2019 Report World Observatory on Subnational Government Finance and Investment

Country Profiles

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World Observatory on Subnational Government Finance and Investment

General disclaimer

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Foreword

This report is the fruit of an international initiative led by the Organisation for Economic Cooperation and Development (OECD) and United Cities and Local Governments (UCLG). With four supporting partners, 50 Steering Committee members, 120+ countries, 50 local and national experts, collecting, collating and analysing the 10,000+ data points on subnational government structure and finance this publication gathers was truly a collective effort. But this effort has never been more important or relevant. Around the world, subnational governments are playing an increasingly larger role in domestic affairs - from investment to service delivery. Internationally, local and regional governments have a key role in delivering on the promises of global agendas, from the 2030 Agenda for Sustainable Development, to the Addis-Ababa Action Agenda, the Paris Climate Agreement and the New Urban Agenda. And as the localised "face" of government that citizens interact with most directly, they occupy a privileged position in responding to the general trend of declining trust in governments.

The data and analysis contained in this publication helps to fill in the broad brush strokes of what many already know: subnational governments must be fully engaged if we are to face these challenges with resolve. It provides concrete evidence that overlooking the role of subnational governments means overlooking one quarter of public expenditure and 37% of public investment.

While predominantly a stocktaking exercise, this publication also raises important questions: are there significant mismatches between subnational mandates and finances that impede the ability of subnational governments to deliver for their citizens? How can sources of subnational finance be diversified in order to better fill the existing investment gap? To respond to major shifts to our economies and societies such as urbanisation, growing inequalities, climate change, ageing populations, youth inclusion and new technologies, how can stakeholders at all levels of government work together more strategically in the context of limited fiscal space and often overlapping competences? These questions are relevant for governments the world over, regardless of the absolute level of decentralisation.

This report is the 2019 publication of the World Observatory of Subnational Government Finance and Investment (SNG-WOFI), a joint endeavour led by the OECD and UCLG, and with the active support of the United Nations Capital Development Fund (UNCDF), the French Development Agency (AFD), the Council of Europe Development Bank (CEB), and DeLoG. It is guided by a Steering Committee, gathering national government representatives, associations and institutions representing subnational governments, international organisations and networks, multilateral and national development banks, aid donors and think-tanks. Putting multi-level governance in practice, the Steering Committee has followed and validated all steps, from the definition of the methodology to the review of the work.

The 2019 World Observatory Report is built on the foundation of a first pilot study entitled "Subnational governments around the world: structure and finance", published in October 2016 by the OECD and UCLG, with the support of AFD. The 2019 World Observatory Report expands the country coverage; complements data, indicators and measures; deepens the analysis of multi-level governance processes, including institutional, territorial and fiscal decentralisation reforms. It allows for the development of additional comparative analyses on the relationship between political, administrative and fiscal decentralisation. This edition is made up of two volumes: one presenting the key findings, the other comprising the 121 country profiles, together with the detailed methodology used in the study. In addition, an interactive web database has also been established. All country data and profiles presented in the report can be found and downloaded on the web site of the initiative (www.sng-wofi.org). This web site includes access to the World Observatory Database and visualisation tools that allow comparison of countries and groups of countries.

Data and information of the World Observatory will be regularly updated and expanded to cover other global priorities. More countries will be progressively added to the sample, if data become available. The SNG-WOFI is a living initiative, which marks a key milestone in deepening the global knowledge base on subnational government structure and finance. It supports the OECD work on multi-level governance, decentralisation and subnational finance as part of the OECD Regional Development Policy Committee and Network on Fiscal Relations across Levels of Government. It also feeds into UCLG's research and policy work on local democracy and decentralisation, notably through the Global Observatory on Local Democracy and Decentralisation triennial report, as well as yearly reports to the UN High Level Policy Forum on the localisation of the Sustainable Development Goals.

Table of contents

Acknowledgements

The World Observatory of Subnational Government Finance and Investment is a joint endeavour led by the the Organisation for Economic Cooperation and Development (OECD) and United Cities and Local Government (UCLG), with the support of the United Nations Capital Development Fund (UNCDF) for the least developed countries. The project was financially supported by the *Agence Française de Développement* (AFD), UNCDF, the Council of Europe Development Bank (CEB), and the "Development Partners Network on Decentralisation and Local Governance" (DeLoG). It is guided by a Steering Committee, gathering national and subnational governments, international organisations and networks, development banks and donors and thinks tanks.

The 2019 World Observatory Report, and its associated web interactive database, were produced by the OECD Centre for Entrepreneurship, SMEs, Regions and Cities (CFE), led by Lamia Kamal-Chaoui, Director, as part of the programme of work of the Regional Development Policy Committee (RDPC), jointly with UCLG under the direction of Emilia Saiz, Secretary General of UCLG.

The OECD developed the overall methodology, prepared 62 country profiles, and wrote the synthesis report. It was also in charge of creating the database and preparing the web platform, and providing quality control for all the country profiles. At the OECD, the project was co-ordinated by Isabelle Chatry, Senior Policy Analyst under the direction of Dorothée Allain-Dupré, head of the Decentralisation, Public Investment and Subnational Finance Unit. This unit is part of Economic Analysis, Statistics and Multi-level Governance Section, led by Rudiger Ahrend. Charlotte Lafitte and Yingyin Wu from the CFE/OECD Secretariat and Rose Camille Vincent, expert from the Maastricht University provided invaluable support. Other important contributions have also been made by Antoine Kornprobst, Antti Moisio, Louise Phung and Anna Rubin from the CFE/OECD Secretariat. Valuable comments and inputs on the country profiles were also provided by Amal Chevreau, Varinia Michalun, Joaquim Oliveira Martins, and Isidora Zapata from CFE/OECD, as well as from Hansjoerg Bloechliger and Margit Molnar from the OECD Economics Department. The team is also grateful to Lawrence Pacewicz and Foivi Vlastou Dimopoulou from the OECD Legal Department. Finally, this work would not have been possible without the support of Samuel Pinto Ribeiro, Smart Data Practice Expert from the OECD Statistics and Data Directorate, Eric Gonnard, statistician at CFE/OECD as well as Vincent Finat-Duclos, Matthias Rumpf, and Vincent Gallart from the OECD Public Affairs and Communications Directorate. The OECD would also like to warmly thank all delegates of the Regional Development Policy Committee for their valuable comments and support. Special thanks are also due to Preben Gregersen, Regional Policy Director, Danish Business Authority, Lewis Dijikstra, Head of the Economic Analysis in the DG for Regional and Urban Policy of the European Commission, and Junghun Kim, President of the Korean Fiscal Policy Institute and Chair of the OECD Network on Fiscal relations across levels of Government.

