3.0%        | -   | 92.7%                       |
| <b>STAFF EXPENDITURE</b>        | 0.9%        | 5.2%  | 27.9%                       |
| <b>INVESTMENT</b>               | 0.2%        | 20.7%   | 7.3%                        |

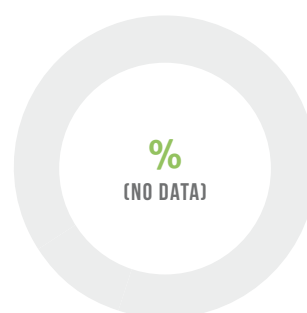
The increase of local government units and municipalities since 1994 has not been accompanied by a corresponding increase of municipal staff capacities needed to collect local resources, which is still reflected in the high share of spending dedicated to current expenditures and staff expenditures.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



Despite the lack of data for 2013, we can note that from past years, Palestinian municipalities spend a larger share of their budget on public work, administrative, legal and financial affairs, and health.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL<br>GOVERNMENT |
|----------------------|-------|---|-----------------------------|
| TOTAL REVENUE (2013) | 3.2%  | 10.0%   | 100%                        |
| TAX REVENUE          | 0.3%  | 1.8%  | 9.7%                        |
| GRANTS AND SUBSIDIES | 0.1%  | -   | 4.4%                        |
| OTHER REVENUES       | 2.8%  | -   | 85.9%                       |

Regarding tax and other revenues, many municipalities suffer from an absence of sound collection system. The Municipal Law No. 1 of 1997 did not expressly delegate the power of imposing taxes within their regions. Article 5 B authorizes municipality councils to implement systems which include taxes, fees, revenues and fines, but Article 5 does not explicitly refers to the validity of the Municipal Council to impose taxes.

**TAX REVENUE.** Tax revenues represent a low share of local governments' revenues, due to their strong reliance on taxes on property (around 9% of total local revenues). According to the Jordanian property tax law no. 11 for 1954, the property tax is collected by deconcentrated services from within the municipal boundaries of the Palestinian territory only. Around 90% of the total amount of collected property tax in the West Bank is returned back to the local governments while the remaining 10% is deducted by the MoF as expenses and salaries of the Department of Property Tax employees and workers. The property tax staff capacities and resources were designed to serve 30 municipalities that existed prior 1994, whereas this number has increased dramatically since then. Therefore, there is a lack of capacity for valuation and collection of the tax that is currently being reformed. Other taxes include business taxes and transportation taxes.

**GRANTS AND SUBSIDIES.** Some transfers that could be perceived by local governments from the Palestinian Authority according to the 1997 Local Authorities Act are not carried out effectively (for instance, half of gasoline taxes, vehicle registration fees and traffic fines should be transferred to local governments, to be spent for road construction and maintenance). This is because of a lack of accountability and transparency between Palestinian local governments, the Palestinian Authority and Israeli utilities and the Government of Israel.

**OTHER REVENUES.** The main source of revenues for municipalities in Palestinian territory are fees and taxes from provision of public goods and services. They have the authority to collect and administer several taxes and fees including, first, fees from services of electricity, water distribution, and waste collection. Municipalities also perceive most revenues from building permits, as well as lore tax, profession licenses fees.

## OUTSTANDING DEBT

### % GDP

### % GENERAL GOVERNMENT

#### OUTSTANDING DEBT (2013)

-

-

The situation of local finances of Palestinian local governments, highly dependent upon the political instability of the country, makes them dependent on the provision of external resources and in particular of international aid, mostly for investment budgets of municipalities and village councils. Local governments can access these funding from the Palestinian Authority and from donors through the Palestine's Municipal Development and Lending Fund, an independent public institution set up in 2005.

A joint- study of:



Sources: IMF-GFS • Palestinian Central bureau of statistics • N. R. Sabri and R. Jaber (2007), Financial Analysis of Palestinian Local Government • Diagnostic study of property tax in the occupied Palestinian territory (opt), Funded by the Government of Japan, implemented by UNDP (2010) • A. Signoles (2010), Local Government in Palestine, French Development Agency • N. R. Sabri (2012), The Palestinian Property Tax Law (Estate, Buildings and Lands)



# TURKEY

UNITARY COUNTRY

## MIDDLE EAST AND WEST ASIA

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **UPPER MIDDLE INCOME: OECD** Local currency - **Turkey lira (TRY)**

#### POPULATION AND GEOGRAPHY

AREA: **769 604** km<sup>2</sup>

POPULATION: **76.619** million inhabitants (2014),  
an increase of 1.2% per year (2010-2014)

DENSITY: **100** inhabitants/km<sup>2</sup>

URBAN POPULATION: **72.9%** of national population

CAPITAL CITY: **Ankara** (6.1% of national population)

Sources: OECD, World Bank, UNDP, ILO

#### ECONOMIC DATA

GDP: **1 502.5** billion (current PPP international dollars)  
i.e. 16 610 dollars per inhabitant (2014)

REAL GDP GROWTH: **2.9 %** (2014 vs 2013)

UNEMPLOYMENT RATE: **9.2 %** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **12 765** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **20%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.761** (high), **rank 72**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL  | TOTAL NUMBER OF SNGs |
|--|--------------------|--|----------------------|
| <b>1 397</b><br>970 PROVINCIAL AND DISTRICT MUNICIPALITIES (BELEDIYELER)<br>397 TOWNS<br>30 METROPOLITAN MUNICIPALITIES<br>AVERAGE MUNICIPAL SIZE:<br>53 940 INHABITANTS | -                  | <b>81</b><br>51 SPECIAL PROVINCIAL ADMINISTRATIONS (İL ÖZEL İDARELERİ)<br>30 METROPOLITAN MUNICIPALITIES | <b>1 478*</b>        |

\*Nb: Metropolitan municipalities are counted twice, as a municipal-level entity and as regional entity.

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Local governments are regulated by the 1982 Constitution, followed by a string of laws on sub-national governance in 2004 and 2005. Two main territorial reforms took place recently. In 2008, the Scale reform Act reduced the number of municipalities from 3 225 to 2 950 and in 2012, a new local government reform took place (2012 Local Government Act and new Metropolitan Municipality Act N° 6360). Implemented in March 2014, the Local Government Act further reduced the number of municipalities to 1 396 and established 14 new "metropolitan municipalities" in addition to the existing 16. Since 2014, these entities, which have a two-layer structure (the metropolitan municipality and its constituent district municipalities), are now "provincial metropolitan municipalities" (PMMs) and no longer special provincial administrations (SPAs). As of December 2014, Turkey also comprises 18 362 villages (not dependent on a municipality) which are traditional settlements, but too small for establishing municipal administrations. Besides self-governing SPAs, there is a provincial level representing the deconcentrated state administration, managed by a Governor, appointed by the central government, who keeps a major role as the head of the SPA Executive Committee.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Municipalities competences are urban infrastructure facilities (town planning, water supply and sewage, local transport), geographic information systems, environmental and public health issues, urban traffic, parks and recreation, housing, social and cultural services, economic development and construction and maintenance of schools. Metropolitan municipalities have additional responsibilities such as urban planning, urban police or disaster management. SPA competences are land development, education, agriculture (including reforestation and irrigation), health services, social security, commerce and the economy.

### SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP       | % GENERAL GOVERNMENT<br>(same expenditure category) | % SUBNATIONAL<br>GOVERNMENT |
|---------------------------------|-------------|---|-----------------------------|
| <b>TOTAL EXPENDITURE (2013)</b> | <b>4.0%</b> | <b>10.7%</b>  | -                           |
| <b>CURRENT EXPENDITURE</b>      | 2.8%        | -   | 69.6%                       |
| <b>STAFF EXPENDITURE</b>        | 0.9%        | 10.7%   | 22.9%                       |
| <b>INVESTMENT</b>               | 1.1%        | 35.9%   | 26.7%                       |

Turkey ranks among the OECD countries with a low level of decentralisation. SNGs play a minor role in the provision of public services and investment. Spending and investment ratios to GDP and general government are well below the OECD averages.



## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



Municipalities represent the lion's share of SNG expenditure (67%), special provincial administrations representing 17% and other local actors the remaining part. The three first subnational government expenditure items (excluding general public services) are economic affairs and transport, housing and community amenities (mainly drinking water, housing and community development) and environmental protection (mainly waste and waste water). For the SPAs, general administrative services represent the bulk of their spending, followed by education and economic affairs. Almost 50% of their budget is dedicated to investment. For municipalities, the main budget items are economic affairs, housing and environmental protection, general administrative services representing 35%. Only 28% of municipal budget is dedicated to investment.

| REVENUE BY TYPE      | % GDP | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 4.2%  | -   | 11.6%                    |
| TAX REVENUE          | 0.6%  | 2.6%  | 13.0%                    |
| GRANTS AND SUBSIDIES | 3.0%  | -   | 70.4%                    |
| OTHER REVENUES       | 0.7%  | -   | 16.6%                    |

SNGs are highly dependent on central government grants and subsidies, especially SPAs which depend almost entirely on central government funding and whose financial resources are very limited (18% of total SNG revenue while municipalities account for 82%). Municipalities have a greater share of own-source revenue.

**TAX REVENUE.** The primary municipal tax is property tax on land and buildings, providing around 50% of SNG tax revenue (0.4% of GDP), followed by the electricity and gas consumption tax and environmental cleaning tax. There are also minor taxes (publication and advertising tax, entertainment tax, communication tax, etc.). In total, these various taxes on goods and services represent 33% of SNG tax revenue. Municipalities are responsible for collecting property tax but they cannot set the tax rate which is determined by the central government.

**GRANTS AND SUBSIDIES.** Central government transfers come from different sources: Central Government Budget Agencies, special State programmes and the system of national tax revenue sharing (PIT, CIT and VAT), which is the most important component. It represents around 70% of total central government transfers and 45% of total SNG revenue and of the total collection of the general budget tax revenues, 2.85% is kept for non-metropolitan municipalities, 2.5% for district municipalities within metropolitan municipalities and 1.15% for special provincial administrations. These funds are redistributed according several criteria: population (80%) and a "development index" (20%) for the municipalities. For SPAs: population (50%); surface area (10%); number of villages (10%), rural population (15%) and provincial "development index" (10%). With a new metropolitan act, metropolitan cities now receive a share of these funds.

**OTHER REVENUES.** SNGs derive around 10% of their income from the sales of goods and services. User charges and tariffs are collected for sewerage, water and road construction and improvement. They also receive revenue from dividends of affiliated local companies, rents and property sales.

| OUTSTANDING DEBT        | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 3.5%  | 8.7%                 |

Almost 100% of financial outstanding debt comes from loans. SNGs are able to borrow funds under the provisions of Law No. 4749 (regulation on public finance and debt management) to finance investment projects only (golden rule). In addition, there is a series of borrowing limits and procedures. In particular, domestic borrowing is limited to an amount of 10% of previous year's revenues modified with the revaluation rate. Total outstanding debt stock (including external debt) cannot exceed the revaluated amount of the latest annual budget (1.5 times for metropolitan municipalities). Despite the very small share of municipal bonds, most metropolitan municipalities are rated by international rating agencies (e.g. Istanbul, Ankara, Izmir and Bursa).

A joint study of:



**Sources:** OECD National Accounts (Government statistics) • OECD (2015 and 2016), Subnational governments in OECD countries: Key data • Akman, C., Akman, E. & Okcu, M. (2015), Reform in Local Governments: What Did the New Municipal Law Bring in Turkey? Global Journal on Humanities & Social Sciences • Zuhâl Önez Çetin (2015) The Transformation of Special Provincial Administration System in Turkey • Kablan A (2013) Financial resources of municipalities in Turkey • S. Ulas Bayraktar, Elise Massicard (2011) La Décentralisation en Turquie. Agence Française de Développement, pp.104, Focales • Council of Europe (2011) Local and regional democracy in Turkey • Ministry of Interior of Turkey (2011) Local authorities in Turkey.



### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **HIGH INCOME: OECD** Local currency - **CANADIAN DOLLAR (CAD)**

#### POPULATION AND GEOGRAPHY

AREA: **9 093 507** km<sup>2</sup>

POPULATION: **35.544** million inhabitants (2014),  
an increase of 1.1% per year (2010-14)

DENSITY: **4** inhabitants/km<sup>2</sup>

URBAN POPULATION: **81.6%** of national population

CAPITAL CITY: **Ottawa** (3.7% of national population)

Sources: OECD, World Bank, UNDP, ILO

#### ECONOMIC DATA

GDP: **1 601.8** billion (current PPP international dollars)  
i.e. 45 066 dollars per inhabitant (2014)

REAL GDP GROWTH: **2.4%** (2014 vs 2013)

UNEMPLOYMENT RATE: **6.9%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **57 168** (BoP,  
current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **24%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.913** (very high), **rank 9**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL   | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL                   | TOTAL NUMBER OF SNGs |
|---|--------------------|---|----------------------|
| <b>3 805</b>  | <b>-</b>           | <b>13</b>                                 | <b>3 818</b>         |
| <b>MUNICIPALITIES*</b><br>AVERAGE MUNICIPAL SIZE:<br><b>8 205 INHABITANTS</b> |                    | <b>10 PROVINCES AND<br/>3 TERRITORIES</b> |                      |

\* Indian reserves, Indian settlements and unorganised territories (1 233 entities in 2015) as well as special purpose entities are excluded from the count reported in the table.

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** The Constitution (1867) and Charter of Rights and Freedoms (1982) define a federal system of shared powers in which the federal government and the provinces have equal status. The subnational system is two-tiered and made up of 10 provinces and 3 territories at the upper level and 3 805 municipalities at the lower level. Municipalities are not formally recognised in the federal constitution, but they are mentioned as “coming under the exclusive jurisdiction of the provinces”. Therefore, there are a variety of municipal structures which differ from one province to another (municipal intermunicipal authorities, metropolitan and regional municipalities, towns, townships, cities, etc.). Over the last 20 years, several provinces have carried out municipal merger policies. The local government sector also includes elected independent special purpose entities such as school boards.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Provinces and territories have own and shared responsibilities with the federal government. Own responsibilities include education, health care (including hospitals), highways, prisons, natural resources, municipal affairs. Shared responsibilities include pensions, energy, water, agriculture and immigration. Municipal tasks are set by provinces and vary considerably. In addition, provinces can delegate some of their responsibilities to municipalities. Municipal functions typically include transport (roads and transit); protection (police and fire); water and sewerage, waste, recreation and culture, land use planning, social housing. Education, social and health services are not included in municipal responsibilities, except when they are shared with the province (e.g. social assistance in Ontario). Primary and secondary education lies with independently elected local authorities (schools boards) who are directly answerable to provinces and territories.

### SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP            |             | % GENERAL GOVERNMENT<br>(same expenditure category) |              | % SUBNATIONAL GOVERNMENT |             |
|---------------------------------|------------------|-------------|---|--------------|--------------------------|-------------|
|                                 | SUBNATIONAL DATA |             | LOCAL DATA ONLY                                     |              |                          |             |
| <b>TOTAL EXPENDITURE (2013)</b> | <b>31.1%</b>     | <b>8.4%</b> | <b>76.5%</b>  | <b>20.6%</b> | <b>100%</b>              | <b>100%</b> |
| <b>CURRENT EXPENDITURE</b>      | 27.5%            | 7.0%        | -   | -            | 88.4%                    | 83.4%       |
| <b>STAFF EXPENDITURE</b>        | 10.1%            | 4.2%        | 83.2%   | 35.0%        | 32.4%                    | 50.7%       |
| <b>INVESTMENT</b>               | 3.4%             | 1.4%        | 88.4%   | 35.2%        | 11.0%                    | 16.3%       |

The SNG share in GDP and public spending is by far the highest of the OECD, well above the OECD average (16.6% of GDP and 40.0% of public spending in 2013). A vast majority is made by the provinces (78%). SNGs are also key employers (SNG share in public staff spending is 20 percentage points above the OECD average of 63.2%), but lower at the local level compared to OECD unitary countries. SNGs are also key investors, with a share in public investment which is the highest of OECD countries (30 percentage points higher than the OECD average). Canada also ranks first in the OECD regarding SNG investment-to-GDP (3.4% vs. 1.9% in the OECD)



## EXPENDITURE BY FUNCTION

### % SUBNATIONAL GOVERNMENT EXPENDITURE



Health is by far the highest spending area for SNGs, representing one-third of their expenditure. It is followed by education (in the hands of schools boards), general public services and social protection. SNGs are responsible for the large majority of total public spending in the areas of economic affairs, environmental protection, health and education. Provincial spending is significant on health, social services, and education. Primary areas of municipal spending are transport, environment and the protection of persons and property.

## REVENUE BY TYPE

### % GDP

### % GENERAL GOVERNMENT (same revenue category)

### % SUBNATIONAL GOVERNMENT

■ SUBNATIONAL DATA □ LOCAL DATA ONLY

|                             | % GDP        | % GDP       | % GENERAL GOVERNMENT<br>(same revenue category) | % GENERAL GOVERNMENT<br>(same revenue category) | % SUBNATIONAL<br>GOVERNMENT | % SUBNATIONAL<br>GOVERNMENT |
|-----------------------------|--------------|-------------|---|---|-----------------------------|-----------------------------|
| <b>TOTAL REVENUE (2013)</b> | <b>28.3%</b> | <b>7.9%</b> | <b>74.4%</b>                                    | <b>20.9%</b>                                    | <b>100%</b>                 | <b>100%</b>                 |
| <b>TAX REVENUE</b>          | <b>14.3%</b> | <b>2.9%</b> | <b>54.9%</b>                                    | <b>11.1%</b>                                    | <b>50.5%</b>                | <b>36.2%</b>                |
| <b>GRANTS AND SUBSIDIES</b> | <b>8.5%</b>  | <b>3.8%</b> | <b>-</b>  | <b>-</b>  | <b>30.2%</b>                | <b>48.0%</b>                |
| <b>OTHER REVENUES</b>       | <b>5.5%</b>  | <b>1.3%</b> | <b>-</b>  | <b>-</b>  | <b>19.3%</b>                | <b>15.8%</b>                |

Fiscal provisions are not very detailed in the Constitution, which does not prescribe intergovernmental transfers or tax sharing. However, equalisation between provinces principle has been enshrined in the constitution since 1982. Local government financing is at discretion of the provinces and territories. Taxation is the primary source of revenue for SNG. In 2013, SNGs received more than half of public tax revenue, the highest share in the OECD.

**TAX REVENUE.** Tax revenue comes from shared taxation (between provinces and federal government) and own-source taxation (in particular at the municipal level). Provinces represent almost 80% of all SNG tax revenue. Provinces have wide-ranging tax autonomy. Their tax revenues include PIT and CIT, sales tax and payroll tax (all shared taxes), tax on gaming profits, property tax, etc. Tax harmonisation agreements have been established for shared taxes in order to set a common framework between participating provinces. They adhere to the federal tax base but maintain discretion over tax rates. Income tax represented 50% of provincial tax revenue in 2013 and sales tax 21%. The primary source of municipal tax revenue is property tax (85% of local tax revenue). Tax bases are harmonised within all provinces, and municipalities have discretion over the tax rates. Receipts of the provincial and municipal property taxes represented 3.1% of GDP in 2014, ranking second in the OECD after France.

**GRANTS AND SUBSIDIES.** Federal transfers to provinces and territories aim at ensuring funding for providing health, welfare and education services. They include a vertical equalisation function through unconditional equalisation transfers (determined by assessing each province's revenue-raising capacity) and social transfers. The latter are based on equal per capita transfers and include the Canada Health Transfer (CHT) and the Canada Social Transfer (CST). In addition, there exist many other small transfers to provinces for specific purposes. Territories also receive specific unconditional transfers which take also expenditure needs into account, in recognition of the higher cost of providing programs and services in the north. Municipalities receive federal and provincial transfers, which account for almost half of their revenue. Federal transfers are earmarked. Provinces can define their own municipal equalisation schemes.

**OTHER REVENUES.** Other revenues comprise user charges and fees (10.4% of SNG revenue), property income (dividends, rents, assets sales i.e. 6.6% of SNG revenues) and social contributions. Property income includes proceeds from natural resources exploited on provincial territory (royalties), which can be significant for some provinces. Provinces receive direct payment from mining companies, such as in Australia or Argentina. Charges for services (e.g. water, waste water and sewer fees) are a significant source of revenue for municipalities.

## OUTSTANDING DEBT

### % GDP

### % GENERAL GOVERNMENT

■ SUBNATIONAL DATA □ LOCAL DATA ONLY

|                                | % GDP        | % GDP       | % GENERAL GOVERNMENT | % GENERAL GOVERNMENT |
|--------------------------------|--------------|-------------|----------------------|----------------------|
| <b>OUTSTANDING DEBT (2013)</b> | <b>61.0%</b> | <b>9.1%</b> | <b>57.4%</b>         | <b>8.6%</b>          |

The federal government introduced balanced-budget legislation for the first time in 2014. Seven provinces had implemented balanced budget legislation by the end of 2014. While some provinces have introduced restrictions over the use of deficit financing, these limits remain self-imposed. Provinces are free to borrow and lend for any kind of expenditure. Fiscal rules for municipalities are set by the provinces. In general, provincial legislation imposes balanced budgets and limits for municipal borrowing. A common rule is to restrict borrowing to the financing of capital expenditure (golden rule). SNG debt ratios are by far the highest in the OECD, well above the OECD averages (of 23.7% of GDP and 20.2% of public debt) and 85% of SNG outstanding debt is provincial debt. Indebtedness at the local level remains moderate by international standards. SNG debt is made up of financial debt (64%), pension liabilities (7%) and other accounts payable (29%). Financial debt is mainly through bonds (93% of financial debt).

A joint- study of:



**Sources:** OECD National Accounts Statistics • Statistics Canada (COFOG) • OECD (2015 and 2016), Subnational Governments in OECD Countries : Key data - OECD (2014c) • OECD Regional Outlook 2014: Regions and Cities: Where Policies and People Meet • Glezi P. (2014), Federalism in Canada and Germany: Overview and Comparison • Nicol S. (2014), "Fiscal Devolution: Some Comparative Examples", SPICe paper • Young R. (2013), Multilevel Governance and Public Policy in Canadian Municipalities: Reflections on Research Results" • Blöchliger, H. and C. Vammalle (2012), Reforming Fiscal Federalism and Local Government: Beyond the Zero-Sum Game • Enid Slack (2009), Provincial-Local Fiscal Transfers in Canada: Provincial Control Trumps Local Accountability.



