High-Level Policy Dialogue of the Málaga Global Coalition for Municipal Finance

Accelerating Progress Towards a Financial Ecosystem that Works for Cities, Local and Regional Governments

The World Observatory of Subnational Government Finance and Investment: a public good

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OECD Centre For Entrepreneurship, SMEs Regions and Cities
1. Introduction to the SNG-WOFI: main objectives and outputs

2. Key data and analysis from the 3rd edition

3. Impact and ways forward for the 4th edition
A long-lasting initiative, led jointly by the OECD and UCLG, and supported by several key partners.

A unique global platform on multi-level governance and finance.
Why this World Observatory?

Key objectives

- Provide standardised, reliable and comparable data
- Support decision and policy-making
- Serve as a capacity-building tool
- Facilitate the international dialogue and exchange of experiences

To better understand the multi-level governance framework and fiscal space available to subnational governments to address the challenges they face, both in the short and long term.

To help policy-makers design, implement and enhance decentralisation reforms, in particular fiscal decentralisation processes.

To monitor the contribution of subnational governments to global objectives, such as climate objectives and the Sustainable Development Goals.

To identify information and data gaps in particular countries and world regions and raise awareness about these gaps to mobilise stakeholders at the international, national and local levels.
Three main pillars

- Database + Visualisation tool
  "Compare your Country"

- 135 Country Profiles

- Synthesis Report

Visit our website www.sng-wofi.org
Decentralisation, multi-level governance and territorial reforms across the world

- **Territorial reforms**
  - Partition reforms (Africa, MEWA regions)
  - Amalgamation reforms (Europe, Euro-Asia)

- **Decentralisation processes** have been non-linear and at varied paces
  - Re-assign responsibilities across levels of government (France, Ghana)
  - Enhance democracy and accountability (Kenya, Uganda)

- **Multi-level governance** trends:
  - **Asymmetric decentralisation** to provide differentiated political, administrative or fiscal powers (e.g. Philippines, Cameroon)
  - **Federalisation / regionalisation** processes (e.g. Nepal, Finland, Chile)
  - **Inter-municipal cooperation** is being implemented in widely diverse forms (e.g. Lithuania, Benin)

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**Subnational tiers of government by world regions (2020)**

- Europe
- Euro-Asia
- Latin America
- Africa
- Middle East & West Asia
- Asia Pacific

![Bar chart showing number of countries by subnational tiers and world regions](Source: SNG-WOFI (2022))
Subnational governments account for 21.5% of total public expenditure and 8.3% of GDP… with great variations across countries.

There is wide variation in levels of spending decentralisation.

Subnational governments are responsible for public services and infrastructure in critical areas.
The level of decentralisation of expenditure is positively correlated with the level of development of countries

Subnational government expenditure as a % of GDP and Human Development Index by income group (2020)

Correlation does not imply causation
There are many variations across country groups.

Source: SNG-WOFI (2022)
SNGs are a driving force of public investment, but there is scope for them to invest more in many world regions.

Globally, subnational governments account for 39.5% of total public investment, i.e. 1.5% of GDP.

Source: SNG-WOFI (2022)
Subnational revenues vary significantly across countries and world regions, with an average of 51.5% coming from grants and subsidies and 31.2% from taxes.

**Breakdown of subnational revenue sources (% subnational government revenue, 2020), 116 countries**

**Global averages:**
- Grants and subsidies: 51.5%
- Shared and own-source tax revenues: 31.2%
- Tariffs and fees: 10.3%

Source: SNG-WOFI (2022)
Subnational government tax revenue accounts for 14.5% of total public tax revenue i.e., 2.9% of GDP on average, with large disparities across countries.

- SNG tax revenue accounts for less than 1% of GDP in 56 countries, whereas it exceeds 8% in 15 countries (Argentina, Sweden, Denmark, Germany).

- SNG tax revenue accounts for more than half of total public tax revenue in China, Germany, Switzerland, Argentina and India.

- Tax revenue encompasses both shared and own-source taxes, and the data is not indicative of the level of discretion of SNGs over their tax revenue.

Source: SNG-WOFI (2022)
The recurrent property tax is a cornerstone of local taxation but it remains an underexploited source of revenue in many countries around the world.

Globally, property tax accounts for 34.1% of subnational tax revenue, 8.2% of subnational revenue, but only 0.7% of GDP on average in 2020.

Source: SNG-WOFI (2022)
Greater fiscal flexibility is also needed in access to financing in order to boost investment.