UCLG mobilised focal points in different regions of the world, collected data and prepared country profiles for 45 countries from Africa, Latin America, Asia-Pacific, Euro-Asia and Middle East and West Asia, and organised capacity-building seminars to discuss the methodology. At UCLG, the work was coordinated by Edgardo Bilsky, Director of Research, Serge Allou, Special Adviser and Luc Aldon, Programme Officer. The coordination team was supported by Andrea Ciambra, Ainara Fernandez and Mathilde Penard from the UCLG Global Observatory on Local Democracy and Decentralization. UCLG networks of experts made substantial contributions: for Africa, the African Center for Cities (Sylvia Croese, Cara Hartley, Brendon van Niekerk, Comfort Molefinyana, Jennifer Van Geesbergen), Patrick Karanja, Mamadou Sembene, Njato Rabehajaina and the South African Local Government Association; for Asia, Rainer Rohdewohld; for Euro-Asia, the Center for Fiscal Policy (Galina Kurlyandskaya, Yana Polyakova); for Europe, Angelika Poth-Moegele, Executive Director European Affairs, Nathalie Noupadja, Head of Research and Studies and Marine Goudron, Policy Officer at the Council of European Municipalities and Regions; and for Latin America and the Caribbean, the *Confederação Nacional de Municípios* (Thalyta Cedros Alves, Elisiane Beltrame Mangrich), the Chilean Association of Municipalities (Mario Rosales), *Mercociudades*, the *Centro Latinoamericano de Economía Humana* (Enrique Gallicchio, Ioanna Grotiuz), Agusti Fernandez de Losada and Anna Calvete, the *Instituto Centroamericano de Gobernabilidad*, Demetrio Holguin and Andrew Nickson.

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UNCDF was responsible for collecting information and prepared country profiles for 15 least developed countries. At UNCDF, the work was coordinated by Christel Alvergne, Regional Advisor/Coordinator, supported by Nan Zhang, and Blaise Tchabi. UNCDF experts made substantial contributions, in particular Angela Yayra Kwashie, Anka Kitunzi, Anselmo Zimba, Boubacar Alpha Diallo, Carlos Barry, Cossoba Nanako, Dmitry Pozhidaev, François Fougere, Fulgence Tah, Idrissa Moussa, Katiella Mai Moussa, Khady Sarr, Paul Martin, Pragyan Joshi, Rafael Moser, Ramon Cervera, Safiatou Diarra Cissé, Sharmeen Hossain, Suresh Balakrishnan, Eloise Pelaud and Souleymane Sow.

Comments and inputs received from the Steering Committee of the Observatory are gratefully acknowledged. Two meetings of the Steering Committee were organised at the OECD in November 2017 and December 2018. The following institutions were represented and actively participated in the discussions:

- Representatives of national governments: Belgium, Chile, Denmark, Estonia, France, Italy, Netherlands, Poland, Slovak Republic, Korea
- Representatives of associations of subnational governments: Network of Associations of Local Authorities of South East Europe (NALAS), United Cities and Local Governments (UCLG) – Africa, United Cities and Local Governments (UCLG) Asia-Pacific, Council of European Municipalities and Regions, National Confederation of Municipalities of Brazil, Commonwealth Local Government Forum, Forum of Regions, *Mercociudades*, Metropolis, Association internationale des maires francophones
- EU institutions: European Commission, EU Committee of the Regions
- International Organisations and institutions: Council of Europe, United Nations Capital Development Fund (UNCDF)
- Multilateral and national development banks: *Agence Française de Développement* (AFD), Council of Europe Development Bank, Asian Development Bank
- Foundations, institutes, and other networks: DeLoG Network, Lincoln Institute of Land Policy

Special thanks are also given to Nikolina Jonsson, Pilar Philipp and François Iglesias from the CFE/OECD Secretariat for their support in designing and preparing the synthesis report and in helping develop the SNG-WOFI web site. Finally, we would like to thank Andrew Brenner, who edited OECD country profiles, Philippe Soilly, external designer, who designed and prepared all country profiles, and Pepita Rovira and the Studi-k brand & communication team who prepared the logo and the cover of the publication.

1 Objectives of the study

The roles and responsibilities of subnational governments are rapidly evolving, and in many cases, growing. At the national level, a large number of countries have recently undergone or are undergoing decentralisation reforms, sometimes referred to as the "silent revolution". Internationally, subnational governments are playing an increasingly active role in meeting the objectives of global agendas, from the 2030 Agenda for Sustainable Development, to the Addis-Ababa Action Agenda, the Paris Climate Agreement and the New Urban Agenda. And in the current political and socio-economic climate, they also have a privileged role to play in restoring citizen trust in government.

Despite these general trends, there are important differences in the financial and investment capacities of subnational government across the world. To date, however, a lack of reliable and internationally comparable data on subnational finance and investment has impeded a full stocktaking of the state of subnational governments' capacities to effectively and efficiently exercise their responsibilities and implement development policies. While several initiatives and instruments have been launched in recent years to provide internationally comparable data, their scope has been limited to small sample of countries or relevant indicators, and they are often one-off exercises rather than ongoing efforts to collect continuous and timely information.

The OECD and United Cities and Local Government (UCLG) have joined forces to fill this gap. Following a pilot study launched in October 2016 at the UCLG Summit in Bogota, the World Observatory on Subnational Government Finance and Investment was launched in November 2017 at the OECD Headquarters in Paris. Supporting partners include the Agence Française de Développement (AFD), United Nations Capital Development Fund (UNCDF), the Council of Europe Development Bank (CEB), and the Development Partners Network on Decentralisation and Local Governance (DeLoG). Its broader Steering Committee includes representatives from international organisations; development banks and donors; national and subnational governments; and foundations, institutes and other networks, reflecting the multi-level governance approach at the core of its work.

The World Observatory is a multi-stakeholder initiative whose overall goal is to increase and disseminate knowledge of multi-level governance and finance by collecting and analysing standardised indicators and information. More specifically, its objectives are three-fold:

- Ensure standardised, reliable and transparent access to data on subnational government structure, finance and investment.
- Support international dialogue and decision-making on multi-level governance and subnational finance.
- Serve as a capacity-building tool on subnational governance and finance.

This 2019 report of the World Observatory presents the main organisational and financial indicators for subnational governments in 121 federal and unitary countries worldwide. The number of countries included will continue to expand on the web platform. It is composed of two volumes: (I) Country Profiles and (II) Key findings. They provide qualitative information on subnational government structure and responsibilities, as well as macro financial data assessing subnational government spending, investment, revenue and debt. Financial indicators in the country profiles are accompanied by short descriptions of 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.