# UNITED STATES

FEDERAL COUNTRY

## NORTH AMERICA

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **HIGH INCOME: OECD** Local currency - **US Dollar (USD)**

#### POPULATION AND GEOGRAPHY

AREA: **9 161 923** km<sup>2</sup>

POPULATION: **319.173** million inhabitants (2014), an increase of 0.7% per year (2010-14)

DENSITY: **35** inhabitants/km<sup>2</sup>

URBAN POPULATION: **81.5%** of national population

CAPITAL CITY: **Washington DC** (1.5% of national population)

Sources: OECD, World Bank, UNDP, ILO

#### ECONOMIC DATA

GDP: **17 419** billion (current PPP international dollars)  
i.e. 54 475 dollars per inhabitant (2014)

REAL GDP GROWTH: **2.4%** (2014 vs 2013)

UNEMPLOYMENT RATE: **6.3%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **131 829** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **20%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.915** (very high), rank 8

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL  | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|--|--------------------|-------------------------|----------------------|
| <b>35 879</b>  | <b>3 031</b>       | <b>50</b>               | <b>38 960</b>        |
| 879 MUNICIPALITIES, TOWNS AND TOWNSHIPS*<br>AVERAGE MUNICIPAL SIZE:<br>8 990 INHABITANTS | COUNTIES           | STATES                  |                      |

\* Special purpose entities are excluded from the counts reported in the table.

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** The United States has a three-tier system of subnational government that includes states, counties and a municipal level comprising municipalities and towns/townships. Towns/townships exist in less than half of the states, are located in areas that are not incorporated as municipalities, and typically have more limited powers. Besides these general purpose entities, local governments also include special purpose entities, in particular schools districts and special districts (51 146 such entities in 2012). Local governments are not recognised in the federal Constitution. They belong to the states and their structure varies according to their state's constitution or legislation. In practice, there are 50 different systems of local government in the U.S.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The 1789 Constitution and Bill of Rights develop concepts of federalism based on dual sovereignty of the federal government and the states. Powers not specifically attributed to the federal level remain with the states. Local government responsibilities vary greatly from one state to another. Typically, states are responsible for higher education, state economic development, highways, income support (cash and in-kind, particularly health care for the poor through Medicaid), state parks, state police and prisons, control over local governments. Counties are in charge of income support and social services, public hospitals, county roads, county economic development, etc. Municipalities are responsible for local police and fire protection, sanitation and waste disposal, local roads, public transportation, local parks, recreation and libraries, local land use and zoning, housing and urban development. School districts are responsible for elementary and secondary education while special districts are active in various areas (hospitals, water and sewerage, housing, public transportation, airport districts, etc.).

### SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE                     | % GDP        |   | % GENERAL GOVERNMENT<br>(same expenditure category) |   | % SUBNATIONAL GOVERNMENT |   |
|---------------------------------|--------------|---|---|---|--------------------------|---|
|                                 |              |   |   |   |                          |   |
|                                 |              |   |   |   |                          |   |
| <b>TOTAL EXPENDITURE (2013)</b> | <b>18.6%</b> | - | <b>48.1%</b>  | - | <b>100%</b>              | - |
| <b>CURRENT EXPENDITURE</b>      | 16.8%        | - | -   | - | 90.1%                    | - |
| <b>STAFF EXPENDITURE</b>        | 7.6%         | - | 76.0%   | - | 40.8%                    | - |
| <b>INVESTMENT</b>               | 1.8%         | - | 54.3%   | - | 9.9%                     | - |

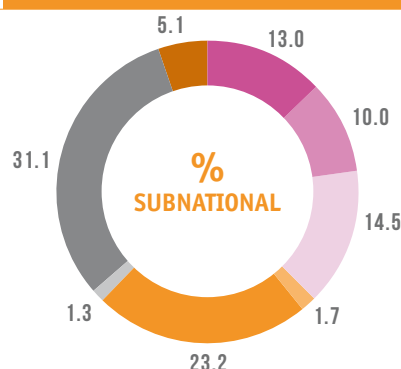
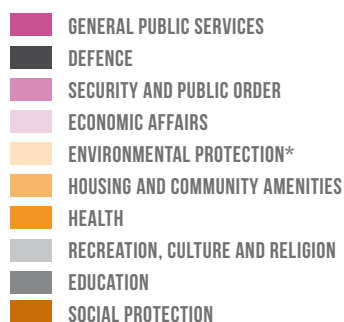
\* The breakdown between the states and local government is not available in the national accounts.

American SNGs are key economic and social actors. Their shares in GDP and public spending are above OECD averages (respectively 16.6% and 40.0%) and slightly below the OECD average of the nine federal countries (19.2% and 49.1%). SNGs are key public employers, accounting for more than three-quarters of total public staff spending. SNG role in investment is less pronounced than in the OECD: the share in public investment is below the OECD federal country average (60.2%), and even below the OECD average (58.5%). While the national accounts do not provide deconsolidated data within the SNG sector, local government expenditure can be estimated at 11% of GDP and 31% of non-defence public expenditure in 2010.



## EXPENDITURE BY FUNCTION

### % SUBNATIONAL GOVERNMENT EXPENDITURE



\* Environmental protection expenditure is included in "housing and community amenities" area.

Education and health are by far the largest areas of SNG spending, representing both almost 55% of SNG expenditure. Economic affairs and transport are the third main area of spending. In addition, SNGs are responsible for the large majority of total public spending in the areas of security and public order, recreation and culture and education (over 80%).

## REVENUE BY TYPE

### % GDP

### % GENERAL GOVERNMENT (same revenue category)

### % SUBNATIONAL GOVERNMENT

■ SUBNATIONAL DATA □ LOCAL DATA ONLY

|                             | % GDP        |   | % GENERAL GOVERNMENT<br>(same revenue category) |   | % SUBNATIONAL<br>GOVERNMENT |   |
|-----------------------------|--------------|---|---|---|-----------------------------|---|
| <b>TOTAL REVENUE (2013)</b> | <b>17.2%</b> | - | <b>51.8%</b>                                    | - | <b>100%</b>                 | - |
| <b>TAX REVENUE</b>          | <b>8.8%</b>  | - | <b>44.6%</b>                                    | - | <b>51.3%</b>                | - |
| <b>GRANTS AND SUBSIDIES</b> | <b>3.8%</b>  | - | -   | - | <b>22.1%</b>                | - |
| <b>OTHER REVENUES</b>       | <b>4.6%</b>  | - | -   | - | <b>26.6%</b>                | - |

Fiscal issues provisions are in the Constitution and Bill of Rights. However, unlike some other federations, the Constitution does not clearly define the fiscal roles and relationships of the federal and state governments. Local government fiscal policy is defined by the states. Taxation is the primary source of revenue for SNGs, higher than the OECD average (51.3% vs. 43.7%). In contrast, the share of grants and subsidies in SNG revenue is well below the OECD average (22.1% vs. 37.3%) while fees and user charges are significantly higher (26.6% vs. 19.0%).

**TAX REVENUE.** Unlike many federations, there is no federal tax sharing with either states or local governments. Some states however have tax sharing systems with their local authorities. In 2013, states accounted for 58% of SNG tax revenue and local government, 42%. The largest source of tax revenue for states comes from sales and gross receipt taxes (47%). Other major taxes include income tax on both personal and corporate (42%), license taxes, motor fuel tax, etc. Taxes allocated to local governments vary from state to state, and by type of local authority. The most common taxes are local property tax (levied in all 40 states), sales tax (levied in 37 states), local income tax (levied in 13 states), etc. The property tax is levied on both residential and business property, based on market value. In 2014, it represented 76% of local tax revenue, i.e. 2.5% of GDP, ranking third in the OECD after France and Canada.

**GRANTS AND SUBSIDIES.** There is no federal unconditional general grant, or equalisation grant, to either local or state governments. Federal transfers to states include primarily those for public welfare, comprising public assistance programmes (temporary assistance to needy families and Medicaid). Other transfers are, for instance, for highways, education, health and hospital-related functional activities, etc. Local governments receive transfers from both federal (15% of grants) and state governments (85%). Federal general grants are all earmarked, with more or less discretion over some grants (the Community Development Block Grant is the largest). Other federal grants are categorical grants and can be used only for specific, relatively narrowly defined purposes. State transfers to local authorities vary from state to state. In most cases they are earmarked, although some states provide general-purpose grants and have equalisation systems.

**OTHER REVENUES.** Other revenues are a significant source of revenue for SNGs, especially tariffs and fees (22.5% of SNG revenue vs. 15.2% in the OECD) and property income. Local governments impose fees and charges on a variety of services while states receive insurance trust revenues, service charges for education and hospital-related services, interest revenue, etc.

## OUTSTANDING DEBT

### % GDP

### % GENERAL GOVERNMENT

■ SUBNATIONAL DATA □ LOCAL DATA ONLY

|                                | % GDP        |   | % GENERAL GOVERNMENT |   |
|--------------------------------|--------------|---|----------------------|---|
| <b>OUTSTANDING DEBT (2013)</b> | <b>29.4%</b> | - | <b>23.5%</b>         | - |

The federal government does not impose fiscal rules on state or local governments. These are set by the states, imposed upon themselves and on local governments. In that context, they vary from state to state, including various ceilings, prohibitions and conditions on deficit and debt. However, almost every state and local government is required to maintain a balanced operating budget. In addition, long-term debt is almost always intended for capital projects (golden rule). U.S. SNG debt is above OECD averages of respectively 23.7% of GDP and 20.2% of public debt in 2013. It is made up of financial debt (60%), pension liabilities (25%) and other accounts payable (15%). Financial debt comprises almost exclusively from bonds, individuals being the primary holders of state and local government debt (around 75% of all debt outstanding) thanks to federal income tax exclusion on interest payments on SNG bonds.

A joint study of:



**Sources:** OECD National Accounts Statistics • OECD (2015 and 2016) Subnational Governments in OECD Countries: Key data • Wolman H. and Hincapié D. (2014) National Fiscal Policy And Local Government During The Economic Crisis, Volume 2: Country Profiles Urban Paper Series • Lee C. et al (2014) State Government Finances Summary Report: 2012 "Governments Division Briefs" • Maguire S. (2012) State and Local Government Debt: An Analysis • U.S. Department of commerce (2012) State and Local Government Finance.

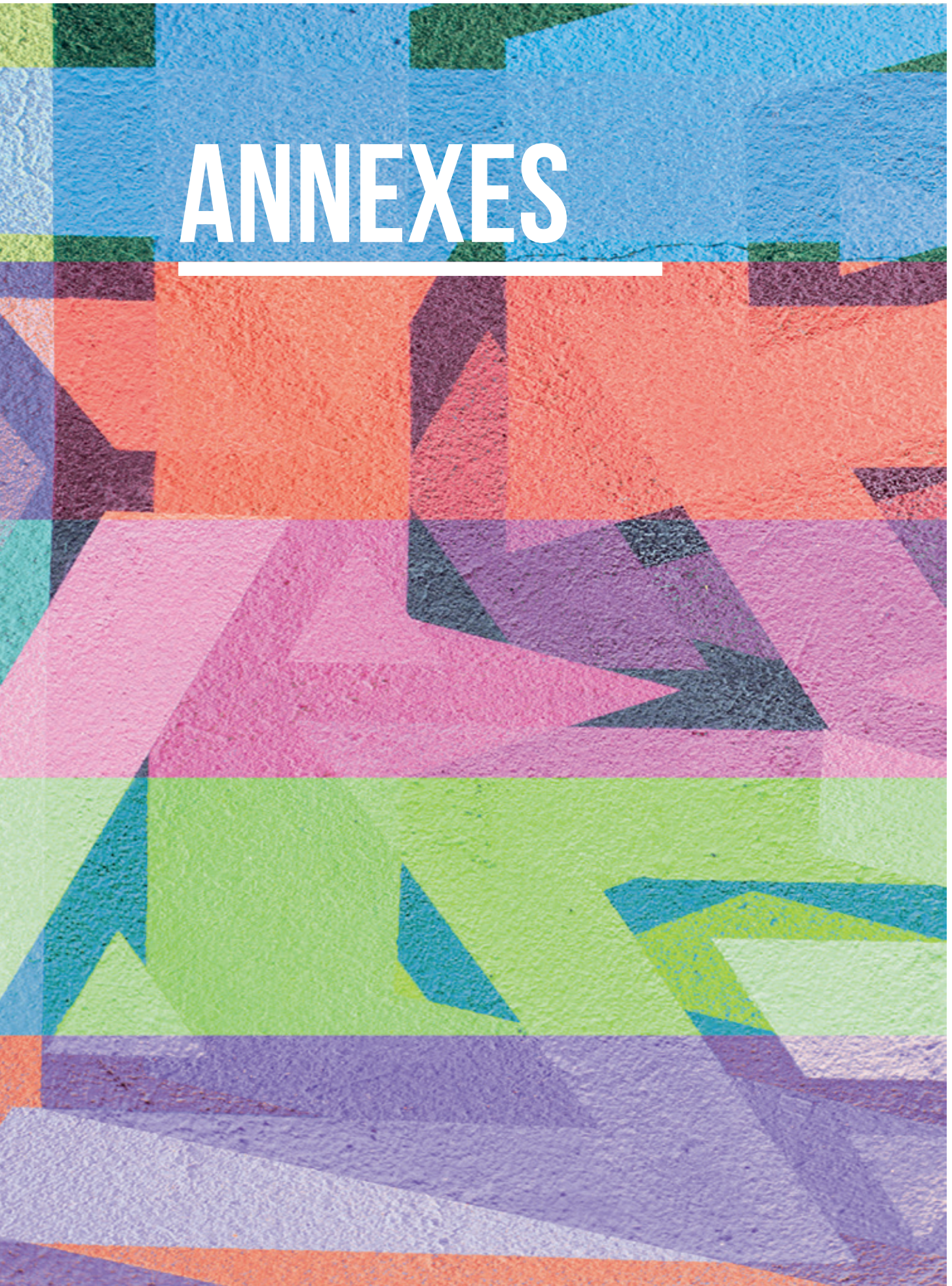






# ANNEXES

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## ANNEX 1.

### LIST OF COUNTRIES AND ISO CODES

#### EUROPE

|     |                 |
|-----|-----------------|
| AUT | Austria         |
| BEL | Belgium         |
| BGR | Bulgaria        |
| HRV | Croatia         |
| CYP | Cyprus          |
| CZE | Czech Republic  |
| DNK | Denmark         |
| EST | Estonia         |
| FIN | Finland         |
| FRA | France          |
| DEU | Germany         |
| GRC | Greece          |
| HUN | Hungary         |
| ISL | Iceland         |
| IRL | Ireland         |
| ITA | Italy           |
| LVA | Latvia          |
| LTU | Lithuania       |
| LUX | Luxembourg      |
| MLT | Malta           |
| NLD | Netherlands     |
| NOR | Norway          |
| POL | Poland          |
| PRT | Portugal        |
| ROU | Romania         |
| SVN | Slovenia        |
| SVK | Slovak Republic |
| ESP | Spain           |
| SWE | Sweden          |
| CHE | Switzerland     |
| GBR | United Kingdom  |

#### MIDDLE EAST WEST ASIA

|     |           |
|-----|-----------|
| ISR | Israel    |
| JOR | Jordan    |
| PSE | Palestine |
| TUR | Turkey    |

#### AFRICA

|     |                             |
|-----|-----------------------------|
| AGO | Angola                      |
| BEN | Benin                       |
| BFA | Burkina Faso                |
| CMR | Cameroun                    |
| CPV | Cabo Verde                  |
| COG | Congo                       |
| CIV | Ivory Coast                 |
| ETH | Ethiopia                    |
| GHA | Ghana                       |
| GIN | Guinea                      |
| GNB | Guinea-Bissau               |
| KEN | Kenya                       |
| MWI | Malawi                      |
| MLI | Mali                        |
| MUS | Mauritius                   |
| MAR | Morocco                     |
| NER | Niger                       |
| NGA | Nigeria                     |
| UGA | Uganda                      |
| SEN | Senegal                     |
| ZAF | South Africa                |
| TZA | United Republic of Tanzania |
| TCD | Chad                        |
| TGO | Togo                        |
| TUN | Tunisia                     |
| ZWE | Zimbabwe                    |

#### LATIN AMERICA

|     |                    |
|-----|--------------------|
| ARG | Argentina          |
| BRA | Brasil             |
| CHL | Chile              |
| COL | Colombia           |
| CRI | Costa Rica         |
| DOM | Dominican Republic |
| ECU | Ecuador            |
| SLV | El Salvador        |
| GRM | Guatemala          |
| HND | Honduras           |
| JAM | Jamaica            |
| MEX | Mexico             |
| PRY | Paraguay           |
| PER | Peru               |

#### NORTHERN AMERICA

|     |               |
|-----|---------------|
| CAN | Canada        |
| USA | United States |

#### ASIA PACIFIC

|     |             |
|-----|-------------|
| AUS | Australia   |
| KHM | Cambodia    |
| CHN | China       |
| IND | India       |
| IDN | Indonesia   |
| JPN | Japan       |
| KOR | Korea       |
| MYS | Malaysia    |
| MNG | Mongolia    |
| NZL | New Zealand |
| PHL | Philippines |
| THA | Thailand    |
| VNM | Vietnam     |

#### EURO-ASIA

|     |                     |
|-----|---------------------|
| ALB | Albania             |
| ARM | Armenia             |
| AZE | Azerbaijan          |
| GEO | Georgia             |
| KAZ | Kazakhstan          |
| KGZ | Kyrgyzstan          |
| MDA | Republic of Moldova |
| MNE | Montenegro          |
| RUS | Russian Federation  |
| SRB | Serbia              |
| UKR | Ukraine             |
| MDA | Republic of Moldova |
| MNE | Montenegro          |
| RUS | Russian Federation  |
| SRB | Serbia              |



## ANNEX 2.

### GENERAL SOCIO-ECONOMIC CHARACTERISTICS OF THE SELECTED COUNTRIES (REFERENCE YEAR 2014)

| COUNTRIES       | AREA<br>(km <sup>2</sup> ) | POPULATION<br>(million) | POPULATION<br>GROWTH | DENSITY<br>(inh./km <sup>2</sup> ) | URBAN<br>POPULATION | GDP<br>(million current<br>USD PPP) | GDP PER CAPITA<br>(current<br>USD PPP) |
|-----------------|----------------------------|-------------------------|----------------------|------------------------------------|---------------------|-------------------------------------|--|
| EUROPE          |                            |                         |                      |                                    |                     |                                     |  |
| Austria         | 82 409                     | 8,544                   | 0,5%                 | 104                                | 65,9%               | 407 500                             | 47 695                                 |
| Belgium         | 30 326                     | 11,157                  | 0,6%                 | 368                                | 97,8%               | 487 825                             | 43 724                                 |
| Bulgaria        | 111 000                    | 7,168                   | -0,6%                | 65                                 | 73,6%               | 124 306                             | 17 342                                 |
| Croatia         | 56 590                     | 4,233                   | -0,4%                | 75                                 | 58,7%               | 91 698                              | 21 664                                 |
| Cyprus          | 9 250                      | 1,153                   | 1,1%                 | 124                                | 67,0%               | 25 827                              | 22 398                                 |
| Czech Republic  | 77 227                     | 10,525                  | 0,0%                 | 136                                | 73,0%               | 328 242                             | 31 187                                 |
| Denmark         | 42 959                     | 5,643                   | 0,4%                 | 131                                | 87,5%               | 256 759                             | 45 500                                 |
| Estonia         | 43 432                     | 1,316                   | -0,3%                | 30                                 | 67,6%               | 36 991                              | 28 113                                 |
| Finland         | 303 891                    | 5,463                   | 0,5%                 | 18                                 | 84,1%               | 222 152                             | 40 666                                 |
| France          | 647 795                    | 66,169                  | 0,4%                 | 102                                | 79,3%               | 2 604 193                           | 39 357                                 |
| Germany         | 357 168                    | 80,983                  | 0,2%                 | 227                                | 75,1%               | 3 757 092                           | 46 394                                 |
| Greece          | 130 820                    | 10,892                  | -0,5%                | 83                                 | 77,7%               | 291 859                             | 26 795                                 |
| Hungary         | 93 028                     | 9,866                   | -0,3%                | 106                                | 70,8%               | 247 259                             | 25 061                                 |
| Iceland         | 100 243                    | 0,327                   | 0,7%                 | 3                                  | 94,0%               | 14 403                              | 43 993                                 |
| Ireland         | 68 394                     | 4,615                   | 0,3%                 | 67                                 | 63,0%               | 227 984                             | 49 402                                 |
| Italy           | 295 113                    | 60,795                  | 0,4%                 | 206                                | 68,8%               | 2 155 753                           | 35 459                                 |
| Latvia          | 64 589                     | 1,995                   | -1,2%                | 31                                 | 67,4%               | 46 949                              | 23 537                                 |
| Lithuania       | 65 300                     | 2,932                   | -1,4%                | 45                                 | 66,5%               | 81 185                              | 27 686                                 |
| Luxembourg      | 2 586                      | 0,558                   | 2,4%                 | 216                                | 89,9%               | 54 775                              | 98 163                                 |
| Malta           | 316                        | 0,427                   | 0,8%                 | 1 353                              | 95,3%               | 12 500                              | 29 246                                 |
| Netherlands     | 33 718                     | 16,864                  | 0,4%                 | 500                                | 89,9%               | 813 793                             | 48 256                                 |
| Norway          | 304 246                    | 5,137                   | 1,2%                 | 17                                 | 80,2%               | 337 054                             | 65 613                                 |
| Poland          | 312 679                    | 38,484                  | 0,0%                 | 123                                | 60,6%               | 960 235                             | 24 952                                 |
| Portugal        | 92 226                     | 10,401                  | -0,4%                | 113                                | 62,9%               | 299 134                             | 28 760                                 |
| Romania         | 238 390                    | 19,913                  | -0,4%                | 84                                 | 54,4%               | 405 015                             | 20 339                                 |
| Slovenia        | 20 138                     | 2,062                   | 0,2%                 | 102                                | 49,7%               | 62 690                              | 30 405                                 |
| Slovak Republic | 49 036                     | 5,419                   | -0,1%                | 111                                | 53,8%               | 153 491                             | 28 327                                 |
| Spain           | 501 757                    | 46,464                  | -0,1%                | 93                                 | 79,4%               | 1 562 940                           | 33 638                                 |