Subnational debt varies widely between countries, world regions and income groups

Subnational government debt by income country groups and world regions as % of GDP and general government debt (2020)

<table>
<thead>
<tr>
<th>Region</th>
<th>% GDP</th>
<th>% of General Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>All 75 (UWA)</td>
<td>9.8%</td>
<td></td>
</tr>
<tr>
<td>Low and lower middle income</td>
<td>7.9%</td>
<td></td>
</tr>
<tr>
<td>Upper middle income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>High income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Africa</td>
<td>2%</td>
<td></td>
</tr>
<tr>
<td>Euro-Asia, Middle East &amp; West Asia</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>Latin America</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>8%</td>
<td></td>
</tr>
<tr>
<td>Europe &amp; North America</td>
<td>9.8%</td>
<td></td>
</tr>
</tbody>
</table>

Source: SNG-WOFI (2022)
Many countries are reforming fiscal frameworks and public financial management systems, which is essential to create an enabling environment for further mobilising public and private finance.

Examples of **priority-based budgetary practices** by subnational governments:

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philippines</td>
<td>2021</td>
<td>Participatory budgeting</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>2020</td>
<td>Aligning budgets with SDGs</td>
</tr>
<tr>
<td>India</td>
<td>2020</td>
<td>Green budgeting</td>
</tr>
<tr>
<td>Kenya</td>
<td>2020</td>
<td>Participatory budgeting</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>2019</td>
<td>Participatory budgeting</td>
</tr>
<tr>
<td>Portugal (City of Lisbon)</td>
<td>2019</td>
<td>Green participatory budgeting</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>Since 2019</td>
<td>Participatory budgeting</td>
</tr>
<tr>
<td>Canada (City of Victory)</td>
<td>Since 2017</td>
<td>Participatory budgeting</td>
</tr>
</tbody>
</table>

Examples of **public financial management reforms** relating to subnational governments:

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>2022</td>
<td>Financial Relations between the Central Government and Regional Governments</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>2022</td>
<td>Treasury and Budget Management Information System</td>
</tr>
<tr>
<td>Uganda</td>
<td>2021</td>
<td>Local Public Financial Management reform</td>
</tr>
<tr>
<td>Lithuania</td>
<td>2020</td>
<td>Law on Strategic Management of the Republic of Lithuania</td>
</tr>
<tr>
<td>Cambodia</td>
<td>2019</td>
<td>Subnational Budget System Reform Strategy 2019-2025</td>
</tr>
<tr>
<td>Panama</td>
<td>2017</td>
<td>Implementation of digitally integrated financial, accounting and administrative system</td>
</tr>
</tbody>
</table>

Source: Non-exhaustive lists, based on SNG-WOFI (2022)
The World Observatory provides in-depth analyses by country groups, topics and world regions.

**Focus on Least Developed Countries**
- Collaboration with UNCDF
- Coverage of **31 LDCs**
- Collection of data & information on subnational finance, fiscal frameworks and multi-level governance trends

**Focus on topics and in-depth analyses**
- Property tax (with the support of GIZ)
- Territorial impact and management of the COVID-19 crisis
- Participatory and green budgeting
- Public Private Partnerships

**Geographical focuses**
- Presentation to IADB on **LAC countries** (2023)
- OECD-ADB Report on **Asia and the Pacific** (Forthcoming)
Wide-ranging impact – a snapshot of recent years

Policy-makers – national and subnational levels

- Cour des Comptes, France (report on decentralisation)
- Syndicat des Villes et Communes Luxembourgeoises (Draft law on property tax)
- Medellin City Administration (Climate Investment Opportunities Diagnostic)
- Northern Ireland Commission
- …

International organisations, networks and development partners

- Development banks: ADB, AfDB, World Bank (City creditworthiness initiative), CEB, etc.
- United Nations organisations: UNCDF, UNICEF, UNDP, UN-OHRLLS, UN-Habitat…
- IMF (fiscal risks)
- FIDA (country strategy)
- G20 Infrastructure working group
- Council of Europe (Monitoring Report of the European Charter of Local Self-Government…)
- Development agencies: GIZ, AFD, USAID (MENA subnational governance)
- CCFLA
- EU Committee of the Regions
- The Coalition of Finance Ministers for Climate Action
- World Economic Forum…

Academia and research organisations

- ETH Zurich (land value capture, fiscal grants…)
- The Korea Institute of Public Finance
- UK Institute for Government
- World Inequality lab
- Instituto de Estudios Fiscales de España
- German Institute of Development and Sustainability
- Comité technique “Foncier et développement
- …
THANK YOU

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