Several significant advances have been made since the 2016 pilot study

- **Expanded geographic coverage**. The 2019 edition includes 121 countries, an increase of 21 countries compared to 2016. Notably, coverage of Least Developed Countries (LDCs) has been expanded. To facilitate the inclusion of LDCs, where data is often limited or less reliable, the methodology has been adapted to allow for more qualitative information and estimates as necessary.
- **Enhanced sectoral coverage**. The sectoral coverage has been improved to make a better distinction within the "subnational government" category between state and local government's sub-sectors (for federal countries). For unitary, multi-layered countries at subnational level (e.g. having regions and municipalities), some disaggregated data and information have been included to assess the specific weight of each subnational level.

- **Improved quantitative indicators and measures**. Additional quantitative indicators have been included for all categories (social and intermediate consumption, tariffs and fees and property income, financial debt, etc.) and fiscal data are now presented not only as ratios (to GDP or to general/subnational government), but are also in dollars PPPs per inhabitant. This allows a much clearer comparable understanding of the amounts at stake, in order to facilitate comparisons between countries.

- **Deeper qualitative information**. Additional qualitative information has been collected for a number of relevant areas: multi-level governance framework, decentralisation processes in a historical perspective, territorial reforms, subnational government structure and size, allocation of responsibilities across subnational government levels, detailed description of expenditure by economic and functional classification, detailed presentation of subnational revenue by type, details on tax revenues, including on property taxes, equalisation mechanisms, fiscal and borrowing rules, loans and bonds financing, etc.

Additionally, a major advance is the launch of the accompanying new, interactive website (www.sng-wofi.org). This website allows users to explore the database and download the data, visualise relevant indicators, and "compare countries of their choice" across key dimensions. With these tools, stakeholders the world over can leverage the work of the World Observatory to build a deeper collective knowledge base on subnational government and finance; catalyse dialogue across levels of government and strengthen multi-level governance frameworks; and enhance accountability and transparency at the subnational level.

This volume presents the country profiles. It can be downloaded on the SNG-WOFI web site, as can the Key Findings report.

2 General methodology and information sources

2.1. SELECTION OF COUNTRIES

Each country is defined by its name and ISO Code and has been classified in one of the seven geographical areas, defined in the study: Africa; Asia-Pacific; Euro-Asia; Europe; Latin America; North America; and Middle East and West Asia.

There are 121 country profiles. Countries were selected by the OECD and UCLG, and validated by the Steering Committee.

The OECD was responsible for collecting data and preparing country profiles for 62 countries: 37 OECD member countries, 5 countries from the European Union (Bulgaria, Croatia, Cyprus, Lithuania, Malta and Romania) and 20 other partner countries.

UCLG was responsible for collecting data and preparing country profiles for 44 other countries from Africa, Latin America, Asia-Pacific, Euro-Asia and Middle East and West Asia.

UNCDF was responsible for the remaining 15 countries, all Least Developed Countries.

The responsible organisation (OECD, UCLG or UNCDF) is indicated at the end of each country profile. Each partner is 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.

2.2. STRUCTURE OF THE COUNTRY PROFILES

The country profiles are made up of five main parts, which comprise both quantitative and qualitative information:

1. Basic socio-economic indicators
2. Main features of the multi-level governance framework
3. Territorial organisation
4. Subnational government responsibilities
5. Subnational government finance:
    - Subnational government expenditure
    - Subnational government revenue
    - Subnational government fiscal rules and debt

2.3. BASIC SOCIO-ECONOMIC INDICATORS

Socio-economic data used in the country profiles are described in Table 2.1 below:

TABLE 2.1. DESCRIPTION OF SOCIO-ECONOMIC INDICATORS USED IN THE COUNTRY PROFILES

	INDICATORS
General	• Income group (2018 classification, as defined by the World Bank): - High Income - Upper Middle Income - Lower Middle Income - Low Income • Local currency
Population and geography	• Geographical area (km²) • Population (thousands inhabitants) • Population growth (%, per year 2010-2015) • Density (inhab./km²) • Urban population (% total population) • Urban population growth (%, 2017 vs 2016) • Name of the capital and share of population (city or metropolitan area)
Economic data	• Current GDP in PPP international dollars (billion, USD PPP) • Current GDP per capita in PPP international dollars (USD PPP) • Annual growth rate in real terms (%, 2017 vs 2016) • Unemployment rate (number of unemployed people as a percentage of the labour force) • Foreign direct investment, net inflows (BoP, current USD millions) • Gross fixed capital formation - public and private (% of GDP) • Human Development Index: - Index value - Category (very high, high, medium, low) - World ranking • Poverty rate

Source: OECD (2018) Methodological guide of the World Observatory on Subnational Government Finance and Investment

In order to facilitate international comparisons, common sources of socio-economic information were used for most countries (national sources may have been used in some cases to complement these data).
These sources are:

- OECD
- Eurostat
- World Bank: World development indicators (databank)
- United Nation DESA: World Population Prospects
- International Labour Organisation
- United Nations Development Programme: Human Development Report

Sources for socio-economic data are specified at the end of each country profiles. Socio-economic data are as of 2017, unless otherwise specified.

2.4. TERRITORIAL ORGANISATION

A common template was prepared for all countries to describe subnational government structure. This common template comprises a maximum of three levels of subnational governments: municipal, intermediate and regional.

This structure facilitates country comparisons, but also hides a more complex organisation in several countries, where several subnational government layers may exist. Within the same layer, several types of subnational governments can be found. In each country table, some details have been provided to reflect this diversity of territorial organisation.

Only "general purpose subnational governments" are included in these counts, i.e.

- "decentralised governments" i.e. elected by universal suffrage (in theory through direct elections and for both executive body and deliberative assembly but there are cases of indirect elections as well as of "dual systems", which leads to a more flexible definition). Overall, a "subnational government" should have an organised entity and enjoy some autonomy with regards to its own functions/responsibilities, budget, staff and administration.
- having a general competence within their jurisdiction, even if their responsibilities may be strictly defined ("territorial decentralisation"), as opposed to subnational governments having single or multiple functions e.g. school boards, transport districts, water boards and sanitation districts ("functional decentralisation").

The year of reference (most often 2017-2018) is indicated in Table 2.2, which appears in each country profile.

TABLE 2.2. TERRITORIAL ORGANISATION: COUNTING GENERAL PURPOSE SUBNATIONAL GOVERNMENTS

Year: XXX	1st level (*municipal*)	2nd level (*intermediate in 3 tiered-countries*)	3rd level (*regional/state*)	Total number of subnational governments
	Name(s) in English and national language			
	Average municipal size (if relevant)			
Total	**XX**	**XX**	**XX**	**XX**

Source: OECD (2018) Methodological guide of the World Observatory on Subnational Government Finance and Investment.