| REAL GDP GROWTH RATE | UNEMPLOYMENT RATE | FOREIGN DIRECT INVESTMENT (NET INFLOWS, BOP, CURRENT USD MILLIONS) | GFCF (% OF GDP) | INCOME GROUP          | HUMAN DEVELOPMENT INDEX (HDI) | HDI CATEGORY |
|----------------------|-------------------|--|-----------------|-----------------------|-------------------------------|--------------|
| 0,4%                 | 5,6%              | 8 202  | 22,4%           | High income: OECD     | 0,885                         | Very high    |
| 1,3%                 | 8,5%              | -20 097  | 23,3%           | High income: OECD     | 0,890                         | Very high    |
| 1,6%                 | 13,0%             | 1 971  | 21,1%           | Upper middle income   | 0,782                         | High         |
| -0,4%                | 17,3%             | 3 937  | 19,1%           | High income: non-OECD | 0,818                         | Very high    |
| -2,3%                | 16,1%             | 861  | 11,5%           | High income: non-OECD | 0,850                         | Very high    |
| 2,0%                 | 6,1%              | 4 871  | 25,0%           | High income: OECD     | 0,870                         | Very high    |
| 1,3%                 | 6,6%              | -677   | 19,1%           | High income: OECD     | 0,923                         | Very high    |
| 2,9%                 | 7,4%              | 1 571  | 25,2%           | High income: OECD     | 0,861                         | Very high    |
| -0,4%                | 8,7%              | 14 812   | 20,6%           | High income: OECD     | 0,883                         | Very high    |
| 0,2%                 | 10,3%             | 7 957  | 21,6%           | High income: OECD     | 0,888                         | Very high    |
| 1,6%                 | 5,0%              | 8 390  | 20,1%           | High income: OECD     | 0,916                         | Very high    |
| 0,7%                 | 26,5%             | 1 683  | 11,6%           | High income: OECD     | 0,865                         | Very high    |
| 3,7%                 | 7,7%              | 12 400   | 21,7%           | High income: OECD     | 0,828                         | Very high    |
| 1,8%                 | 4,9%              | 746  | 16,8%           | High income: OECD     | 0,899                         | Very high    |
| 5,2%                 | 11,3%             | 86 766   | 19,3%           | High income: OECD     | 0,916                         | Very high    |
| -0,4%                | 12,7%             | 13 727   | 16,6%           | High income: OECD     | 0,873                         | Very high    |
| 2,4%                 | 10,8%             | 878  | 22,9%           | High income: OECD     | 0,819                         | Very high    |
| 3,0%                 | 10,7%             | 351  | 18,9%           | High income: non OECD | 0,839                         | Very high    |
| 4,1%                 | 6,1%              | 7 087  | 18,6%           | High income: OECD     | 0,892                         | Very high    |
| 3,7%                 | 5,9%              | -13  | 17,9%           | High income: non-OECD | 0,839                         | Very high    |
| 1,0%                 | 6,8%              | 48 225   | 18,2%           | High income: OECD     | 0,922                         | Very high    |
| 2,2%                 | 3,5%              | 10 586   | 28,4%           | High income: OECD     | 0,944                         | Very high    |
| 3,3%                 | 9,0%              | 17 275   | 19,7%           | High income: OECD     | 0,843                         | Very high    |
| 0,9%                 | 13,9%             | 12 410   | 14,9%           | High income: OECD     | 0,830                         | Very high    |
| 2,8%                 | 6,8%              | 3 864  | 24,2%           | Upper middle income   | 0,793                         | High         |
| 3,0%                 | 9,7%              | 1 030  | 19,6%           | High income: OECD     | 0,880                         | Very high    |
| 2,5%                 | 13,2%             | 85   | 20,9%           | High income: OECD     | 0,844                         | Very high    |
| 1,4%                 | 24,4%             | 34 233   | 19,6%           | High income: OECD     | 0,876                         | Very high    |



| COUNTRIES               | AREA<br>(km <sup>2</sup> ) | POPULATION<br>(million) | POPULATION<br>GROWTH | DENSITY<br>(inh./km <sup>2</sup> ) | URBAN<br>POPULATION | GDP<br>(million current<br>USD PPP) | GDP PER CAPITA<br>(current<br>USD PPP) |
|-------------------------|----------------------------|-------------------------|----------------------|------------------------------------|---------------------|-------------------------------------|--|
| EUROPE                  |                            |                         |                      |                                    |                     |                                     |  |
| Sweden                  | 407 340                    | 9,696                   | 0,8%                 | 24                                 | 85,7%               | 439 204                             | 45 297                                 |
| Switzerland             | 39 996                     | 8,189                   | 1,0%                 | 205                                | 73,8%               | 487 518                             | 59 536                                 |
| United Kingdom          | 242 509                    | 64,597                  | 0,7%                 | 266                                | 82,3%               | 2 597 421                           | 40 210                                 |
| LATIN AMERICA           |                            |                         |                      |                                    |                     |                                     |  |
| Argentina               | 2 766 890                  | 42,980                  | 1,0%                 | 15                                 | 91,8%               | 754 477                             | 17 554                                 |
| Brazil                  | 8 515 770                  | 202,769                 | 0,5%                 | 24                                 | 85,4%               | 3 275 227                           | 16 153                                 |
| Chile                   | 740 243                    | 17,836                  | 0,9%                 | 24                                 | 89,4%               | 392 041                             | 21 980                                 |
| Colombia                | 1 141 748                  | 47,791                  | 1,0%                 | 42                                 | 76,2%               | 638 357                             | 13 357                                 |
| Costa Rica              | 51 100                     | 4,758                   | 1,1%                 | 93                                 | 75,9%               | 70 974                              | 14 918                                 |
| Dominican Republic      | 48 734                     | 10,405                  | 1,3%                 | 214                                | 79,0%               | 138 007                             | 13 262                                 |
| Ecuador                 | 256 370                    | 16,300                  | 1,6%                 | 64                                 | 63,7%               | 180 843                             | 11 092                                 |
| El Salvador             | 21 041                     | 6,426                   | 0,3%                 | 305                                | 66,7%               | 51 006                              | 7 936                                  |
| Guatemala               | 108 890                    | 16,020                  | 2,1%                 | 147                                | 51,6%               | 119 375                             | 7 453                                  |
| Honduras                | 112 492                    | 7,962                   | 1,5%                 | 71                                 | 54,7%               | 39 081                              | 4 909                                  |
| Jamaica                 | 10 830                     | 2,721                   | 0,3%                 | 251                                | 54,8%               | 24 152                              | 8 878                                  |
| Mexico                  | 1 959 248                  | 119,713                 | 1,2%                 | 61                                 | 79,0%               | 2 171 020                           | 18 135                                 |
| Paraguay                | 406 752                    | 6,553                   | 1,4%                 | 16                                 | 59,7%               | 58 392                              | 8 912                                  |
| Peru                    | 1 285 220                  | 30,973                  | 1,3%                 | 24                                 | 78,3%               | 371 335                             | 11 989                                 |
| MIDDLE EAST & WEST ASIA |                            |                         |                      |                                    |                     |                                     |  |
| Israel                  | 316                        | 0,427                   | 0,8%                 | 1 353                              | 95,3%               | 12 500                              | 29 246                                 |
| Jordan                  | 33 718                     | 16,864                  | 0,4%                 | 500                                | 89,9%               | 813 793                             | 48 256                                 |
| Palestine               | 304 246                    | 5,137                   | 1,2%                 | 17                                 | 80,2%               | 337 054                             | 65 613                                 |
| Turkey                  | 312 679                    | 38,484                  | 0,0%                 | 123                                | 60,6%               | 960 235                             | 24 952                                 |
| EURO-ASIA               |                            |                         |                      |                                    |                     |                                     |  |
| Albania                 | 28 750                     | 3,197                   | 0,3%                 | 111                                | 57,4%               | 32 152                              | 10 057                                 |
| Armenia                 | 29 740                     | 2,989                   | 0,4%                 | 101                                | 62,7%               | 24 259                              | 8 115                                  |
| Azerbaijan              | 86 600                     | 9,535                   | 1,3%                 | 110                                | 54,6%               | 167 061                             | 17 525                                 |
| Georgia                 | 69 700                     | 4,305                   | 1,3%                 | 62                                 | 53,6%               | 34 100                              | 7 921                                  |
| Kazakhstan              | 2 724 900                  | 16,607                  | 1,5%                 | 6                                  | 53,3%               | 418 879                             | 25 223                                 |
| Kyrgyzstan              | 199 900                    | 5,835                   | 1,7%                 | 29                                 | 35,7%               | 19 382                              | 3 325                                  |
| Republic of Moldova     | 33 700                     | 3,437                   | 0,0%                 | 102                                | 45,0%               | 17 720                              | 5 150                                  |



| REAL GDP GROWTH RATE | UNEMPLOYMENT RATE | FOREIGN DIRECT INVESTMENT (NET INFLOWS, BOP, CURRENT USD MILLIONS) | GFCF (% OF GDP) | INCOME GROUP              | HUMAN DEVELOPMENT INDEX (HDI) | HDI CATEGORY |
|----------------------|-------------------|--|-----------------|---------------------------|-------------------------------|--------------|
| 2,3%                 | 8,0%              | -2 535   | 23,5%           | High income: OECD         | 0,907                         | Very high    |
| 1,9%                 | 4,5%              | 22 741   | 23,5%           | High income: OECD         | 0,930                         | Very high    |
| 2,9%                 | 6,1%              | 45 457   | 16,8%           | High income: OECD         | 0,907                         | Very high    |
| 0,5%                 | 7,3%              | 6 055  | 19,5%           | Upper middle income       | 0,836                         | Very high    |
| 0,1%                 | 6,8%              | 96 895   | 20,9%           | Upper middle income       | 0,755                         | High         |
| 1,9%                 | 6,4%              | 22 002   | 21,4%           | High income: OECD         | 0,832                         | Very high    |
| 4,6%                 | 10,1%             | 16 151   | 26,0%           | Upper middle income       | 0,720                         | High         |
| 3,5%                 | 8,3%              | 2 578  | 19,3%           | Upper middle income       | 0,766                         | High         |
| 7,3%                 | 14,5%             | 2 385  | 21,5%           | Upper middle income       | 0,715                         | High         |
| 3,7%                 | 3,8%              | 773  | 29,0%           | Upper middle income       | 0,732                         | High         |
| 2,0%                 | 6,2%              | 475  | 13,6%           | Lower middle income       | 0,666                         | Medium       |
| 4,2%                 | 2,8%              | 1 205  | 13,5%           | Lower middle income       | 0,627                         | Medium       |
| 3,1%                 | 3,9%              | 1 294  | 22,0%           | Lower middle income       | 0,606                         | Medium       |
| 0,7%                 | 13,7%             | 595  | 22,0%           | Upper middle income       | 0,719                         | High         |
| 2,2%                 | 4,9%              | 24 154   | 21,6%           | Upper middle income: OECD | 0,756                         | High         |
| 4,7%                 | 6,0%              | 523  | 16,0%           | Upper middle income       | 0,679                         | Medium       |
| 2,4%                 | 3,3%              | 7 885  | 26,2%           | Upper middle income       | 0,734                         | High         |
| 3,7%                 | 5,9%              | -13  | 17,9%           | High income: non-OECD     | 0,839                         | Very high    |
| 1,0%                 | 6,8%              | 48 225   | 18,2%           | High income: OECD         | 0,922                         | Very high    |
| 2,2%                 | 3,5%              | 10 586   | 28,4%           | High income: OECD         | 0,944                         | Very high    |
| 3,3%                 | 9,0%              | 17 275   | 19,7%           | High income: OECD         | 0,843                         | Very high    |
| 2,2%                 | 17,5%             | 1 149  | 24,8%           | Upper middle income       | 0,733                         | High         |
| 3,5%                 | 16,2%             | 404  | 21,0%           | Lower middle income       | 0,733                         | High         |
| 2,0%                 | 4,9%              | 4 430  | 25,8%           | Upper middle income       | 0,751                         | High         |
| 4,8%                 | 12,4%             | 1 647  | 29,8%           | Lower middle income       | 0,754                         | High         |
| 4,4%                 | 5,1%              | 7 598  | 24,2%           | Upper middle income       | 0,788                         | High         |
| 3,6%                 | 8,2%              | 211  | 34,8%           | Lower middle income       | 0,655                         | Medium       |
| 4,6%                 | 3,9%              | 350  | 26,0%           | Lower middle income       | 0,693                         | Medium       |



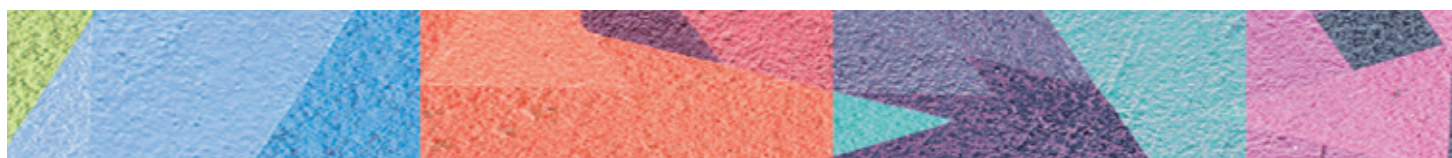
| COUNTRIES                      | AREA<br>(km <sup>2</sup> ) | POPULATION<br>(million) | POPULATION<br>GROWTH | DENSITY<br>(inh./km <sup>2</sup> ) | URBAN<br>POPULATION | GDP<br>(million current<br>USD PPP) | GDP PER CAPITA<br>(current<br>USD PPP) |
|--------------------------------|----------------------------|-------------------------|----------------------|------------------------------------|---------------------|-------------------------------------|--|
| EURO-ASIA                      |                            |                         |                      |                                    |                     |                                     |  |
| Montenegro                     | 13 812                     | 0,628                   | 0,1%                 | 45                                 | 64,0%               | 9 361                               | 14 904                                 |
| Russian Federation             | 17 098 240                 | 143,820                 | 0,2%                 | 8                                  | 73,9%               | 3 358 561                           | 23 353                                 |
| Serbia                         | 77 474                     | 7,129                   | -0,6%                | 92                                 | 55,6%               | 96 918                              | 13 592                                 |
| Ukraine                        | 603 550                    | 45,363                  | -0,3%                | 75                                 | 69,5%               | 370 534                             | 8 168                                  |
| AFRICA                         |                            |                         |                      |                                    |                     |                                     |  |
| Angola                         | 1 246 700                  | 22,100                  | 5,0%                 | 18                                 | 43,3%               |                                     |  |
| Benin                          | 112 622                    | 10,598                  | 2,7%                 | 94                                 | 44,0%               | 21 517                              | 2 030                                  |
| Burkina Faso                   | 274 500                    | 17,600                  | 3,0%                 | 64                                 | 29,9%               | 28 486                              | 1 619                                  |
| Cameroun                       | 475 442                    | 22,773                  | 2,6%                 | 48                                 | 54,4%               | 67 686                              | 2 972                                  |
| Cape Verde                     | 4 033                      | 0,513                   | 1,2%                 | 127                                | 65,5%               | 3 350                               | 6 531                                  |
| Congo                          | 342 000                    | 4,505                   | 2,6%                 | 13                                 | 65,4%               | 28 277                              | 6 277                                  |
| Côte d'Ivoire                  | 322 463                    | 22,157                  | 2,4%                 | 69                                 | 54,2%               | 72 193                              | 3 258                                  |
| Ethiopia                       | 1 104 300                  | 96,958                  | 2,6%                 | 88                                 | 19,5%               | 145 415                             | 1 500                                  |
| Ghana                          | 238 537                    | 26,786                  | 2,4%                 | 113                                | 54,0%               | 109 334                             | 4 080                                  |
| Guinea                         | 245 857                    | 12,300                  | 2,8%                 | 50                                 | 37,2%               | 14 992                              | 1 219                                  |
| Guinea-Bissau                  | 36 125                     | 1,800                   | 2,5%                 | 50                                 | 49,3%               | 2 495                               | 1 386                                  |
| Kenya                          | 580 367                    | 44,864                  | 2,7%                 | 77                                 | 25,6%               | 132 530                             | 2 954                                  |
| Malawi                         | 118 484                    | 16,695                  | 3,1%                 | 141                                | 16,3%               | 13 717                              | 821                                    |
| Mali                           | 1 241 231                  | 17,100                  | 3,0%                 | 14                                 | 39,9%               | 27 324                              | 1 597                                  |
| Mauritius                      | 1 865                      | 1,261                   | 0,2%                 | 676                                | 39,7%               | 23 435                              | 18 584                                 |
| Morocco                        | 446 550                    | 33,493                  | 1,4%                 | 75                                 | 59,7%               | 258 296                             | 7 712                                  |
| Niger                          | 1 267 000                  | 19,100                  | 4,1%                 | 15                                 | 17,6%               | 17 924                              | 938                                    |
| Nigeria                        | 923 773                    | 177,476                 | 2,7%                 | 192                                | 47,8%               | 1 049 102                           | 5 911                                  |
| Uganda                         | 236 860                    | 37,783                  | 3,3%                 | 160                                | 16,1%               | 66 908                              | 1 771                                  |
| Senegal                        | 196 722                    | 14,673                  | 3,2%                 | 75                                 | 43,7%               | 34 233                              | 2 333                                  |
| South Africa                   | 1 219 090                  | 54,002                  | 1,5%                 | 44                                 | 64,3%               | 704 686                             | 13 049                                 |
| United Republic of<br>Tanzania | 947 300                    | 50,800                  | 3,2%                 | 54                                 | 31,6%               | 127 691                             | 2 514                                  |
| Chad                           | 1 284 000                  | 13,587                  | 3,4%                 | 11                                 | 22,5%               | 29 648                              | 2 182                                  |
| Togo                           | 56 790                     | 7,115                   | 2,7%                 | 125                                | 40,0%               | 10 166                              | 1 429                                  |
| Tunisia                        | 163 610                    | 11,117                  | 1,0%                 | 68                                 | 66,6%               | 125 753                             | 11 312                                 |
| Zimbabwe                       | 390 757                    | 15,246                  | 2,2%                 | 39                                 | 32,4%               | 27 134                              | 1 780                                  |



| REAL GDP GROWTH RATE | UNEMPLOYMENT RATE | FOREIGN DIRECT INVESTMENT (NET INFLOWS, BOP, CURRENT USD MILLIONS) | GFCF (% OF GDP) | INCOME GROUP        | HUMAN DEVELOPMENT INDEX (HDI) | HDI CATEGORY |
|----------------------|-------------------|--|-----------------|---------------------|-------------------------------|--------------|
| 1,8%                 | 18,0%             | 497  | 20,0%           | Upper middle income | 0,802                         | Very high    |
| 0,6%                 | 5,1%              | 22 891   | 20,3%           | Upper middle income | 0,798                         | High         |
| -1,8%                | 18,9%             | 2 000  | 15,6%           | Upper middle income | 0,771                         | High         |
| -6,8%                | 9,3%              | 847  | 14,1%           | Lower middle income | 0,747                         | High         |
| 3,9%                 | 7,6%              | 1 922  | 24,0%           | Upper middle income | 0,526                         | Low          |
| 6,5%                 | 1,1%              | 377  | 25,0%           | Low income          | 0,480                         | Low          |
| 4,0%                 | 3,0%              | 342  | 31,0%           | Low income          | 0,402                         | Low          |
| 5,9%                 | 4,4%              | 501  | 20,7%           | Lower middle income | 0,512                         | Low          |
| 2,8%                 | 10,7%             | 132  | 34,1%           | Lower middle income | 0,646                         | Medium       |
| 6,8%                 | 10,3%             | 5 502  | 41,3%           | Lower middle income | 0,591                         | Medium       |
| 8,6%                 | 9,4%              | 462  | 17,0%           | Lower middle income | 0,462                         | Low          |
| 10,3%                | 5,3%              | 1 200  | 38,0%           | Low income          | 0,442                         | Low          |
| 4,0%                 | 5,9%              | 3 363  | 27,1%           | Lower middle income | 0,579                         | Medium       |
| 0,4%                 | 1,7%              | 566  | 14,0%           | Low income          | 0,411                         | Low          |
| 2,5%                 | 7,6%              | 21   | 7,0%            | Low income          | 0,420                         | Low          |
| 5,3%                 | 9,2%              | 944  | 21,4%           | Lower middle income | 0,548                         | Low          |
| 5,7%                 | 6,6%              | 716  | 15,4%           | Low income          | 0,445                         | Low          |
| 7,2%                 | 8,2%              | 199  | 34,1%           | Low income          | 0,419                         | Low          |
| 3,6%                 | 7,7%              | 418  | 23,0%           | Upper middle income | 0,777                         | High         |
| 2,4%                 | 9,9%              | 3 582  | 32,0%           | Lower middle income | 0,628                         | Medium       |
| 7,0%                 | 2,7%              | 769  | 40,2%           | Low income          | 0,348                         | Low          |
| 6,3%                 | 4,8%              | 4 656  | 15,8%           | Lower middle income | 0,514                         | Low          |
| 5,0%                 | 3,8%              | 1 147  | 27,5%           | Low income          | 0,483                         | Low          |
| 4,7%                 | 9,7%              | 343  | 26,0%           | Low income          | 0,466                         | Low          |
| 1,5%                 | 24,9%             | 5 741  | 20,4%           | Upper middle income | 0,666                         | Medium       |
| 7,0%                 | 3,1%              | 2 045  | 31,0%           | Low income          | 0,488                         | Low          |
| 7,3%                 | 5,6%              | 761  | 33,8%           | Low income          | 0,392                         | Low          |
| 5,7%                 | 7,7%              | 292  | 21,3%           | Low income          | 0,484                         | Low          |
| 2,7%                 | 15,3%             | 1 005  | 21,9%           | Lower middle income | 0,721                         | High         |
| 3,8%                 | 11,3%             | 545  | 13,2%           | Low income          | 0,509                         | Low          |