If relevant, information is also provided concerning sub-municipal entities which are not self-governing bodies (parishes, districts, villages, etc.), special purpose subnational governments (e.g. school districts, water boards), state deconcentrated entities at territorial level, special areas ("ungoverned territories" or "unincorporated areas") as well as inter-municipal cooperation.

2.5. SUBNATIONAL GOVERNMENT RESPONSIBILITIES

A common template is used based on the definition of nine areas of responsibilities (Table 2.3). These areas have been defined to match to the extent possible the classification of functions of government (COFOG), for which fiscal data are provided (expenditure by COFOG). Country profiles present the breakdown by subnational government levels (municipal, intermediate, regional) by sector and provide detailed information related to sub-actors.

TABLE 2.3. SUBNATIONAL GOVERNMENT RESPONSIBILITIES: COMMON TEMPLATE

1.General public services (administration)	• Administrative services (marriage, birth, etc.) • Public buildings and facilities (town houses, etc.) • Administration and operation of general services (non-assigned to specific functions) • Basic research activities (non-assigned to specific areas)
2. Public order, safety and defence	• Police • Firefighting • Civil protection & emergency services • Road traffic control / Traffic signs and lights • Defence (military and civil)
3. Economic affairs / Transports	• Road networks and facilities (highways, national, regional, local) • Parking • Railway networks and facilities (national, regional, local) • Airports (international, national, local) • Ports (sea and fishing, inland waterways) • Public transport (road) • Public transport (railways, tramway) • Special transport services (e.g. pupil and student transport) • Employment policies / services • Support to local enterprises and entrepreneurship • Agriculture, rural development, irrigation • Telecommunications / IT • Manufacturing and construction • Mining • Tourism • Commerce • Energy (electricity, gas, etc.)
4. Environmental protection	• Parks & green areas • Nature preservation • Noise and vibration abatement • Air pollution • Soil and groundwater protection • Climate protection • Waste management (collection, treatment and disposal of waste) • Sewerage (waste water management) • Street cleaning
5. Housing and community amenities	• Drinking water distribution • Public lighting • Urban heating • Housing (subsidies) • Housing (Construction/renovation) • Housing (Management) • Urban and land use planning • Urbanism

6. Health	• Pharmaceutical and medical products • General and specialised medical services and paramedical services (e.g. dental care) • Primary healthcare (medical centres) • Hospital services (general and specialist) • Preventative healthcare • Public health services
7. Recreation, culture, recreation and religion	• Sports and recreation • Libraries • Museums • Cultural activities (theatres, exhibition halls, zoos, botanical gardens, etc.) • Cultural heritage/monuments • Media/Broadcasting and publishing services • Religious affairs
8. Education	• Pre-primary education • Primary education • Secondary education • Higher education (universities, other tertiary education institutions) • Vocational education / training • Special education • Research & Development
9. Social protection	• Social care for children and youth • Support services for families • Elderly • Disabled people • Social exclusion / poverty (benefits and policies) • Immigrants • Integration of foreigners • Social welfare centres • Housing subsidies/benefits • Unemployment subsidies/benefits

Note: With regard to COFOG classification, two functions have been merged: public order and safety and defence.
Source: OECD (2018) Methodological guide of the World Observatory on Subnational Government Finance and Investment.

2.6. SUBNATIONAL GOVERNMENT FINANCE

2.6.1. Scope of government statistics

The data that 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 (Spain and 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 government" refers to two sub-sectors: state governments (in federal countries) and local governments in federal and unitary countries.

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

For this new edition, the sectoral coverage has been improved to better distinguish between state and local government's sub-sectors (for federal countries) within the "subnational government" category. In federal countries, tables include data for the subnational sub-sector, as well as separate figures for state governments and local governments, when available. In unitary, multi-layered countries at subnational level (e.g. having regions and municipalities), some disaggregated data and information to assess the specific weight of each subnational level are included in the qualitative part of the country profiles.

Each country profile contains a box at the beginning of the section on subnational government finance defining the precise scope of the subnational government sector for which financial data are provided.

2.6.2. Source of fiscal data

All fiscal data are from 2016, unless otherwise specified.

Priority has been given to data coming from the general government's accounts (or government statistics) harmonised According to the System of National Accounts from 1968 (SNA 1968), 1993 (SNA 1993) or 2008 (SNA 2008 or 2010 within the European Union). This approach allows greater comparability across countries around the world.

However, government statistics, harmonised according to the system of national accounts, are missing or incomplete in many countries, in particular in developing and Least Developed Countries. In this case, other sources of fiscal data have been used, such as national accounts (not harmonised according to international standards) or budgetary accounts.

All sources for fiscal data are provided at the end of each country profile. Fiscal data come from several sources, including:

- **International sources:**
  - International Monetary Fund (government statistics)
  - OECD (general government accounts, revenues statistics, subnational government finance database)
  - Eurostat (government statistics)

- **National sources:**
  - National statistics institute, which is theoretically the prime provider of data from national accounts
  - Ministries: Finance, Treasury, Budget, Interior, Local government
  - Parliament (specific commissions dealing with subnational governments or budget)
  - The Court of Auditors
  - The Central Bank and Debt Management Office regarding in particular data on public debt
  - Local Government Commissions / Local Government Finance Committees
  - Public banks or funds
  - National associations of subnational governments
  - Universities and research centres specialised in subnational governance and finance
  - National portals on municipal and regional finance

When there is no or limited data available, in particular in Least Developed Countries, local government financial data may have been collected from yearly financial statements of accounts, in particular of the main cities (and regions if relevant). Data on the main local finance items (expenditure, investment, tax revenue, grants, etc.) were then aggregated and used to calculate ratios and estimates.

2.6.3. Fiscal data measures

For this new edition, public finance data is expressed in dollars PPPs per inhabitant, in addition to ratios related to GDP and general/subnational government. PPPs are the rates of currency conversion that equalise the purchasing power of different countries by eliminating differences in price levels between countries. When converted by means of PPPs, expenditures on GDP across countries are in effect expressed at the same set of prices, enabling comparisons between countries that reflect only differences in the volume of goods and services purchased.

All averages in the analysis and graphs are unweighted (arithmetic) averages as of 2016, unless otherwise specified.

2.6.4. Main transactions and fiscal indicators

Data that have been used in the survey are the following (Table 2.4):

TABLE 2.4. MAIN FINANCIAL INDICATORS

Expenditure by economic classification	• **Total expenditure by economic classification**: current expenditure + capital expenditure. • **Current expenditure**: 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. • **Staff expenditure**: compensation of employees. It has two main components: wages and salaries payable in cash or in kind and social insurance contributions payable by employers. • **Capital expenditure**: capital transfers + investment • **Capital transfers**: investment grants and subsidies in cash or in kind made by government to other institutional units. • **Direct investment:** 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.
Expenditure by functional classification (COFOG)	• **Total expenditure by functional classification**: sum of the 10 sectors defined in classification of the functions of government (COFOG). Comprises both current and capital expenditure. • **Expenditure by sector (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. When COFOG was not available, classification used in the country has been used when available, or adapted.

Revenue	• **Total revenue**: tax revenues + current grants and subsidies + capital grants and subsidies + user charges/tariffs and fees + property income + social contributions. • **Tax revenues**: 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. 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. • **Property taxes**: recurrent property taxes on immovable property (land, real estate) • **Grants and subsidies**: current grants and subsidies + capital grants and subsidies. • **User charges and fees**: market output, output for own final use and payments for non-market output. • **Property income**: interest, distributed income of corporations (e.g. dividends), rents on subsoil assets (e.g. royalties) • Other revenues / social contributions
Debt	• **Debt**: based on the SNA 2008, gross debt includes the sum of the following liabilities: currency and deposits + debt securities (bonds) + loans + insurance pension and standardised guarantees + other accounts payable (commercial debt and arrears). Most debt instruments are valued at market prices. • **Financial debt**: financial debt includes the sum of the following liabilities: currency and deposits + debt securities (bonds) + loans. This is the definition used in the EU Maastricht protocol for European Union countries (Maastricht debt).

Source: OECD (2018) Methodological guide of the World Observatory on Subnational Government Finance and Investment

2.6.5. Availability and reliability of data

In this new edition, a system of rating has been established to describe the data availability and data quality/reliability for each country (low, medium, high).

When data come from national accounts harmonised according to international standards, the availability of fiscal data and their quality/reliability can be considered as high, although there are some exceptions. When they come from other sources, they have been rated by the organisation in charge of data collection as low, medium or high.
For a number of countries, no or limited fiscal data for subnational governments were available. This was the case in many LDCs. Overall, there are 16 countries without expenditure data at subnational level for example (out of 121 countries in the sample).

2.7. OTHER SOURCES OF INFORMATION

Numerous national and international sources were used by the OECD, UCLG and UNCDF to prepare the country profiles. In addition to UCLG materials including those from its regional sections and OECD databases and reviews, the main international sources were the Council of Europe, the Committee of the Regions of the European Union, the Common-wealth Local Government Forum and reports from the United Nations and other international organizations (UN-Habitat, World Bank, etc.).

The main sources of information are listed at the end of each country profile.

3 Country profiles

AFRICA

Angola
Benin
Botswana
Burkina Faso
Burundi
Cabo Verde
Cameroon
Chad
Eswatini
Ethiopia
Ghana
Guinea
Ivory Coast
Kenya
Madagascar
Malawi
Mali
Mauritania
Mauritius
Morocco
Mozambique
Namibia
Niger
Nigeria
Rwanda
Senegal
Sierra Leone
South Africa
Tanzania
Togo
Tunisia
Uganda
Zambia
Zimbabwe

ASIA PACIFIC

Australia
Bangladesh
Cambodia
China
India
Indonesia
Japan
Korea
Malaysia
Mongolia
Nepal
New Zealand
Philippines
Sri Lanka
Thailand
Vietnam

EURO-ASIA

Armenia
Azerbaijan
Belarus
Georgia
Kazakhstan
Kyrgyzstan
Moldova
Russian Federation
Tajikistan
Ukraine
Uzbekistan

EUROPE

Austria
Belgium
Bosnia and Herzegovina
Bulgaria
Croatia
Cyprus
Czech Republic
Denmark
Estonia
Finland
France
Germany
Greece
Hungary
Iceland
Ireland
Italy
Kosovo
Latvia
Lithuania
Luxembourg
Malta
Montenegro
Netherlands
Norway
Poland
Portugal
Republic of Albania
Republic of North Macedonia
Romania
Serbia
Slovak Republic
Slovenia
Spain
Sweden
Switzerland
United Kingdom

LATIN AMERICA

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

MIDDLE EAST / WEST ASIA

Israel
Jordan
Turkey

NORTH AMERICA

Canada
United States

*Note: the number of country profiles will continue to expand on the web platform of the Observatory: www.sng-wofi.org

ANGOLA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: ANGOLAN KWANZA (AOA)

POPULATION AND GEOGRAPHY

Area: 1 246 700 km^2 (2017)
Population: 29.8 million inhabitants (2017), an increase of 3.5% per year (2010-2015)
Density: 24 inhabitants / km^2
Urban population: 64.8% of national population (2017)
Urban population growth: 4.4% (2017 vs 2016)
Capital city: Luanda (25.2% of national population)

ECONOMIC DATA

GDP: 197.9 billion (current PPP international dollars), i.e. 6 643 dollars per inhabitant (2017)
Real GDP growth: -0.15% (2017 vs 2016)
Unemployment rate: 24.2% (2014)
Foreign direct investment, net inflows (FDI): -7 397 (BoP; current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 23.2%of GDP (2017)
HDI: 0.581 (medium): rank 147 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Angola is a unitary country with two levels of subnational governments, composed of provinces and municipalities. The Constitution also recognizes sub-municipalities, such as "traditional authorities". Local government is enshrined in the 2010 Constitution (Art. 213). The Constitution states that the state at local level shall be structured on the basis of principle of political and administrative decentralization which shall include forms of local government organization and that such forms of local government organization shall include local authorities, the institutions of the traditional authorities and other specific forms of citizen participation.

The Constitution also outlines the principles of local autonomy which include the right and effective capacity of local authorities to manage and issue regulations for public matters, under the terms of the Constitution and the law, on local authorities own account and in the interest of the local population (Art. 214)

Decentralization in Angola has significantly evolved since the late 1999s, when the Local Administration Decree was enacted outlining the framework for decentralization. The passing of Local Administration Law 02/07 in 2007 supported the full decentralization of political power across different levels of government. Law 02/07 clarifies the responsibilities for service delivery at the provincial, municipal and communal levels, it allows municipalities to become independent budget units, and to establish a direct connection with the central government through the Ministry of Territorial Affairs (MAT).