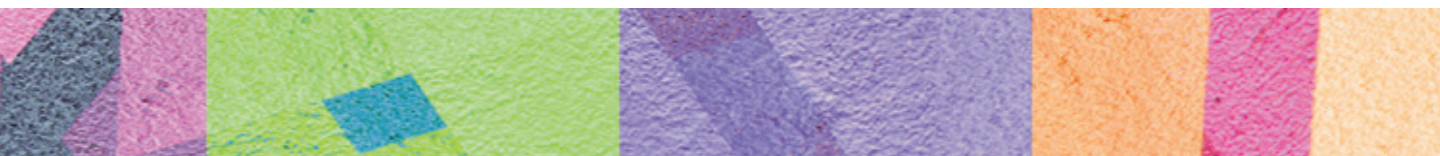


| COUNTRIES     | AREA<br>(km <sup>2</sup> ) | POPULATION<br>(million) | POPULATION<br>GROWTH | DENSITY<br>(inh./km <sup>2</sup> ) | URBAN<br>POPULATION | GDP<br>(million current<br>USD PPP) | GDP PER CAPITA<br>(current<br>USD PPP) |
|---------------|----------------------------|-------------------------|----------------------|------------------------------------|---------------------|-------------------------------------|--|
| ASIA-PACIFIC  |                            |                         |                      |                                    |                     |                                     |  |
| Australia     | 7 703 354                  | 23,663                  | 1,6%                 | 3                                  | 89,3%               | 1 077 878                           | 45 550                                 |
| Cambodia      | 181 035                    | 15,238                  | 1,6%                 | 85                                 | 20,7%               | 50 010                              | 3 282                                  |
| China         | 9 596 961                  | 1 401,587               | 0,5%                 | 146                                | 55,6%               | 18 017 073                          | 12 855                                 |
| India         | 3 287 263                  | 1 295,291               | 1,3%                 | 394                                | 32,7%               | 7 384 099                           | 5 701                                  |
| Indonesia     | 1 910 930                  | 254,454                 | 1,3%                 | 133                                | 53,0%               | 2 676 109                           | 10 517                                 |
| Japan         | 373 530                    | 127,120                 | -0,2%                | 340                                | 93,0%               | 4 655 494                           | 36 623                                 |
| Korea         | 99 461                     | 50,424                  | 0,5%                 | 507                                | 82,4%               | 1 683 898                           | 33 395                                 |
| Malaysia      | 330 800                    | 29,900                  | 1,6%                 | 90                                 | 74,7%               | 766 645                             | 25 639                                 |
| Mongolia      | 1 564 120                  | 2,923                   | 1,5%                 | 2                                  | 72,0%               | 34 760                              | 11 892                                 |
| New Zealand   | 264 944                    | 4,534                   | 1,0%                 | 17                                 | 86,3%               | 169 921                             | 37 477                                 |
| Philippines   | 300 000                    | 99,139                  | 1,6%                 | 339                                | 44,4%               | 690 894                             | 6 969                                  |
| Thailand      | 513 120                    | 67,723                  | 0,4%                 | 132                                | 50,4%               | 964 518                             | 14 242                                 |
| Vietnam       | 331 041                    | 90,729                  | 1,1%                 | 274                                | 33,6%               | 510 714                             | 5 629                                  |
| NORTH AMERICA |                            |                         |                      |                                    |                     |                                     |  |
| Canada        | 9 984 670                  | 35,544                  | 1,1%                 | 4                                  | 81,6%               | 1 601 800                           | 45 066                                 |
| United States | 9 161 923                  | 319,173                 | 0,7%                 | 35                                 | 81,4%               | 17 419 000                          | 54 575                                 |





| REAL GDP GROWTH RATE | UNEMPLOYMENT RATE | FOREIGN DIRECT INVESTMENT (NET INFLOWS, BOP, CURRENT USD MILLIONS) | GFCF (% OF GDP) | INCOME GROUP        | HUMAN DEVELOPMENT INDEX (HDI) | HDI CATEGORY |
|----------------------|-------------------|--|-----------------|---------------------|-------------------------------|--------------|
| 2,5%                 | 6,1%              | 46 333   | 27,2%           | High income: OECD   | 0,935                         | Very high    |
| 7,1%                 | 0,4%              | 1 730  | 22,0%           | Lower middle income | 0,555                         | Low          |
| 7,3%                 | 4,7%              | 289 097  | 46,0%           | Upper middle income | 0,727                         | High         |
| 7,3%                 | 3,5%              | 33 871   | 31,6%           | Lower middle income | 0,609                         | Medium       |
| 5,0%                 | 5,9%              | 25 890   | 35,0%           | Lower middle income | 0,684                         | Medium       |
| -0,1%                | 3,5%              | 9 070  | 21,8%           | High income: OECD   | 0,891                         | Very high    |
| 3,3%                 | 3,5%              | 9 899  | 29,2%           | High income: OECD   | 0,898                         | Very high    |
| 6,0%                 | 2,9%              | 10 609   | 25,0%           | Upper middle income | 0,779                         | High         |
| 7,8%                 | 7,3%              | 384  | 32,0%           | Lower middle income | 0,727                         | High         |
| 3,0%                 | 5,8%              | 4 454  | 23,5%           | High income: OECD   | 0,913                         | Very high    |
| 6,1%                 | 6,6%              | 6 202  | 20,9%           | Lower middle income | 0,668                         | Medium       |
| 0,9%                 | 0,8%              | 3 719  | 24,1%           | Upper middle income | 0,726                         | High         |
| 6,0%                 | 1,9%              | 9 200  | 27,0%           | Lower middle income | 0,666                         | Medium       |
| 2,4%                 | 6,9%              | 57 168   | 24,0%           | High income: OECD   | 0,913                         | Very high    |
| 2,4%                 | 6,3%              | 131 829  | 19,8%           | High income: OECD   | 0,915                         | Very high    |





### ANNEX 3.

#### FORM OF THE STATE AND SUBNATIONAL GOVERNMENT STRUCTURE IN THE SAMPLE OF SELECTED COUNTRIES (2015)

| COUNTRIES           | FORM OF<br>THE STATE | POPULATION<br>(millions) | TOTAL<br>NUMBER<br>OF SNGS | NUMBER OF<br>MUNICIPAL<br>LEVEL<br>GOVERNMENTS | NUMBER OF<br>INTERMEDIATE<br>LEVEL<br>GOVERNMENTS | NUMBER OF<br>STATES/REGIONAL<br>LEVEL<br>GOVERNMENTS | AVERAGE<br>MUNICIPAL SIZE<br>(inhabitants) |
|---------------------|----------------------|--------------------------|----------------------------|--|---|--|--|
| EUROPE              |                      |                          |                            |  |   |  |  |
| Austria             | Federal              | 8,5                      | 2 109                      | 2 100  | 0   | 9  | 4 090                                      |
| Belgium             | Federal              | 11,2                     | 605                        | 589  | 10  | 6  | 19 030                                     |
| Bulgaria            | Unitary              | 7,2                      | 265                        | 265  | 0   | 0  | 27 160                                     |
| Croatia             | Unitary              | 4,2                      | 576                        | 555  | 0   | 21   | 7 625                                      |
| Cyprus <sup>1</sup> |                      | 1,2                      | 526 / 380                  | 526 / 380                                      | 0   | 0  | 2 190 / 2 245                              |
| Czech Republic      | Unitary              | 10,5                     | 6 272                      | 6 258  | 0   | 14   | 1 640                                      |
| Denmark             | Unitary              | 5,6                      | 103                        | 98   | 0   | 5  | 58 155                                     |
| Estonia             | Unitary              | 1,3                      | 213                        | 213  | 0   | 0  | 6 165                                      |
| Finland             | Unitary              | 5,5                      | 314                        | 313  | 0   | 1  | 17 530                                     |
| France              | Unitary              | 66,2                     | 36 004                     | 35 885   | 101   | 18   | 1 855                                      |
| Germany             | Federal              | 81,0                     | 11 510                     | 11 092   | 402   | 16   | 7 320                                      |
| Greece              | Unitary              | 10,9                     | 338                        | 325  | 0   | 13   | 33 410                                     |
| Hungary             | Unitary              | 9,9                      | 3 197                      | 3 178  | 0   | 19   | 3 125                                      |
| Iceland             | Unitary              | 0,3                      | 74                         | 74   | 0   | 0  | 4 445                                      |
| Ireland             | Unitary              | 4,6                      | 31                         | 31   | 0   | 0  | 149 530                                    |
| Italy               | Unitary              | 60,8                     | 8 174                      | 8 047  | 107   | 20   | 7 545                                      |
| Latvia              | Unitary              | 2,0                      | 119                        | 119  | 0   | 0  | 16 760                                     |
| Lithuania           | Unitary              | 2,9                      | 60                         | 60   | 0   | 0  | 48 875                                     |
| Luxembourg          | Unitary              | 0,6                      | 105                        | 105  | 0   | 0  | 5 360                                      |
| Malta               | Unitary              | 0,4                      | 68                         | 68   | 0   | 0  | 6 285                                      |
| Netherlands         | Unitary              | 16,9                     | 402                        | 390  | 0   | 12   | 43 540                                     |
| Norway              | Unitary              | 5,1                      | 446                        | 428  | 0   | 18   | 12 185                                     |
| Poland              | Unitary              | 38,5                     | 2 874                      | 2 478  | 380   | 16   | 15 530                                     |
| Portugal            | Unitary              | 10,4                     | 310                        | 308  | 0   | 2  | 33 400                                     |
| Romania             | Unitary              | 19,9                     | 3 223                      | 3 181  | 0   | 42   | 6 260                                      |
| Slovenia            | Unitary              | 2,1                      | 212                        | 212  | 0   | 0  | 9 730                                      |
| Slovak Republic     | Unitary              | 5,4                      | 2 935                      | 2 927  | 0   | 8  | 1 850                                      |





|                         | FORM OF THE STATE | POPULATION (millions) | TOTAL NUMBER OF SNGS | NUMBER OF MUNICIPAL LEVEL GOVERNMENTS | NUMBER OF INTERMEDIATE LEVEL GOVERNMENTS | NUMBER OF STATES/REGIONAL LEVEL GOVERNMENTS | AVERAGE MUNICIPAL SIZE (inhabitants) |
|-------------------------|-------------------|-----------------------|----------------------|---------------------------------------|--|---|--------------------------------------|
| COUNTRIES               |                   |                       |                      |                                       |  |   |                                      |
| EUROPE                  |                   |                       |                      |                                       |  |   |                                      |
| Spain                   | Quasi-federal     | 46,5                  | 8 186                | 8 119                                 | 50                                       | 17  | 5 605                                |
| Sweden                  | Unitary           | 9,7                   | 311                  | 290                                   | 0  | 21  | 33 890                               |
| Switzerland             | Federal           | 8,2                   | 2 320                | 2 294                                 | 0  | 26  | 3 590                                |
| United Kingdom          | Unitary           | 64,6                  | 419                  | 389                                   | 27                                       | 3   | 166 060                              |
| LATIN AMERICA           |                   |                       |                      |                                       |  |   |                                      |
| Argentina               | Federal           | 43,0                  | 2 242                | 2 218                                 | 0  | 24  | 19 378                               |
| Brazil                  | Federal           | 202,8                 | 5 597                | 5 570                                 | 0  | 27  | 36 400                               |
| Chile                   | Unitary           | 17,8                  | 360                  | 345                                   | 0  | 15  | 51 650                               |
| Colombia                | Unitary           | 47,8                  | 1 134                | 1 101                                 | 0  | 33  | 43 370                               |
| Costa Rica              | Unitary           | 4,8                   | 81                   | 81                                    | 0  | 0   | 58 735                               |
| Dominican Republic      | Unitary           | 10,4                  | 191                  | 159                                   | 0  | 32  | 65 440                               |
| Ecuador                 | Unitary           | 16,3                  | 243                  | 221                                   | 0  | 22  | 73 756                               |
| El Salvador             | Unitary           | 6,4                   | 262                  | 262                                   | 0  | 0   | 24 527                               |
| Guatemala               | Unitary           | 16,0                  | 334                  | 334                                   | 0  | 0   | 47 964                               |
| Honduras                | Unitary           | 8,0                   | 298                  | 298                                   | 0  | 0   | 26 718                               |
| Jamaica                 | Unitary           | 2,7                   | 14                   | 14                                    | 0  | 0   | 194 357                              |
| Mexico                  | Federal           | 119,7                 | 2 489                | 2 457                                 | 0  | 32  | 45 740                               |
| Paraguay                | Unitary           | 6,6                   | 255                  | 238                                   | 0  | 17  | 27 533                               |
| Peru                    | Unitary           | 31,0                  | 1 891                | 1 866                                 | 0  | 25  | 18 535                               |
| MIDDLE EAST & WEST ASIA |                   |                       |                      |                                       |  |   |                                      |
| Israel                  | Unitary           | 8,2                   | 255                  | 255                                   | 0  | 0   | 33 190                               |
| Jordan                  | Unitary           | 7,7                   | 94                   | 94                                    | 0  | 0   | 81 808                               |
| Palestine               | Unitary           | 4,3                   | 483                  | 483                                   | 0  | 0   |                                      |
| Turkey                  | Unitary           | 76,6                  | 1 478                | 1 397                                 | 0  | 81  | 53 940                               |
| EURO-ASIA               |                   |                       |                      |                                       |  |   |                                      |
| Albania                 | Unitary           | 3,2                   | 73                   | 61                                    | 0  | 12  | 52 459                               |
| Armenia                 | Unitary           | 3,0                   | 915                  | 915                                   | 0  | 0   | 3 266                                |



|                     | FORM OF THE STATE | POPULATION (millions) | TOTAL NUMBER OF SNGS | NUMBER OF MUNICIPAL LEVEL GOVERNMENTS | NUMBER OF INTERMEDIATE LEVEL GOVERNMENTS | NUMBER OF STATES/REGIONAL LEVEL GOVERNMENTS | AVERAGE MUNICIPAL SIZE (inhabitants) |
|---------------------|-------------------|-----------------------|----------------------|---------------------------------------|--|---|--------------------------------------|
| COUNTRIES           |                   |                       |                      |                                       |  |   |                                      |
| EURO-ASIA           |                   |                       |                      |                                       |  |   |                                      |
| Albania             | Unitary           | 3,2                   | 73                   | 61                                    | 0  | 12  | 52 459                               |
| Armenia             | Unitary           | 3,0                   | 915                  | 915                                   | 0  | 0   | 3 266                                |
| Azerbaijan          | Unitary           | 9,5                   | 1 698                | 1 607                                 | 90                                       | 1   | 5 933                                |
| Georgia             | Unitary           | 4,3                   | 78                   | 76                                    | 0  | 2   | 56 644                               |
| Kazakhstan          | Unitary           | 16,6                  | 2 676                | 2 445                                 | 215                                      | 16  |                                      |
| Kyrgyzstan          | Unitary           | 5,8                   | 531                  | 459                                   | 63                                       | 9   |                                      |
| Republic of Moldova | Unitary           | 3,4                   | 1 714                | 1 679                                 | 0  | 35  | 2 047                                |
| Montenegro          | Unitary           | 0,6                   | 23                   | 23                                    | 0  | 0   | 26 087                               |
| Russian Federation  | Federal           | 143,8                 | 22 489               | 20 055                                | 2 351                                    | 83  |                                      |
| Serbia              | Unitary           | 7,1                   | 176                  | 174                                   | 0  | 2   | 40 805                               |
| Ukraine             | Unitary           | 45,4                  | 11 418               | 10 670                                | 721                                      | 27  | -                                    |
| AFRICA              |                   |                       |                      |                                       |  |   |                                      |
| Angola              | Unitary           | 22,1                  | 180                  | 162                                   | 0  | 18  |                                      |
| Benin               | Unitary           | 10,6                  | 77                   | 77                                    | 0  | 0   |                                      |
| Burkina Faso        | Unitary           | 17,6                  | 381                  | 368                                   | 0  | 13  | 47 826                               |
| Cameroun            | Unitary           | 22,8                  | 370                  | 360                                   | 0  | 10  | 63 250                               |
| Cabo Verde          | Unitary           | 0,5                   | 22                   | 22                                    | 0  | 0   |                                      |
| Congo               | Unitary           | 4,5                   | 106                  | 94                                    | 0  | 12  | 51 193                               |
| Côte d'Ivoire       | Unitary           | 22,2                  | 230                  | 197                                   | 0  | 33  | 112 473                              |
| Ethiopia            | Federal           | 97,0                  | 781                  | 770                                   | 0  | 11  | 125 919                              |
| Ghana               | Unitary           | 26,8                  | 226                  | 216                                   | 0  | 10  | 124 009                              |
| Guinea              | Unitary           | 12,3                  | 38                   | 38                                    | 0  | 0   |                                      |
| Guinea-Bissau       | Unitary           | 1,8                   | 36                   | 36                                    | 0  | 0   |                                      |
| Kenya               | Unitary           | 44,9                  | 47                   | 47                                    | 0  | 0   |                                      |
| Malawi              | Unitary           | 16,7                  | 35                   | 35                                    | 0  | 0   | 477 000                              |
| Mali                | Unitary           | 17,1                  | 761                  | 703                                   | 49                                       | 9   | 24 324                               |
| Mauritius           | Unitary           | 1,3                   | 143                  | 130                                   | 12                                       | 1   | 10 000                               |
| Morocco             | Unitary           | 33,5                  |                      |                                       |  |   |                                      |
| Niger               | Unitary           | 19,1                  | 273                  | 265                                   | 0  | 8   | 72 075                               |
| Nigeria             | Federal           | 177,5                 | 811                  | 774                                   | 0  | 37  |                                      |



|                             | FORM OF THE STATE | POPULATION (millions) | TOTAL NUMBER OF SNGS | NUMBER OF MUNICIPAL LEVEL GOVERNMENTS | NUMBER OF INTERMEDIATE LEVEL GOVERNMENTS | NUMBER OF STATES/REGIONAL LEVEL GOVERNMENTS | AVERAGE MUNICIPAL SIZE (inhabitants) |
|-----------------------------|-------------------|-----------------------|----------------------|---------------------------------------|--|---|--------------------------------------|
| COUNTRIES                   |                   |                       |                      |                                       |  |   |                                      |
| AFRICA                      |                   |                       |                      |                                       |  |   |                                      |
| Uganda                      | Unitary           | 37,8                  | 308                  | 196                                   | 0  | 112   | 192 700                              |
| Senegal                     | Unitary           | 14,7                  | 609                  | 550                                   | 45                                       | 14  | 26 677                               |
| South Africa                | Quasi-federal     | 54,0                  | 287                  | 278                                   | 0  | 9   |                                      |
| United Republic of Tanzania | Unitary           | 50,8                  | 160                  | 160                                   | 0  | 0   | 317 500                              |
| Chad                        | Unitary           | 13,6                  | 432                  | 348                                   | 61                                       | 23  |                                      |
| Togo                        | Unitary           | 7,1                   | 390                  | 354                                   | 30                                       | 6   | 20 099                               |
| Tunisia                     | Unitary           | 11,1                  | 288                  | 264                                   | 0  | 24  | 42 110                               |
| Zimbabwe                    | Unitary           | 15,2                  | 96                   | 86                                    | 0  | 10  |                                      |
| ASIA-PACIFIC                |                   |                       |                      |                                       |  |   |                                      |
| Australia                   | Federal           | 23,7                  | 579                  | 571                                   |  | 8   | 41 005                               |
| Cambodia                    | Unitary           | 15,2                  | 1 830                | 1 621                                 | 185                                      | 24  | 9 383                                |
| China                       | Unitary           | 1 401,6               | 3 217                | 2 852                                 | 334                                      | 31  |                                      |
| India                       | Federal           | 1 295,3               | 250 706              | 250 671                               | 0  | 35  | 5 167                                |
| Indonesia                   | Unitary           | 254,5                 | 542                  | 508                                   | 0  | 34  | 500 894                              |
| Japan                       | Unitary           | 127,1                 | 1 788                | 1 741                                 | 0  | 47  | 72 715                               |
| Korea                       | Unitary           | 50,4                  | 245                  | 228                                   | 0  | 17  | 224 440                              |
| Malaysia                    | Federal           | 29,9                  | 162                  | 149                                   | 0  | 13  | 200 671                              |
| Mongolia                    | Unitary           | 2,9                   | 2 105                | 1 744                                 | 339                                      | 22  | 1 676                                |
| New Zealand                 | Unitary           | 4,5                   | 78                   | 67                                    | 0  | 11  | 68 590                               |
| Philippines                 | Unitary           | 99,1                  | 43 703               | 42 028                                | 1 594                                    | 81  | 2 359                                |
| Thailand                    | Unitary           | 67,7                  | 2 517                | 2 232                                 | 209                                      | 76  | 30 341                               |
| Vietnam                     | Unitary           | 90,7                  | 11 909               | 11 145                                | 700                                      | 64  | 8 379                                |
| NORTH AMERICA               |                   |                       |                      |                                       |  |   |                                      |
| Canada                      | Federal           | 35,5                  | 3 818                | 3 805                                 | 0  | 13  | 8 205                                |
| United States               | Federal           | 319,2                 | 38 960               | 35 879                                | 3 031                                    | 50  | 8 990                                |

<sup>1</sup>The first figure refers to the whole island, while the second does not include the northern part of the island of Cyprus.



## ANNEX 4.

### DETAILED STRUCTURE OF THE CLASSIFICATIONS OF THE FUNCTIONS OF GOVERNMENT (COFOG)

#### 01 GENERAL PUBLIC SERVICE

- 01.1 Executive and Legislative Organs, Financial and Fiscal Affairs, External Affairs
- 01.2 Foreign Economic Aid
- 01.3 General Services
- 01.4 Basic Research
- 01.5 R&D General Public Services
- 01.6 General Public Services N.E.C.
- 01.7 Public Debt Transactions
- 01.8 Transfers of a General Character between Different Levels of Government

#### 02 DEFENCE

- 02.1 Military Defence
- 02.2 Civil Defence
- 02.3 Foreign Military Aid
- 02.4 R&D Defence
- 02.5 Defence N.E.C.

#### 03 PUBLIC ORDER AND SAFETY

- 03.1 Police Services
- 03.2 Fire-Protection Services
- 03.3 Law Courts
- 03.4 Prisons
- 03.5 R&D Public Order and Safety
- 03.6 Public Order and Safety N.E.C.

#### 04 ECONOMIC AFFAIRS

- 04.1 General Economic, Commercial and Labour Affairs
- 04.2 Agriculture, Forestry, Fishing and Hunting
- 04.3 Fuel and Energy
- 04.4 Mining, Manufacturing and Construction
- 04.5 Transport
- 04.6 Communication
- 04.7 Other Industries
- 04.8 R&D Economic Affairs
- 04.9 Economic Affairs N.E.C.

#### 05 ENVIRONMENTAL PROTECTION

- 05.1 Waste Management
- 05.2 Waste Water Management
- 05.3 Pollution Abatement
- 05.4 Protection of Biodiversity and Landscape
- 05.5 R&D Environmental Protection
- 05.6 Environmental Protection N.E.C.

#### 06 HOUSING AND COMMUNITY AMENITIES

- 06.1 Housing Development
- 06.2 Community Development
- 06.3 Water Supply
- 06.4 Street Lighting
- 06.5 R&D Housing and Community Amenities
- 06.6 Housing and Community Amenities N.E.C.

#### 07 HEALTH

- 07.1 Medical Products, Appliances and Equipment
- 07.2 Outpatient Services
- 07.3 Hospital Services
- 07.4 Public Health Services
- 07.5 R&D Health
- 07.6 Health N.E.C.

#### 08 RECREATION, CULTURE AND RELIGION

- 08.1 Recreational and Sporting Services
- 08.2 Cultural Services
- 08.3 Broadcasting and Publishing Services
- 08.4 Religious and Other Community Services
- 08.5 R&D Recreation, Culture and Religion
- 08.6 Recreation, Culture and Religion N.E.C.

#### 09 EDUCATION

- 09.1 Pre-Primary and Primary Education
- 09.2 Secondary Education
- 09.3 Post-Secondary Non-Tertiary Education
- 09.4 Tertiary Education
- 09.5 Education Not Definable By Level
- 09.6 Subsidiary Services to Education
- 09.7 R&D Education
- 09.8 Education N.E.C.

#### 10 SOCIAL PROTECTION

- 10.1 Sickness and Disability
- 10.2 Old Age
- 10.3 Survivors
- 10.4 Family and Children
- 10.5 Unemployment
- 10.6 Housing
- 10.7 Social Exclusion N.E.C.
- 10.8 R&D Social Protection
- 10.9 Social Protection N.E.C.





## ANNEX 5.

### DETAILED STATISTICS BY COUNTRY

#### 1. SNG expenditure as a percentage of GDP and of public spending by country

Figure A1. SNG expenditure as a % of GDP (2013)

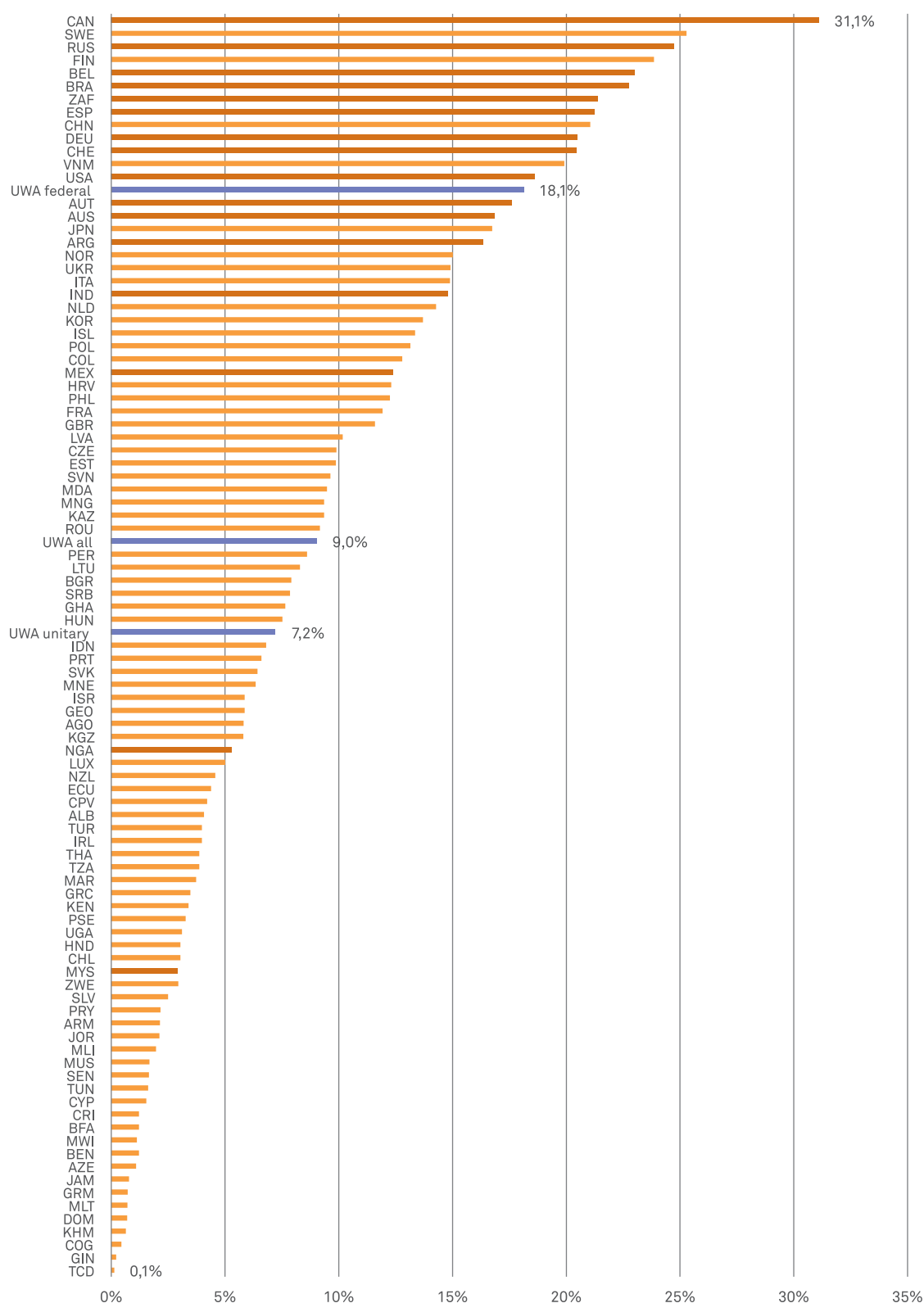
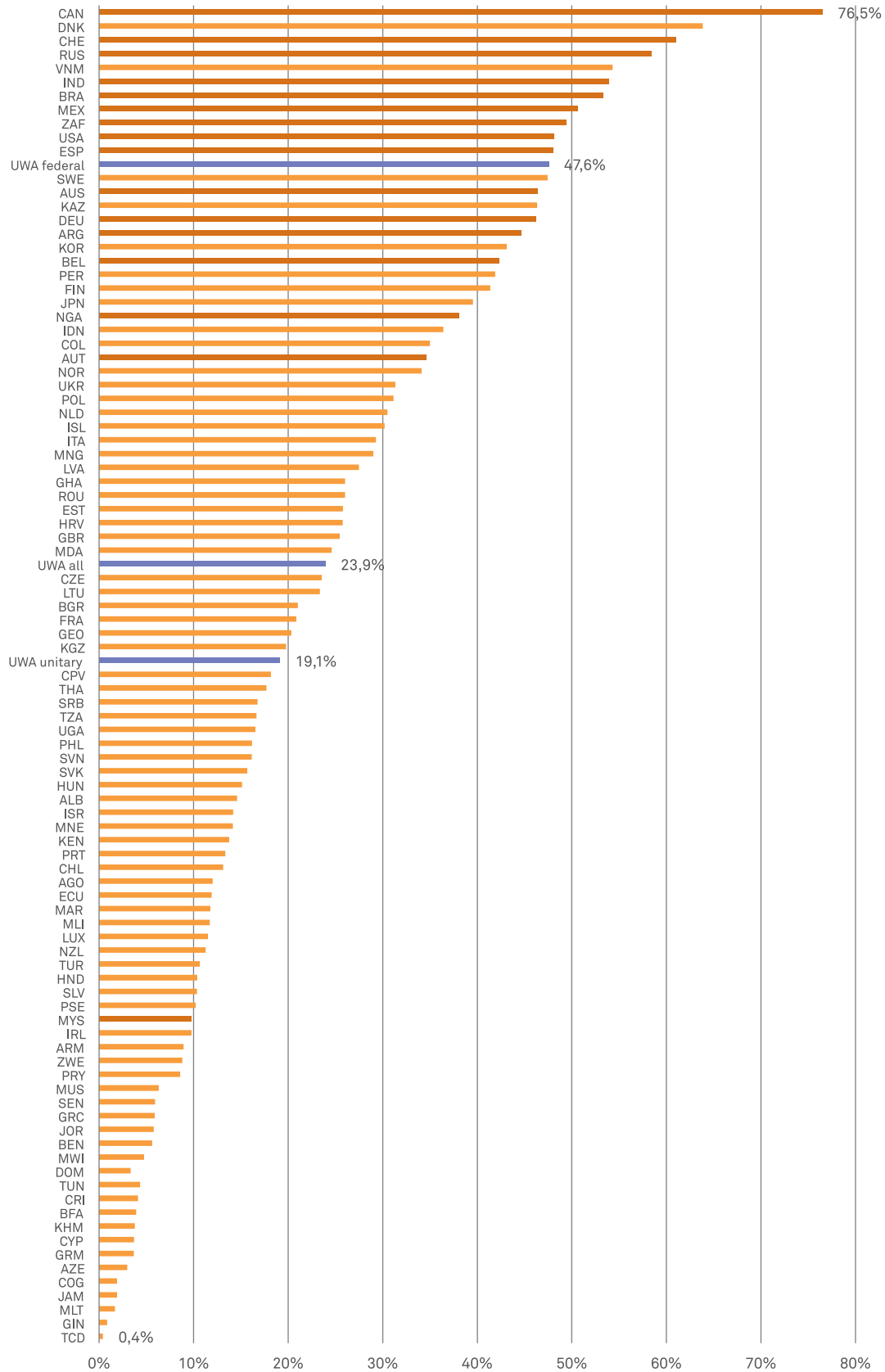




Figure A2. SNG expenditure as a % of public spending (2013)





## 2. SNG expenditure by COFOG as a % of GDP by country

Figure A3. SNG expenditure dedicated to education (% of GDP, 2013)

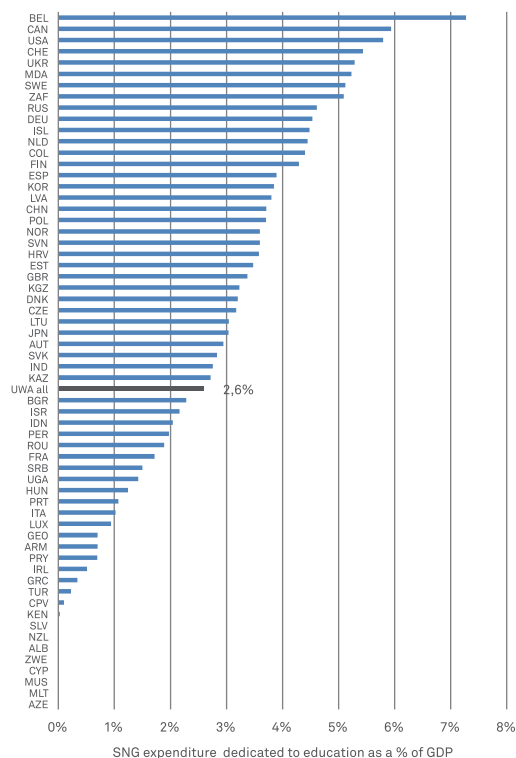


Figure A4. SNG expenditure dedicated to social protection (% of GDP, 2013)

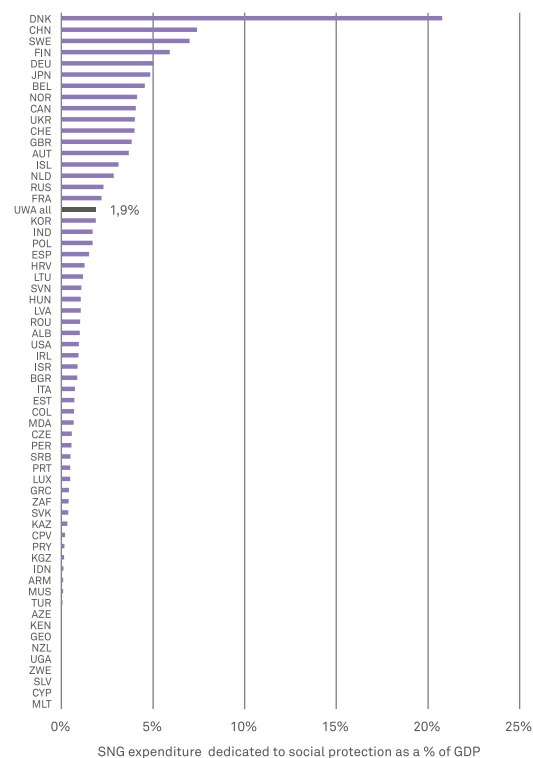


Figure A5. SNG expenditure dedicated to general public services (% of GDP, 2013)

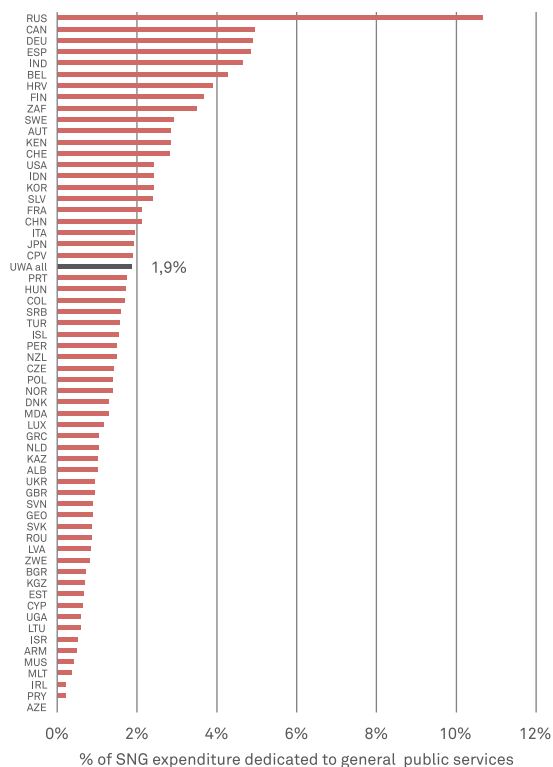


Figure A6. SNG expenditure dedicated to health (% of GDP, 2013)

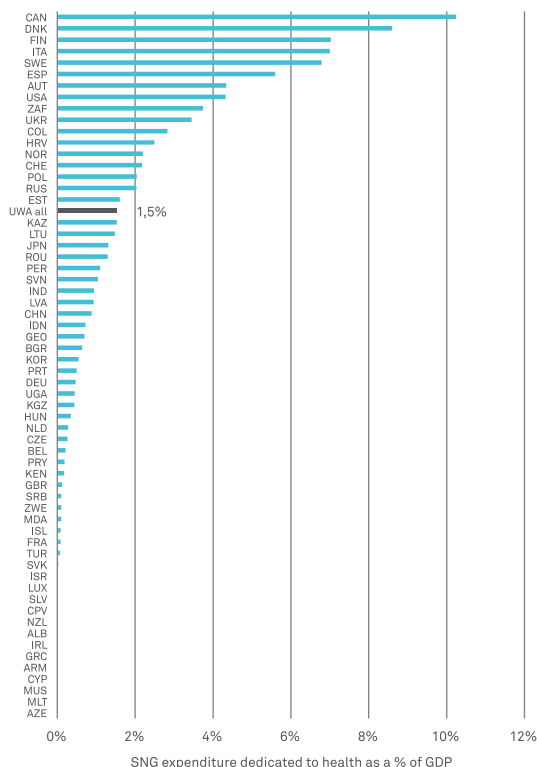




Figure A7. SNG expenditure dedicated to economic affairs and transport (% of GDP, 2013)

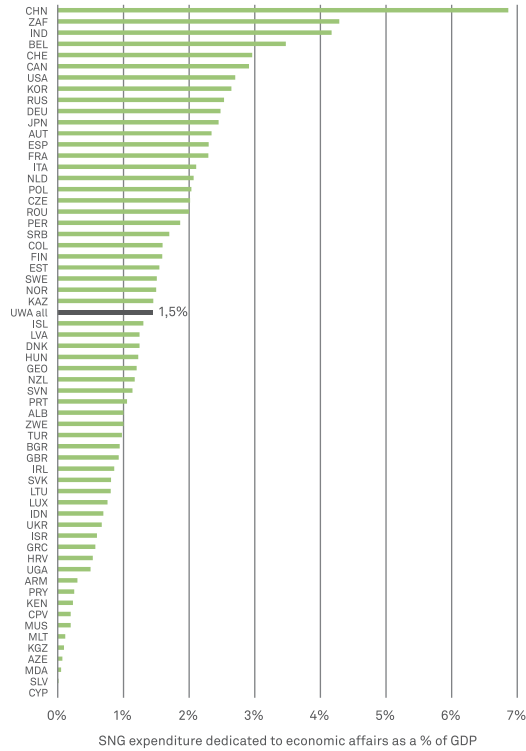


Figure A8. SNG expenditure dedicated to housing and community amenities (% of GDP, 2013)

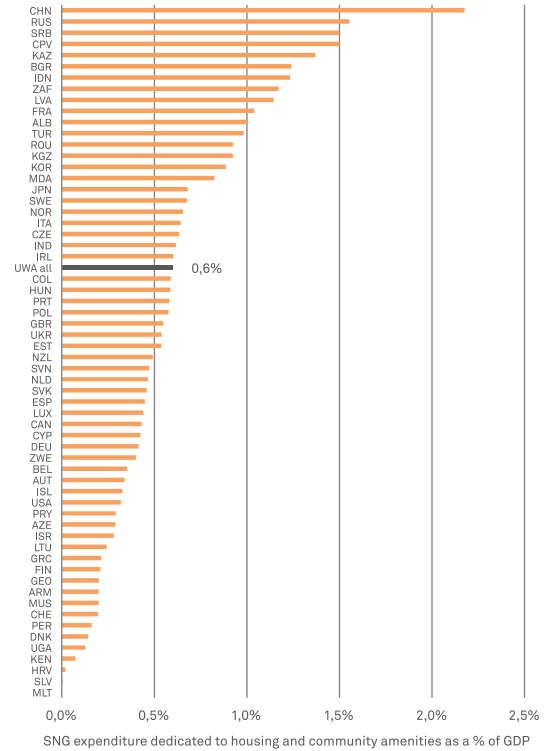


Figure A9. SNG expenditure dedicated to recreation, culture and religion (% of GDP, 2013)

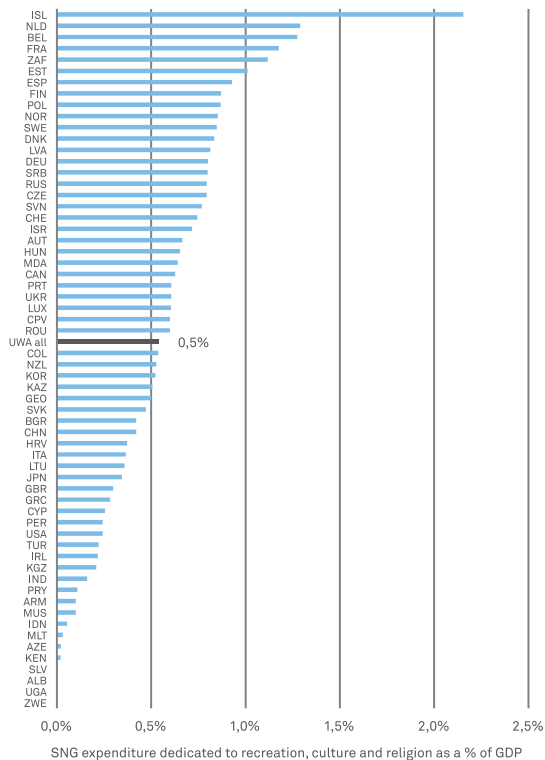
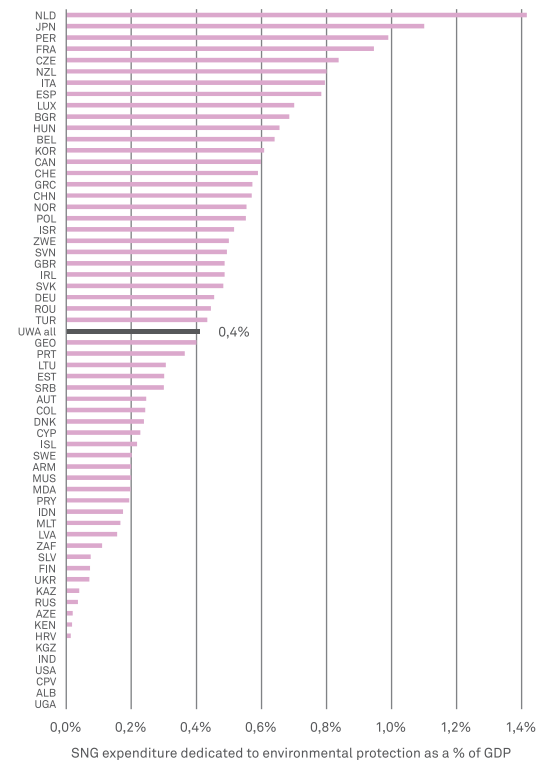


Figure A10. SNG expenditure dedicated to environmental protection (% of GDP, 2013)





### 3. SNG expenditure by COFOG as a percentage of SNG expenditure by country

Figure A11. Share of SNG expenditure dedicated to education in SNG expenditure (% , 2013)