In 2008, Decrees 08/08 and 09/08 were passed to complement and support Law 02/07. These two pieces of legislation establish a Fund for Municipal Management Support (FUGEM) to transfer funds to finance services and investments according to local needs. Decree 09/08 similarly provides technical support to municipalities to comply with their new functions. Decree 40/18 allows for some levels of fiscal autonomy for municipalities and for the decentralization of skills.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	Municipality *(Município)*		Province *(Província)*	
	163		18	181

OVERALL DESCRIPTION. Angola has 18 provinces, divided in 163 municipalities, which are in turn divided into 532 communes. Provincial and Municipal governments in Angola can be described in practice as deconcentrated state entities, as there are no local elected councils, no community participation, and no representative body or mechanisms in place for voicing citizen's concerns. The move to democratically elected, accountable, and fiscally autonomous decentralize subnational government is still ongoing.

MUNICIPAL LEVEL. All of the rules and regulations pertaining to the local level are provided by the Ministry of Territorial Affairs (MAT) and communicated through training activities of the *Instituto de Formação na Administração Local* (IFAL).

Subnational authorities at a commune level are not elected but instead are nominated by MAT based on the Provincial Governor's suggestion. At the municipal level, Municipal Administrators are appointed, not elected, much like the commune level. 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, which are anticipated to occur before the general election in 2022.

PROVINCIAL LEVEL. Provincial government organs are subordinate to the central government. In areas where provincial and local government are functioning, these bodies receive resources from the central government, as well as international partners. Provincial governors are appointed by the President and are, in theory, responsible for responding to their constituencies through the provision of basic services, hiring public sector staff, and strategic planning and budgeting of regional priorities. However, in practice they are limited in their ability to make decisions without approval from the President.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The Constitution specifies the scope of authority granted to local authorities and the financial resources proportionally to the responsibilities assigned, stating that a part of local resources must come from local revenue and taxes.

The Local Administration Law 02/07 and the Organization and Functioning of the Local State Administration Authorities Law 17/10 state that provinces are responsible for the promotion and orientation of socio-economic development, provincial planning, social support, education, healthcare, environment protection and also play a role in the execution of decisions made by central authorities, sharing some of these responsibilities with the municipal level. The communal administrative level submits budget proposals to the municipal administration and supervises financial revenues collection.

However, these laws have not been operationalized; currently local governments have only a slight impact on the provision of local public services and the definition of responsibilities across levels of government remains vague to the local authorities on the ground.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONS	MUNICIPAL LEVEL
1. General public services	Public buildings and facilities; Supervision of public institutes and significant companies	Public buildings and facilities
2. Public order and safety		Municipal police; Civil defense
3. Economic affairs/transports	Promotion and orientation of socio-economic development	Promotion of economic development; Energy
4. Environmental protection	Some environmental protection	Some environmental protection; Sanitation
5. Housing and community amenities	Provincial planning	Municipal and urban planning; Housing provision
6. Health	Some healthcare functions	Primary healthcare (medical centers)
7. Recreation, culture & religion		Sports facilities; Culture and science facilities
8. Education	Primary schools	Primary and secondary schools
9. Social protection	Social support	Promotion of social development

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: provinces and municipalities.	SNA: Other	Availability of fiscal data: **Low**	Quality/reliability of fiscal data : **Low**

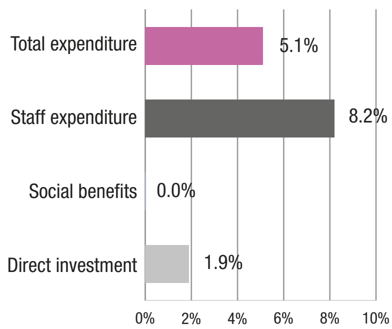
GENERAL INTRODUCTION. Angola has highly centralized control of all government expenditure, although there appears to be a move towards allowing local governments greater control of their finances. In 2008, municipal governments became budget units for the first time under the Law on State Organs of the state. 68 municipalities were selected as part of the pilot to roll out financial decentralization by receiving transfers from the 2008 budget.

The Financial Regime of Local State Organs (Presidential Decree 40/18) has enabled subnational governments to have a greater level of fiscal autonomy. The decree applies to both provincial and municipal governments and it makes provisions for subnational governments to establish and manage some of their locally generated revenues, which were previously channeled to the national state's account. However, collection and sharing of revenues between the provinces and the municipalities remains under the responsibility of the central government.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2017	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**81**	**1.2%**	**100%**
Inc. current expenditure	75	1.1%	92.6%
Staff expenditure	44	0.7%	53.7%
Intermediate consumption	28	0.4%	34.8%
Social expenditure	0	0.0%	0.0%
Subsidies and current transfers	0	0.0%	0.3%
Financial charges	0	0.0%	0.0%
Others	3	0.0%	3.8%
Incl. capital expenditure	6	0.1%	7.4%
Capital transfers			
Direct investment (or GFCF)	6	0.1%	7.4%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. In 2017, total sub-national government expenditure made up only 5% of the total public expenditures. Over 90% of expenditures at the local level correspond to current expenditures, of which the main lines of expenditure are personnel-related expenses and intermediate consumption. SNG direct investment is extremely low.

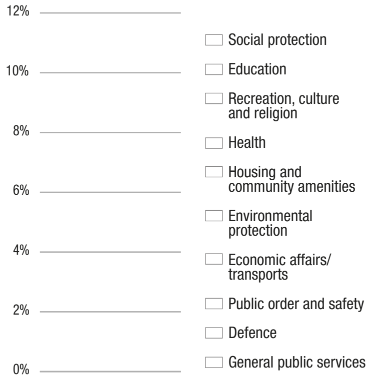
DIRECT INVESTMENT. Direct investment represented 7.4% of subnational expenditure in 2017, accounting for 0.1% of GDP and 1.9% of total public investment.

ANGOLA

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

% GDP	% SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2017	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue			
Tax revenue			
Grants and subsidies			
Tariffs and fees			
Property income			
Other revenues			

% SNG REVENUE

OVERALL DESCRIPTION. According to the UNICEF national budget report for 2018, the government of Angola has made provisions in the upcoming year to increase fiscal allocations and improve budget transparency at the subnational level.

TAX REVENUE. Local governments have little authority in determining current tax base and rates, central government is responsible for setting new taxes. According to a City Alliance and UCLGA study, 85% of total tax revenues in Angola are collected by the central government and the remaining 15% is collected by the provincial governments. Municipalities are still not fiscal entities. Law No. 02/07 provides for communes to collect revenues from various sources, yet this does not apply in reality and they have not been able to collect their own taxes nor elaborate budgets.

Some of the revenue streams at provincial level which have emerge from Presidential Decree 40/18 include: 70% of Employment Tax (*Imposto sobre Rendimento do Trabalho* – IRT), 50% of Industrial Tax, 70% of Property Tax, 80% of Tax on Inheritances and Donations, 70% of Real Estate Tax, 100% of Consumption Tax (excluding revenues generated through import), 30% of license fees and traffic control and 90% of the value of fines for administrative transgressions.