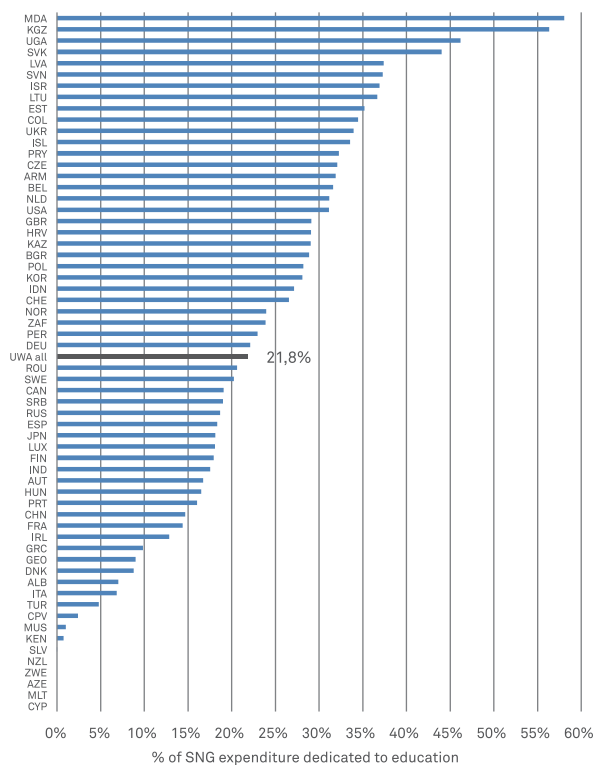


Figure A12. Share of SNG expenditure dedicated to general public services in SNG expenditure (% , 2013)

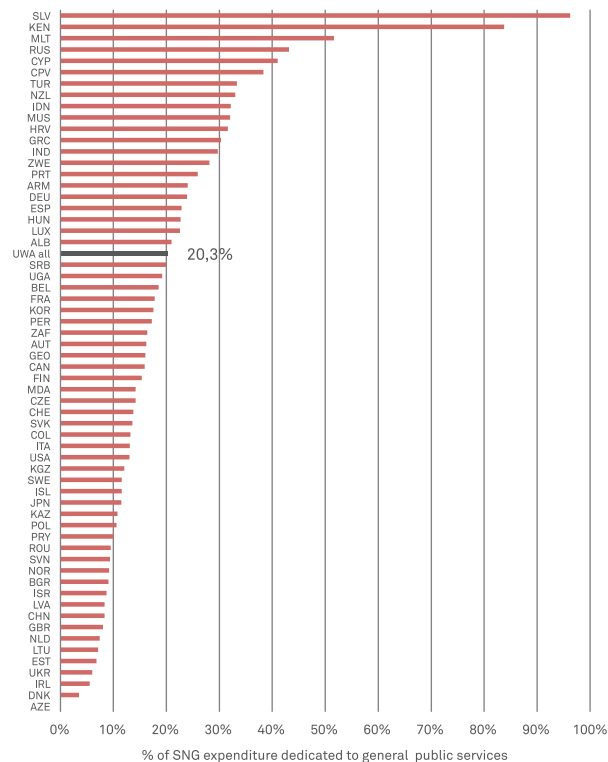


Figure A13. Share of SNG expenditure dedicated to economic affairs and transport in SNG expenditure (% , 2013)

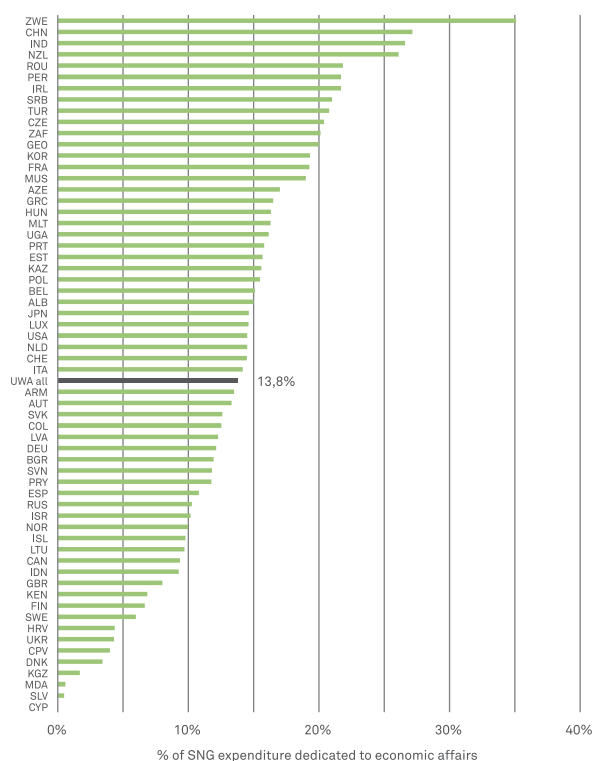
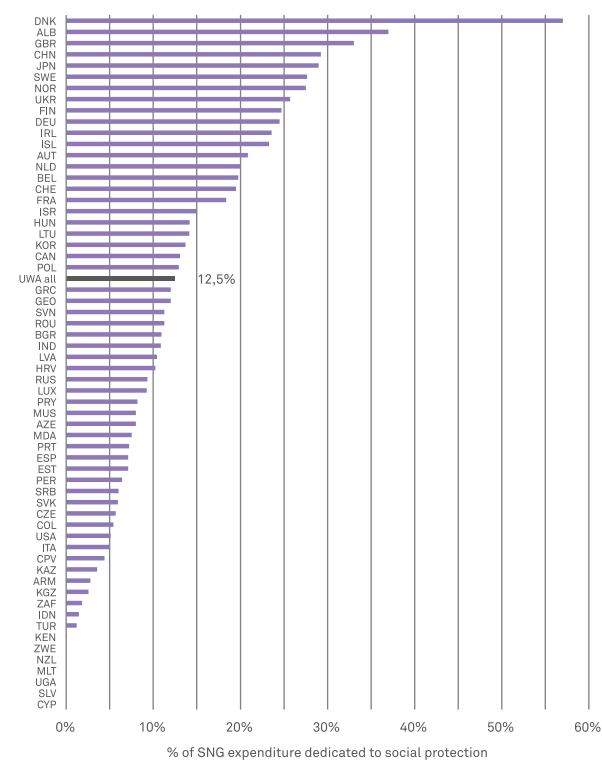
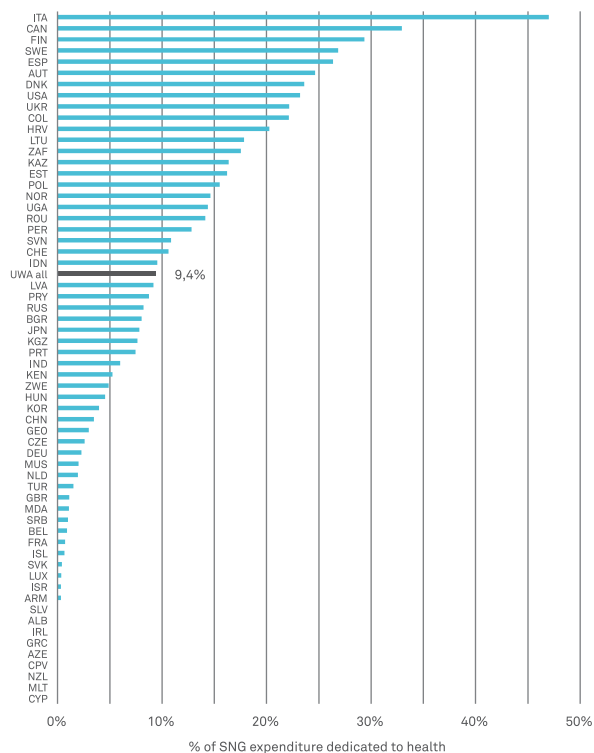


Figure A14. Share of SNG expenditure dedicated to social protection in SNG expenditure (% , 2013)

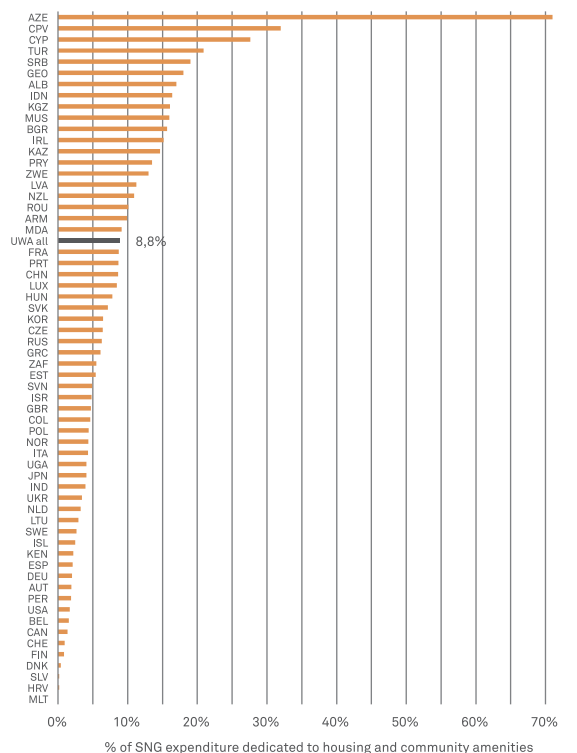




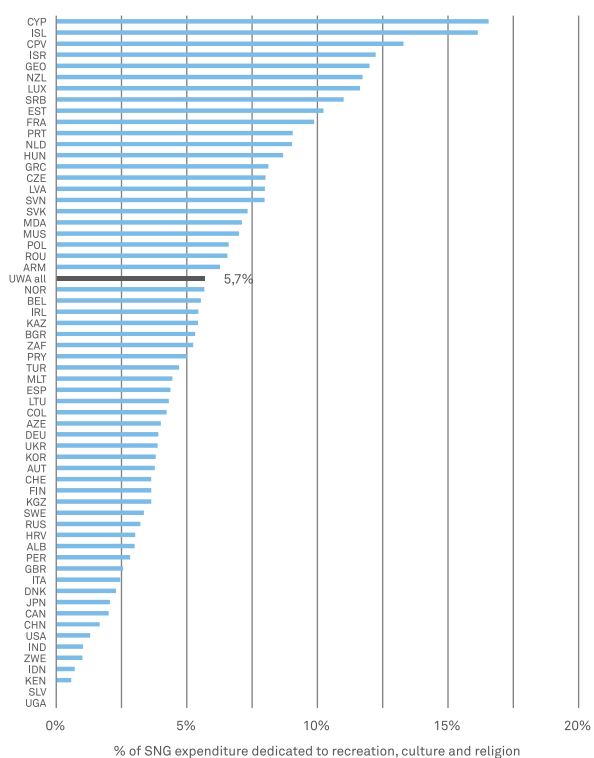
**Figure A15. Share of SNG expenditure dedicated to health in SNG expenditure (% , 2013)**



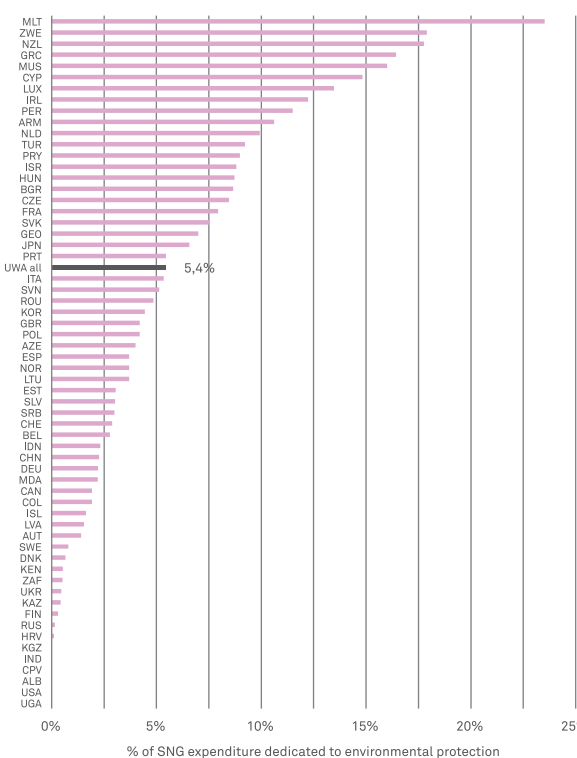
**Figure A16. Share of SNG expenditure dedicated to housing and community amenities in SNG expenditure (% , 2013)**



**Figure A17. Share of SNG expenditure dedicated to recreation, culture and religion in SNG expenditure (% , 2013)**



**Figure A18. Share of SNG expenditure dedicated to environmental protection in SNG expenditure (% , 2013)**





#### 4. SNG staff expenditure as a % of public staff expenditure and of GDP by country

Figure A19. SNG staff expenditure as a % of GDP (2013)

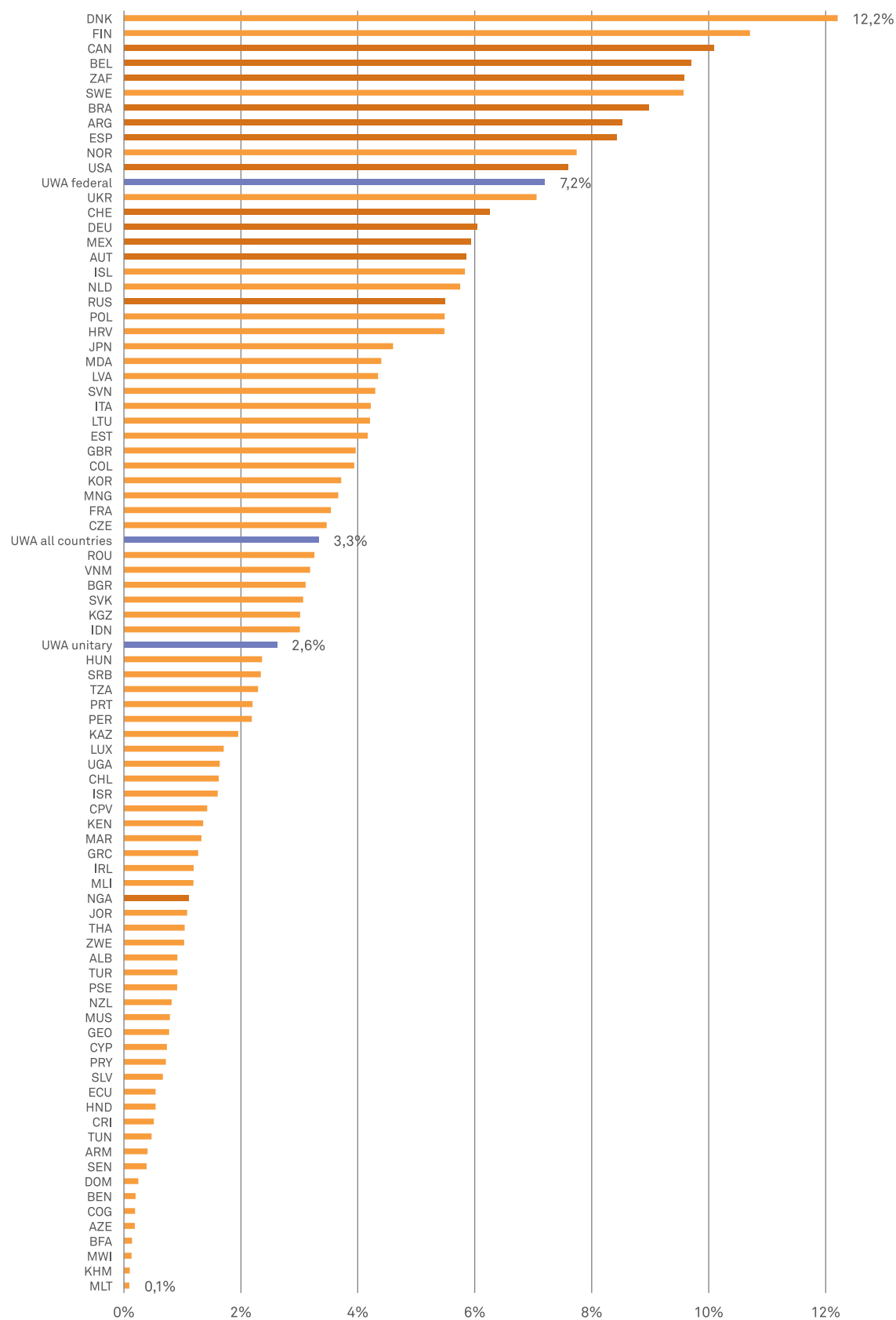
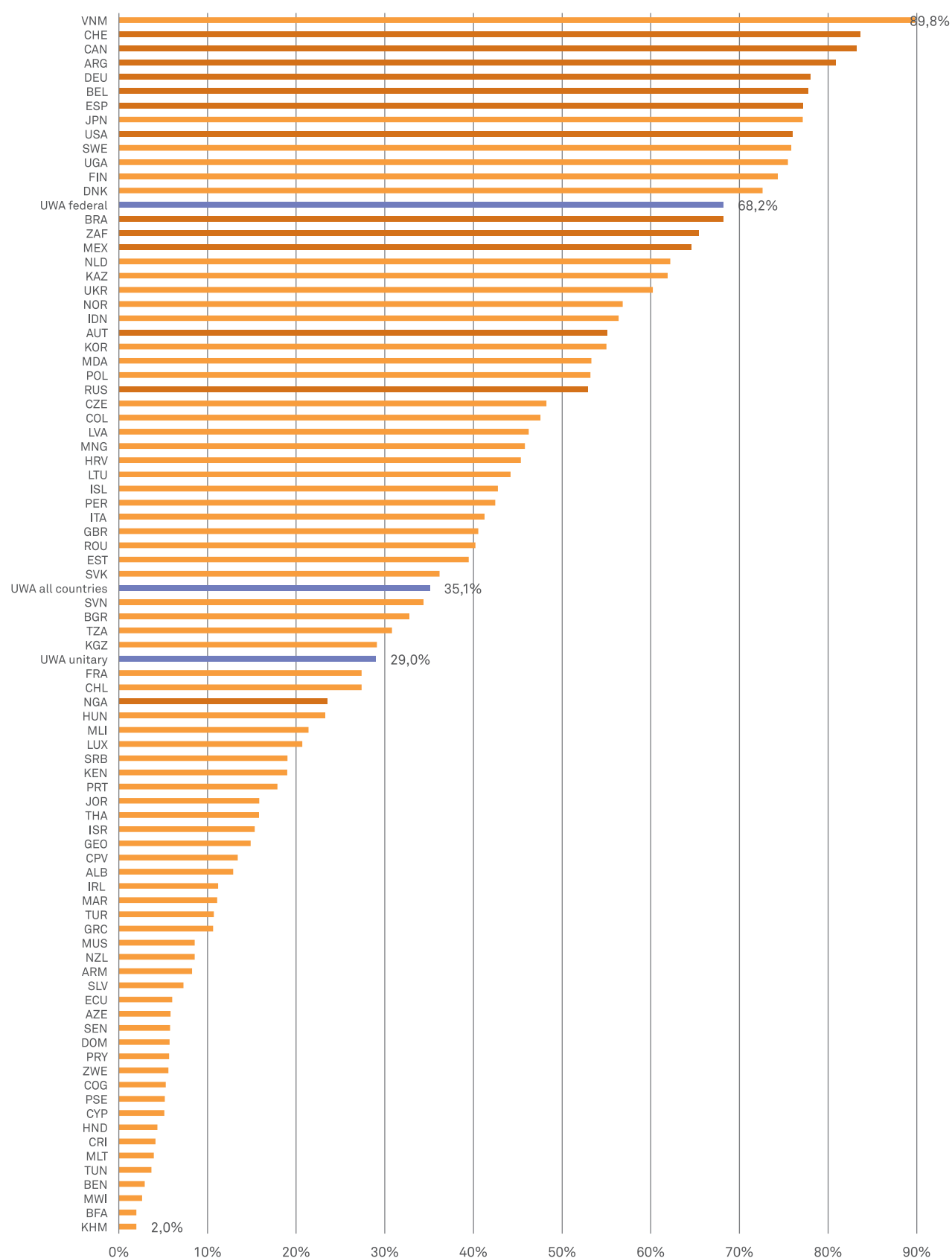




Figure A20. **SNG staff expenditure as a % of public staff expenditure (2013)**





## 5. SNG investment as a % of GDP and of public investment by country

Figure A21. SNG investment as a % of GDP (2013)

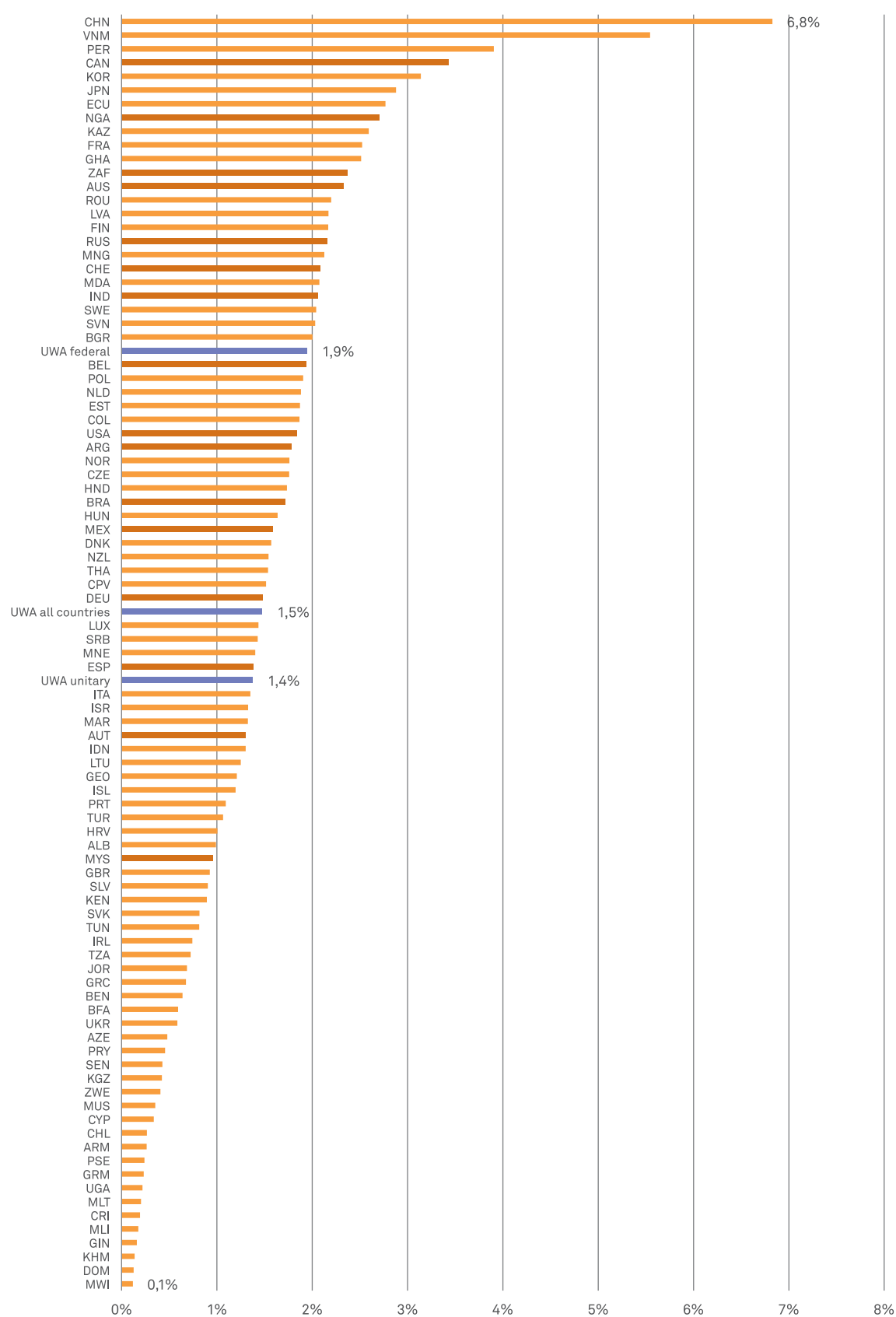
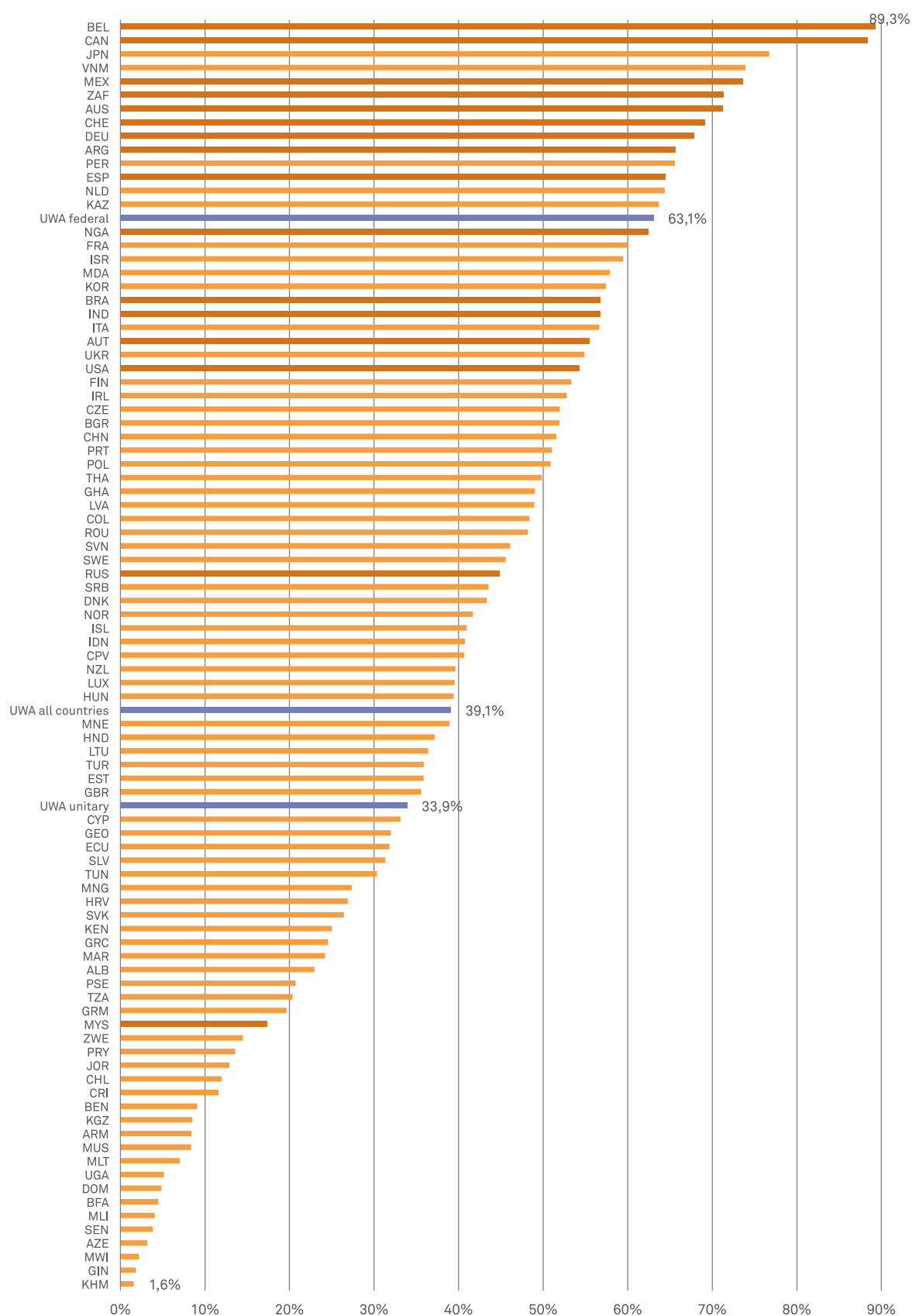




Figure A22. **SNG investment as a % of public investment (2013)**





## 6. SNG revenue as a % of GDP and public revenue by country

Figure A23. SNG revenue as a % of GDP

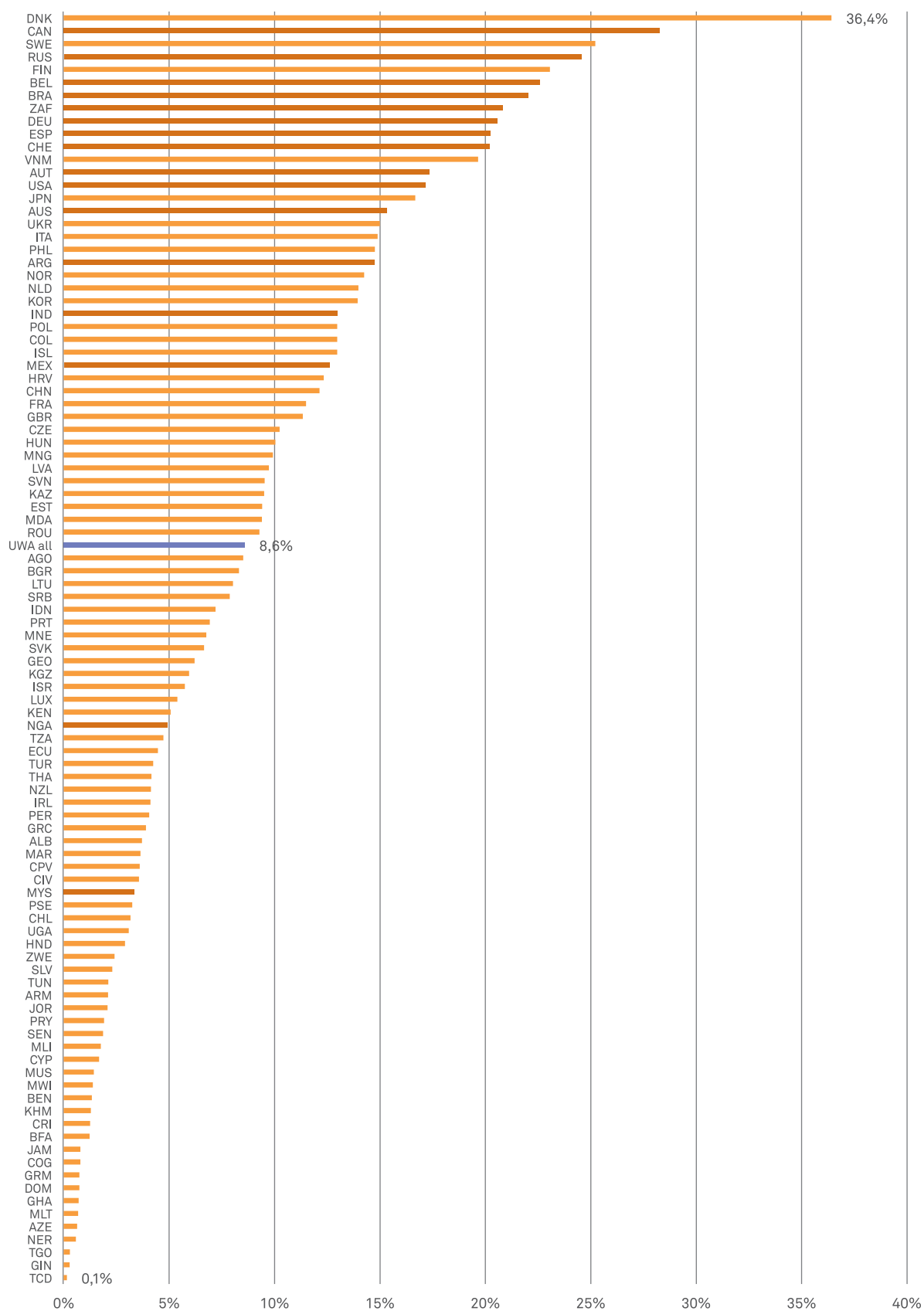
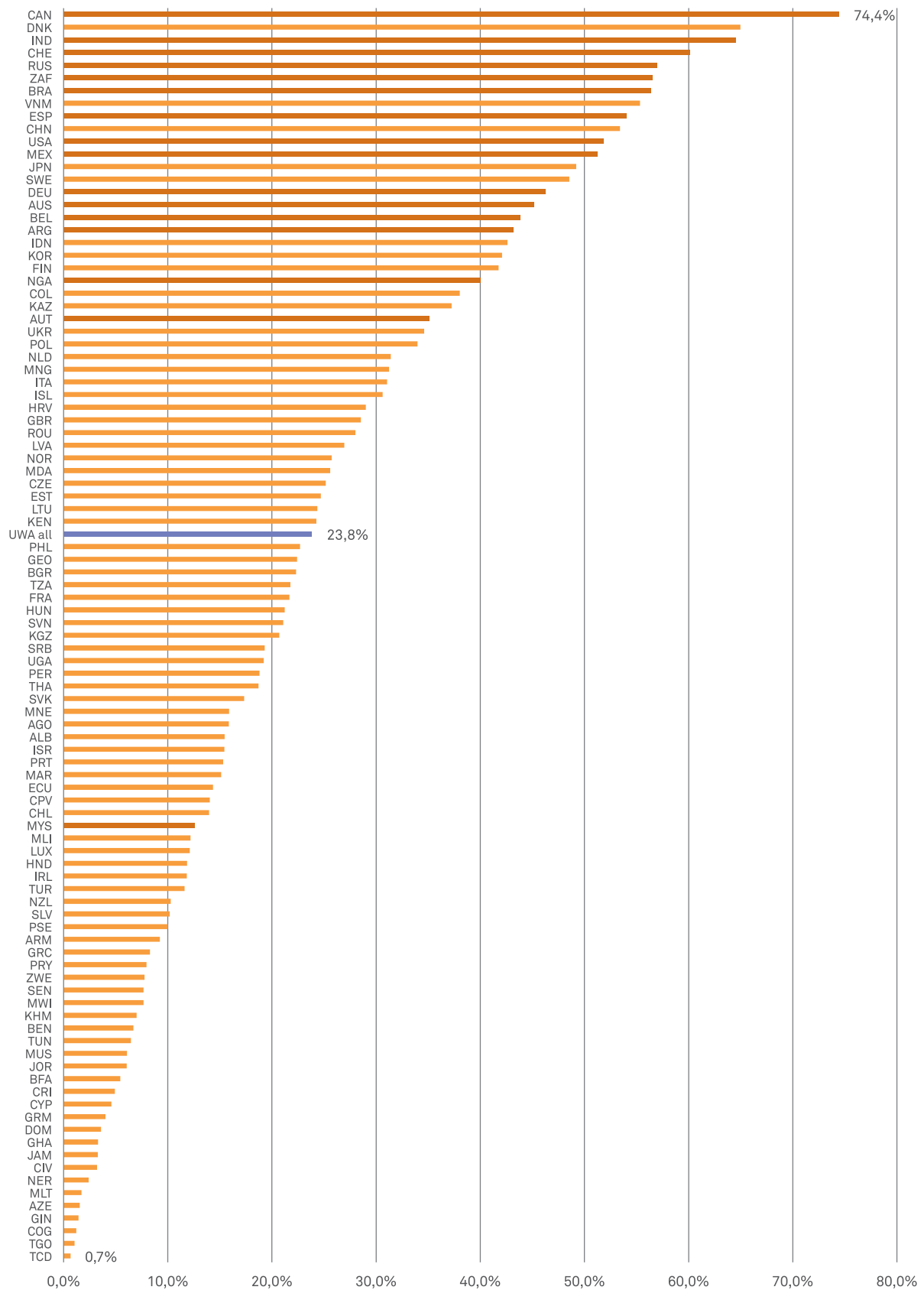




Figure A24. SNG revenue as a % of public revenue





## 7. SNG grants as a % of GDP and of SNG revenue by country

Figure A25. SNG grants and subsidies as a % of GDP (2013)

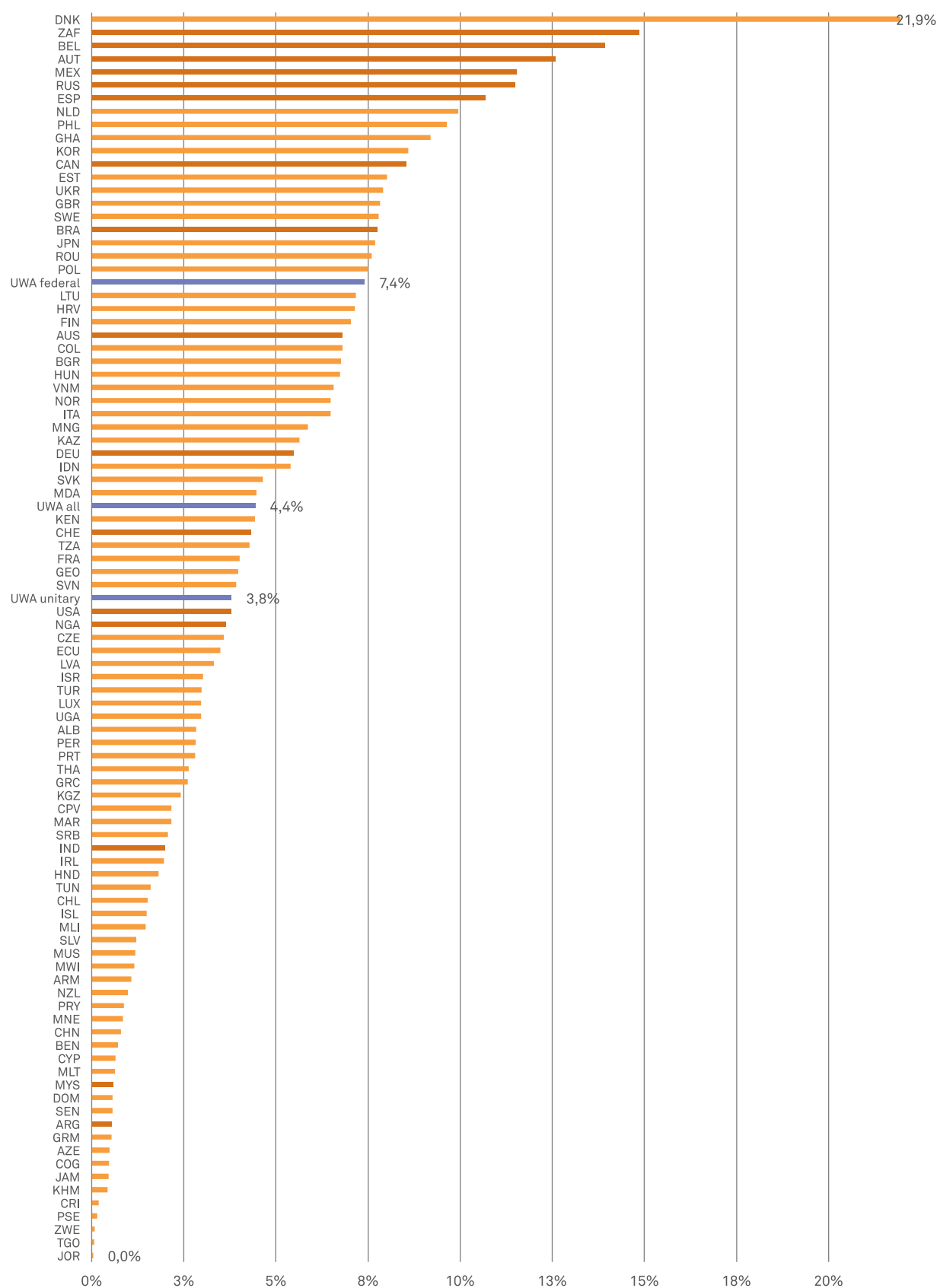
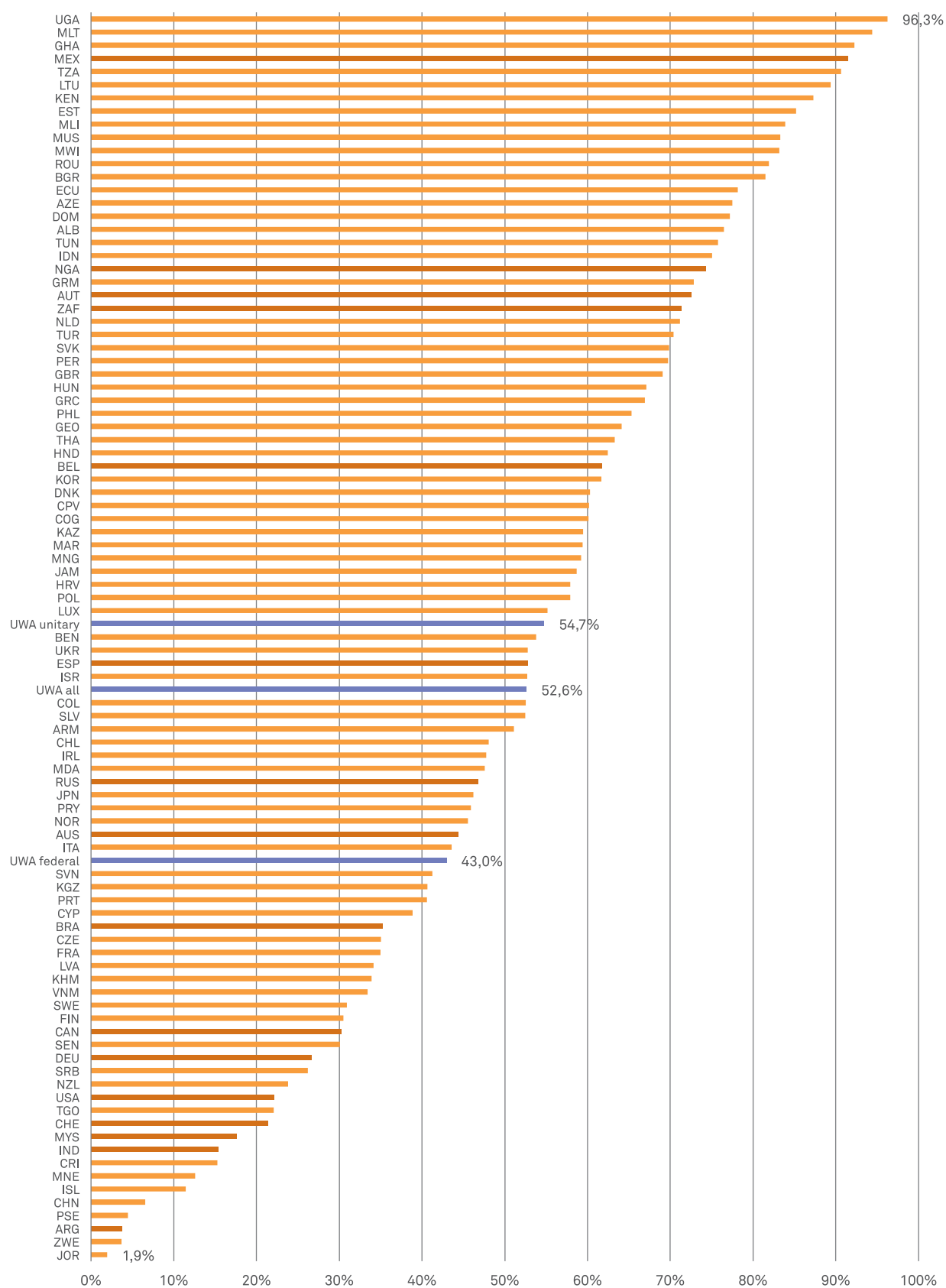




Figure A26. SNG grants and subsidies as a SNG revenue (2013)





## 8. SNG "other revenues" as a % of GDP and of SNG revenue by country

Figure A27. SNG "other revenues" as a % of GDP (2013)