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.

The Fund for Municipal Management Support is a main source of transferred 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.

The National Balance Fund (*Fundo de Equilibrio Nacional*) is responsible for creating some equity between the revenues of different sub-national governments. This National Balance Fund receives 10% of the tax on oil revenues, as well as the balance of the revenue streams listed in Decree 40/18.

OTHER REVENUES. Possible additional provincial government revenues include service and license fees that do not enter in the “Single Treasury Account“, as is the case of local market fees. Law 02/07 further grants local authorities the power to generate revenue from interests for circulations and financing of traffic, rent from housing, community services revenues and Community services revenues. Local governments also receive an additional 10% of the value of fines and inherent interests related to the use of land.

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. No information available.

DEBT. Sub-national governments in Angola do not possess legal authority to contract debt or make investments on their own.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: UCLG
Last update: 02/ 2019

www.sng-wofi.org

Socio-economic indicators: World Bank // UNDP // UN Desa, ILO.
Fiscal data: Ministério das Finanças (2018) Orçamento Geral do Estado // OECD/UCLG (2016) Subnational Governments Around the World Structure and Finance: A First Contribution to the Global Observatory on Local Finances // UNICEF (2018) National Budget Report.
Other sources of information: Cities Alliance & UCLG-A (2018) Assessing the institutional environment of local governments in Africa // SAPO 24 (2018) Angola Begins This Year to Decentralize Skills and Resources to Municipalities // Aalen, L. & Muriaas, R. L. (2017) Power calculations and political decentralisation in African post-conflict states // UNDP in Angola (2008) Decentralization and Local Governance // Election Calendar (2018) Electoral Institute for Sustainable Democracy in Africa // National Democratic Institute for International Affairs (1996).

BENIN

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOW INCOME

LOCAL CURRENCY: WEST AFRICAN CFA FRANC (XOF)

POPULATION AND GEOGRAPHY

Area: 114 760 km^2
Population: 11.176 million inhabitants (2017), an increase of 2.8% per year (2010-2015)
Density: 97.4 inhabitants / km^2
Urban population: 47 % of national population
Urban population growth: 3.9% (2017 vs 2016)
Capital city: Porto-Novo (2.5% of national population)

ECONOMIC DATA

GDP: 25.4 billion (current PPP international dollars), i.e. 2 272 dollars per inhabitant (2017)
Real GDP growth: 5.8% (2017 vs 2016)
Unemployment rate: 2.2%
Foreign direct investment, net inflows (FDI): 184.36 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 28.6% of GDP (2017)
HDI: 0.515 (low), rank 163 (2017)
Poverty rate: 49.5 (2015)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

According to the 1990 Constitution, Benin is a unitary state with a presidential-type system in which the President is both the head of the state and head of the government. The Parliament is unicameral and its members are elected by electoral districts, which include several municipalities. The Constitution provides for the existence and free administration of local governments (art 150 & 151). The current legal framework for decentralization consists of seven laws and about thirty decrees. The year 2001 was marked by the promulgation of decentralization laws and the creation of the 77 municipalities. The first local elections were held in 2003 and the last ones took place in 2015. Local officials are elected for a 5-year term.

In 2009, Benin adopted a ten-year national decentralization and deconcentration policy (PONADEC) whose management and monitoring are carried out by an inter-ministerial committee. This policy is supported by decentralization and devolution plans (2D plans) at the sectoral level, as well as departmental inter-sectoral development plans (PDDI) at the territorial level. By resolution of 22 November 2017, the Government initiated a review of the decentralization policy and laws.

With respect to multilevel dialogue, the Municipal Budget Conferences provide spaces for discussion between local authorities and the central administration.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	Municipalities (*Communes*)			
	Average municipal size: 145 139 inhabitants			
	77			77

OVERALL DESCRIPTION. Benin has only one level of decentralization, which is the municipality (*commune*). The country has seventy seven municipalities, including seventy four common-law municipalities and three special status municipalities (Porto-Novo, Cotonou and Parakou). Each municipality is subdivided into districts (*arrondissements*). Districts are in turn divided into villages (in rural areas) or neighborhoods (in urban areas). The municipality is administered by a municipal council elected by universal suffrage. The municipal council is headed by a Mayor, who is appointed by the members of the municipal council. The Mayor is the leading executive officer of the municipality and he/she also represents the State within his/her territorial jurisdiction. The main cities are Cotonou (the economic capital), Abomey-Calavi, Porto-Novo (the political capital), Parakou, Bohicon and Djougou. Municipalities may join together to form inter-municipal cooperation entities in accordance with the provisions of Act No. 2009-17 on the arrangements of inter-municipal entities in Benin.

In addition, there is only one deconcentrated level of government, the department, which has no legal personality and no financial autonomy (Law 97-028, art. 1). Benin has twelve departments, each headed by a Prefect representing the State, who is responsible for the supervision of the municipalities. The sectoral ministries and state institutions also have deconcentrated units at the departmental level. Their chairs meet within the Departmental Administrative Conference (CAD) under the presidency of the Prefect. Moreover, a coordination body between the State, the municipalities and development actors is set up around the Prefect, namely the Departmental Coordinating Council (CDCC).

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Law 97-029 of 15 January 1999 on territorial organization (art. 82-107) granted municipalities the right to exercise exclusive, shared and delegated functions. Own competences include seven main areas: local development and planning; infrastructure, utilities and transport; environment; primary education; primary health care; social and cultural action; business services and investments. Shared functions are competences that are implemented by both the central government and the municipalities. However, the State retains control over their management. These functions include the following areas: administrative police, public security and fight against crime, judicial police, publication of laws and regulations, organization of elections. Delegated competences fall within the central government's powers, but their practical implementation, by virtue of the principle of subsidiarity, is delegated to the municipalities: registrations of births, marriages, deaths; wedding celebrations; issuance of certificates and legalization and certification of documents.
Special status municipalities have additional responsibilities such as professional training, higher education, public mobility, security and communication