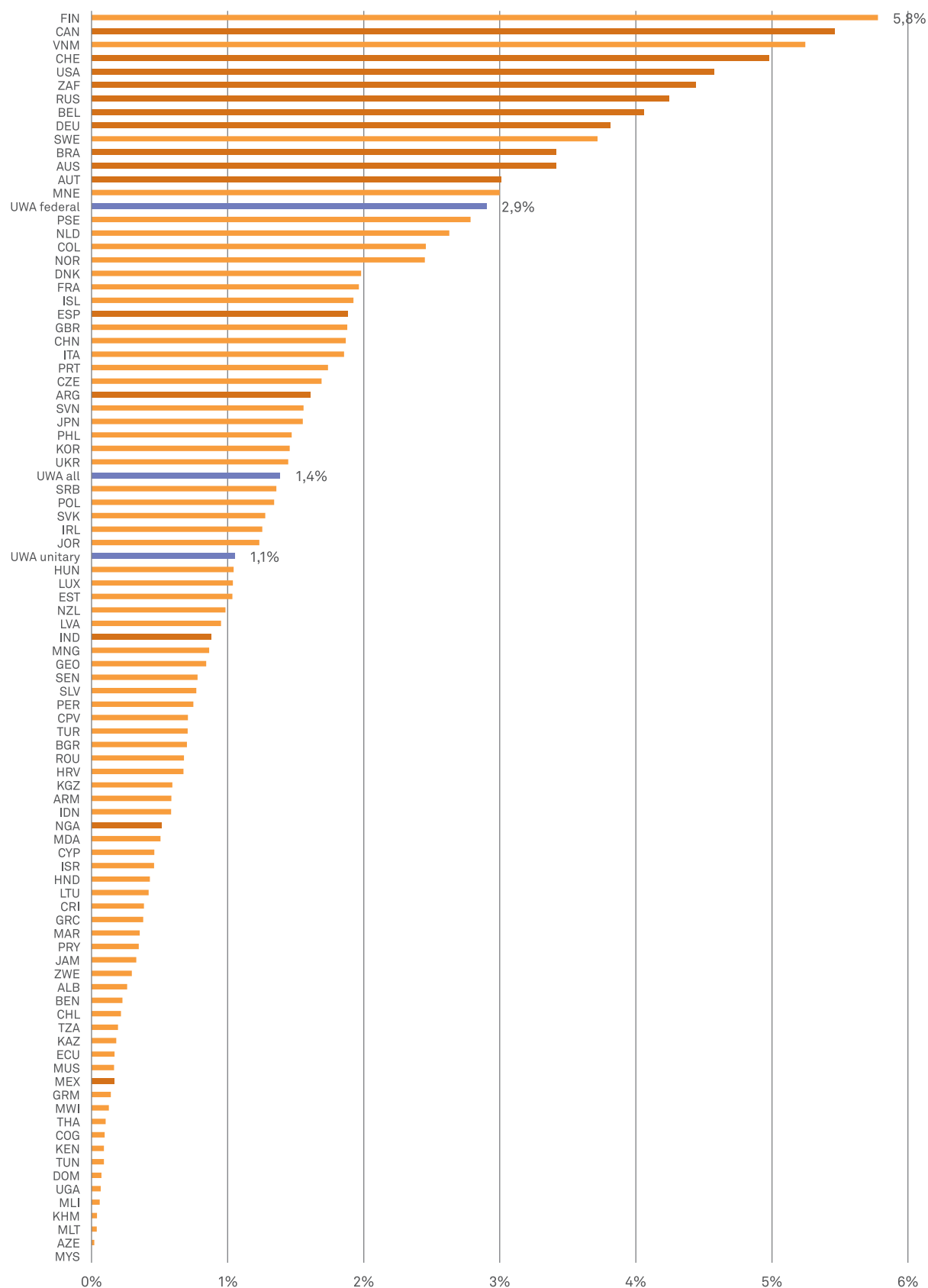
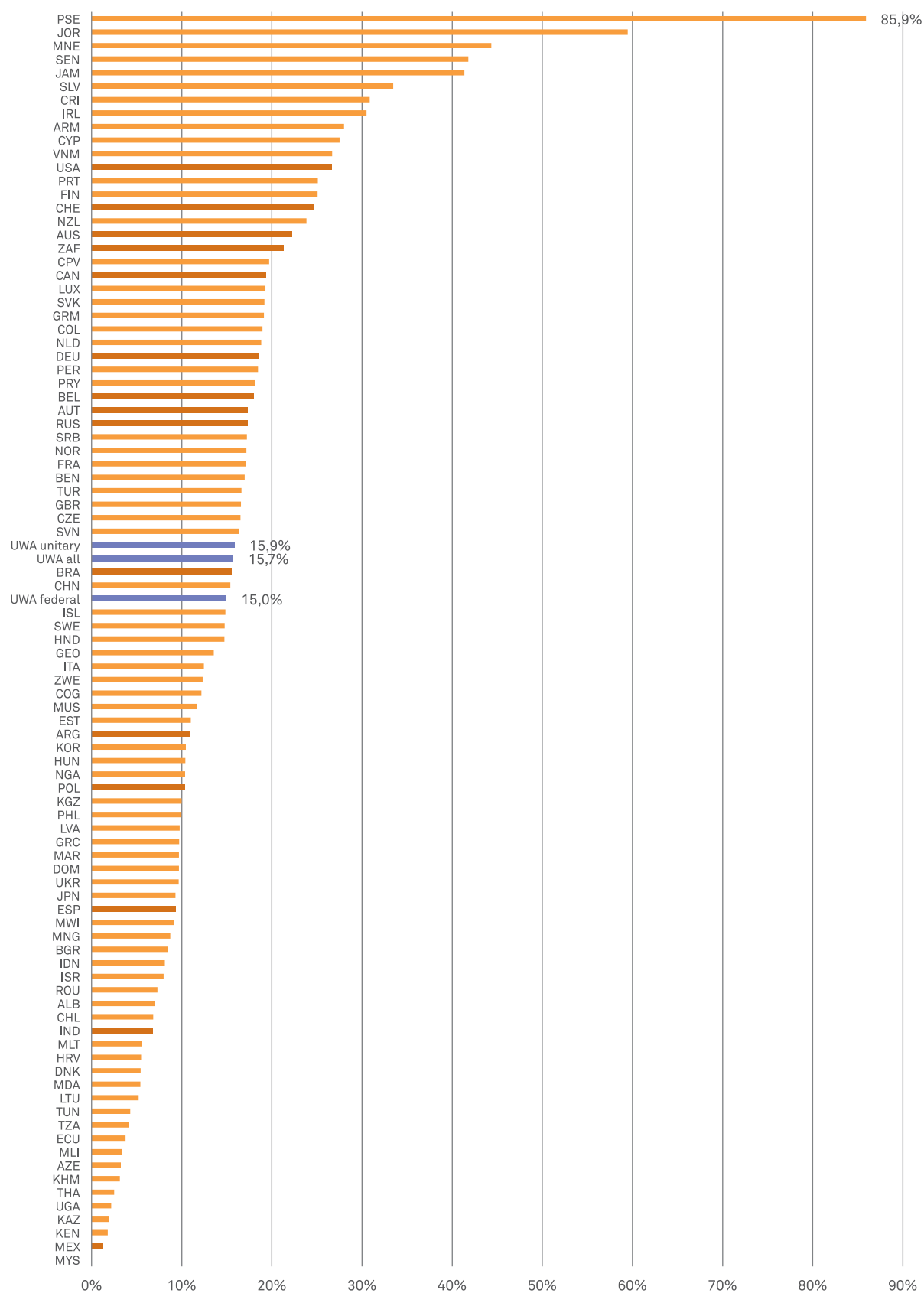




Figure A28. “other revenues” as a % SNG revenue (2013)





## 9. SNG Tax revenue as a % of GDP and of SNG revenue by country

Figure A29. Tax revenue as a % of GDP (2013)

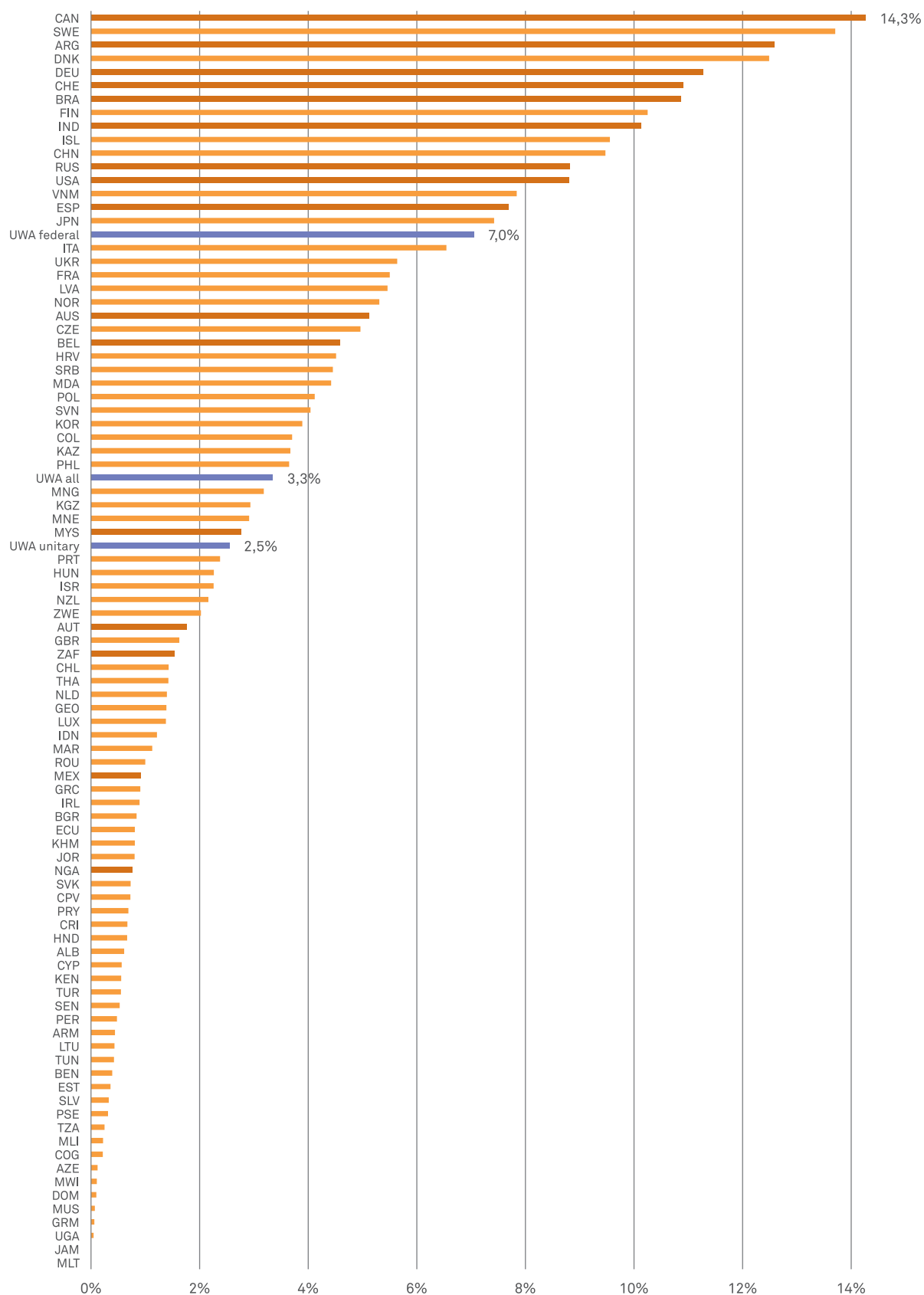
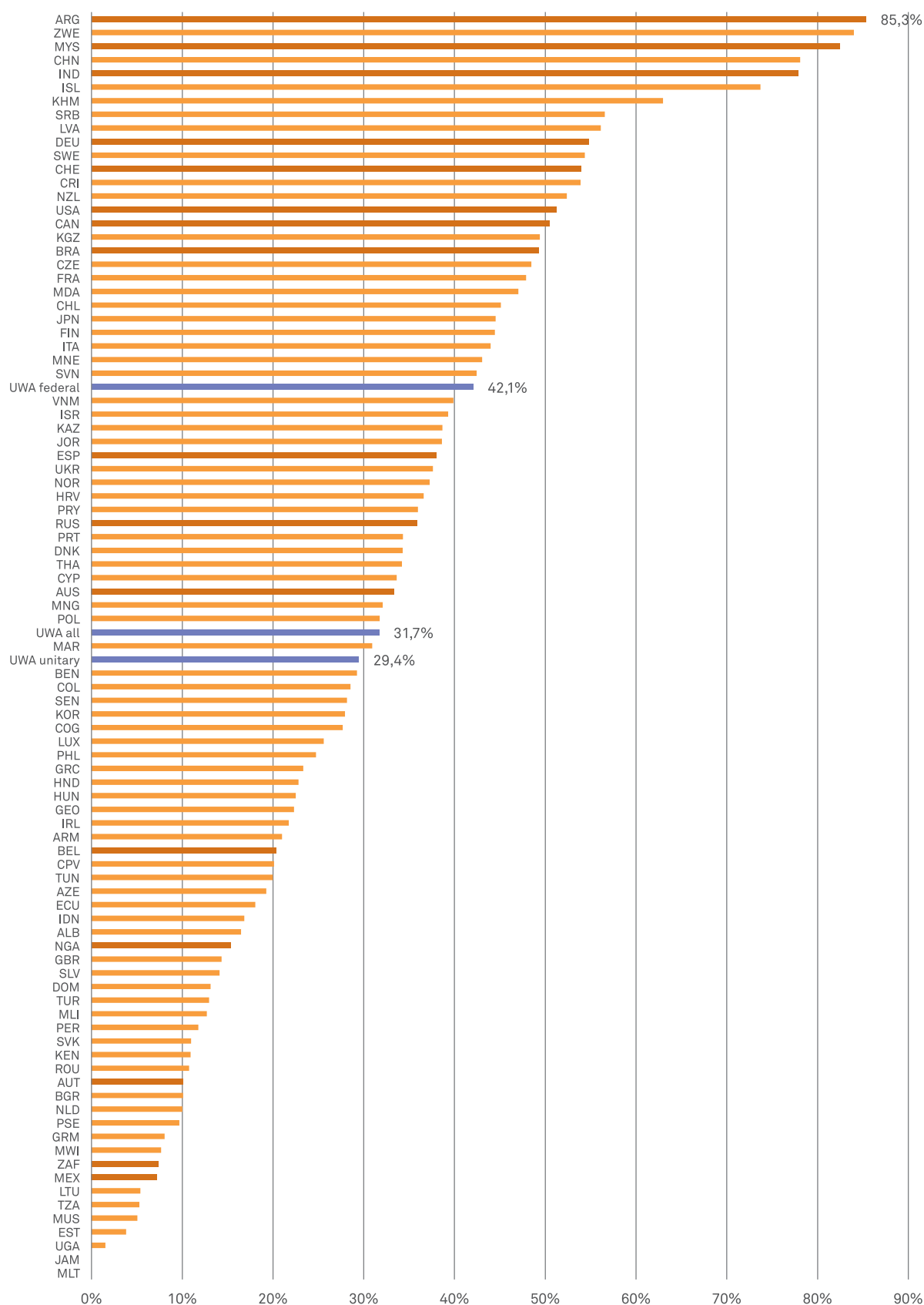




Figure A30. Tax revenue as a % of SNG revenue (2013)





## 10. SNG debt as a % of GDP and of public debt by country

Figure A31. SNG debt as a % of GDP (2013)

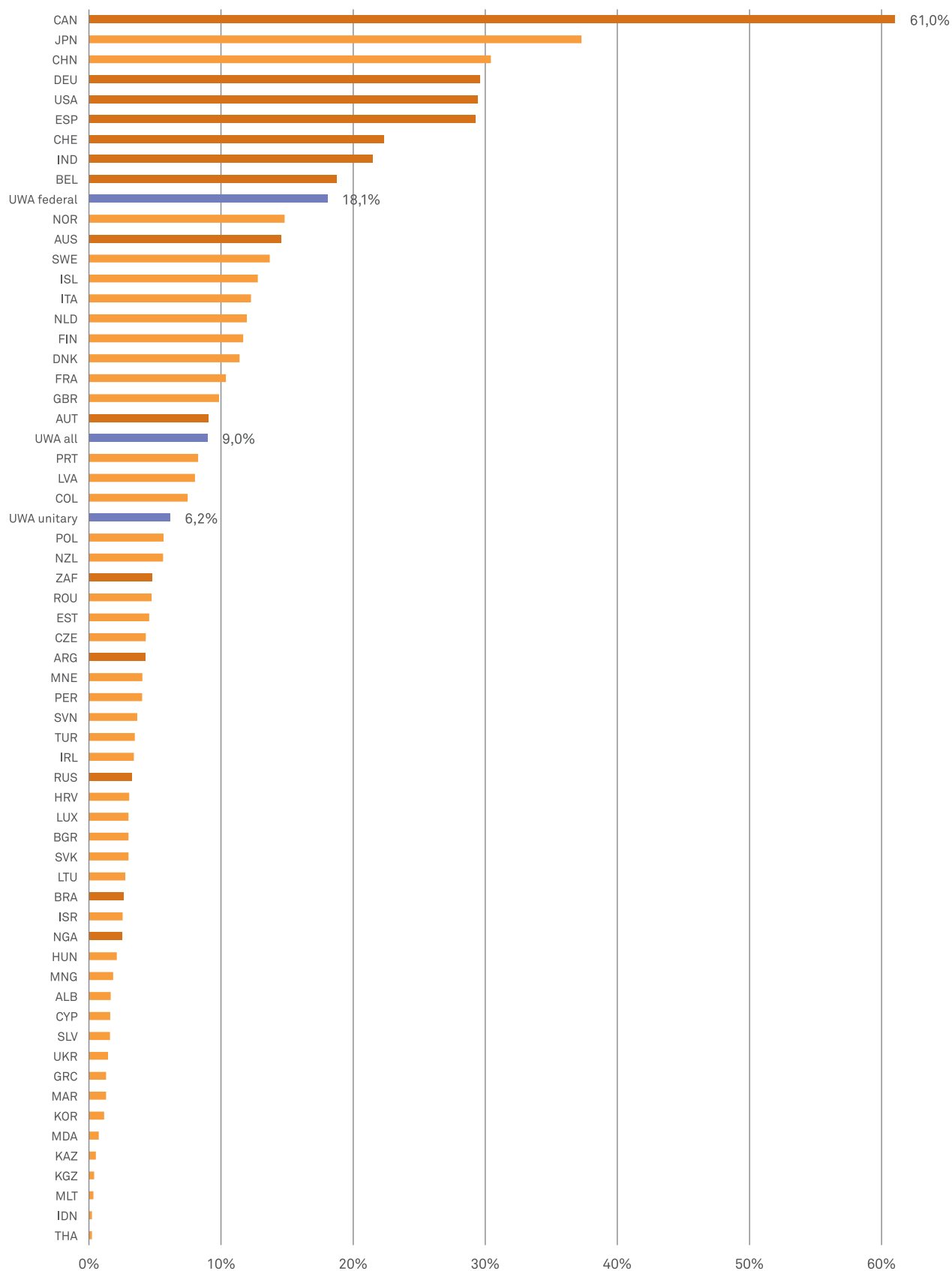
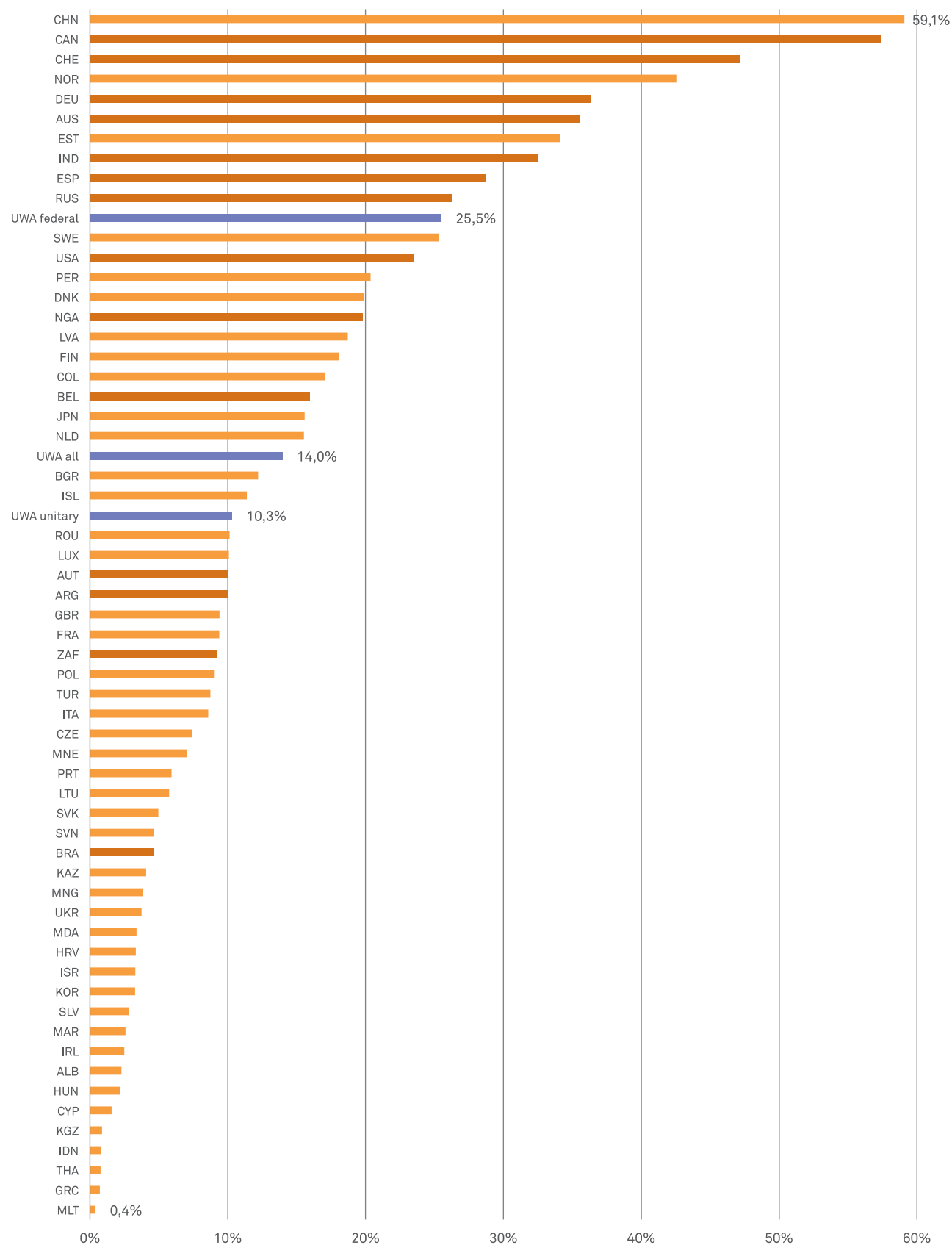




Figure A32. SNG debt as a % of public debt (2013)









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