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPAL LEVEL (COMMUNES)
1. General public services	Administrative and permit services (marriages, births, deaths, etc.); Public buildings and facilities (regulation and control))
2. Public order and safety	Administrative police; Municipal police (on national and departmental roads); Traffic signs
3. Economic affairs/transports	Creation, development and management of markets; Construction and management of slaughterhouses; Support to local development, tourism; Roads and public transport; Railway networks and facilities (local); telecommunications / IT
4. Environmental protection	Street cleaning; Waste management (collection, treatment and disposal of waste); Flood protection; natural resource management and sustainable development; Parks and green spaces; Nature protection; Soil and groundwater protection
5. Housing and community amenities	Street lighting; Drinking water distribution; Housing (subsidies); Housing (Construction/renovation); Urban and land use planning; Urbanism
6. Health	Primary health care (health centres); Public health promotion and hygiene
7. Recreation, culture & religion	Creation and management of cemeteries and funeral services; Youth, sports and leisure infrastructure at municipal level; Cultural activities; Cultural heritage (local)
8. Education	Development of pre-school education and primary education; Promotion of education; Promotion of national languages
9. Social protection	Social assistance to disadvantaged and vulnerable populations

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: municipalities.	Ministry of Economy and Finance (at central level) and the National Commission on Local Finance – CONAFIL (at local level).	Availability of fiscal data: **Low**	Quality/reliability of fiscal data : **Low**

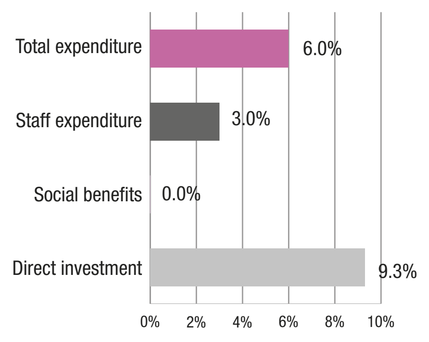
GENERAL INTRODUCTION. Law 98-006 of 15 January 1999 on the financial regime of municipalities provides municipalities with financial autonomy. They have their own budget voted by the municipal council, which they execute. The municipality's accounting is entrusted to an accountant from the Public Treasury appointed by the Minister of Finance. At the end of the fiscal year, the Mayor prepares the administrative account while the accountant prepares the management accounts.

The distribution of resources between the national and local levels is not commensurate with the competences assigned. As the fiscal power of municipalities is limited, their own resources are also limited. Financial transfers from the central government to the municipalities remain the main source of financing for municipalities. Since 2008, a mechanism for transferring revenues from the central government to the municipalities has been established – the Municipal Development Support Fund (FADEC). This fund is under the authority of the Ministry of Decentralisation, Local Government, Administration and Planning and administered by the National Commission on Local Finance (CONAFIL).

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**29**	**1.4%**	**100%**
Inc. current expenditure	16	0.7%	55.2%
Staff expenditure	5	0.2%	15.8%
Intermediate consumption	3	0.1%	10.3%
Social expenditure			
Subsidies and current transfers	4	0.2%	12.9%
Financial charges			
Others	5	0.2%	16.1%
Incl. capital expenditure	13	0.6%	44.8%
Capital transfers			
Direct investment (or GFCF)	13	0.6%	44.8%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. Total local expenditure has been increasing since 2008, at a relatively sustained rate (around 8% per year) over the last three years: In 2016, it amounted to XOF 68.91 billion, i.e. 29 PPP dollars per capita, reaching almost 4 times its 2003-2007 level. This increase is linked to the increase in capital expenditure, which has grown significantly during the 2013-2015 period as a result of transfers received from FADEC. Personnel costs resulting from the increase in the number of staff to assume the transferred competences are constantly increasing: They represent about 16% of total municipal revenues in 2016. In some municipalities they exceed the year's own income.
The share of municipal expenditure in general government expenditure is still quite low (6%), although it increased significantly in 2016 compared to the 3% on average observed over the last three years.

DIRECT INVESTMENT. Municipalities are required by law to allocate, each year, resources in the capital expenditure section to promote the development of their territory. Capital expenditure financed from the municipalities' own resources fell in 2016. Audit reports on the use of resources transferred by the central government via FADEC indicate that more than 50% of the resources are devoted to finance new works, followed by repairs or rehabilitations, and then equipment. Furthermore, at the national level, the implementation of the Government's action plan for 2016-21 should lead to an increase in overall public capital expenditure in the coming years in specific areas (energy, transport, living standards, agriculture and tourism).

BENIN

UNITARY COUNTRY

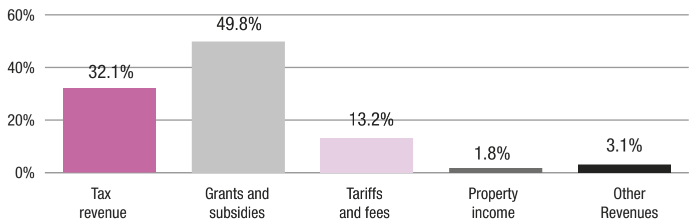
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

The classification of capital investment expenditure made with FADEC resources shows that municipalities' expenditure is dedicated mainly to pre-primary and primary education, local administration, market facilities, rural roads, health, drinking water supply and urban development sectors. These capital investments are almost entirely financed by transfers from the central government through the FADEC mechanism or from technical and financial partners through development projects.

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**27**	**1.3%**	**7.9%**
Tax revenue	9	0.4%	3.1%
Grants and subsidies	13	0.6%	
Tariffs and fees	4	0.2%	
Property income	0.5	0.0%	
Other revenues	1	0.0%	

% SNG REVENUE



OVERALL DESCRIPTION. Benin's municipalities collect two types of own resources: tax revenues and non-tax revenues. Overall, municipal revenues fell in 2016 (XOF 63.60 billion, i.e. $27 PPP per capita) and 2017 compared to 2014 and 2015. This decrease is reflected both in the municipalities' own resources and in the transfers received from technical and financial partners. In 2016, subnational government revenues accounted for 1.3% of the GDP.

However, the share of municipal tax revenues in total public tax revenues increased from 1.4% in 2015 to 3.1% in 2016. These tax revenues represent 60% of the municipalities' own revenues and nearly 80% in the municipalities of the Coastal region (including Cotonou). Own capital investment income was non-existent in both 2016 and 2015, as was borrowing.

Municipal revenues remain mainly dominated by central government grants and subsidies, which accounted for nearly 50% of total municipal revenues in 2016.

TAX REVENUE. Fiscal decentralization is a pending issue in Benin. Tax revenues are both own and shared. The local government's own tax revenues mainly include a business tax, a property tax and a local development tax. Other own tax revenues include a tax on advertising and posters, a pasture tax and a tax on taxis and motorcycles in urban areas. The business tax The property tax represents 23.3% of municipalities' tax revenue, however it accounts for only 0.1% of GDP. In addition, the business tax represent 33.8% of SNG tax revenue.

Shared taxes are mainly made up of taxes related to road maintenance, which are distributed as follows: 49% of revenues go to municipalities, 49% to road funds and the remaining amount goes to the Directorate General of Customs and Indirect Taxes. Municipalities also collect VAT in the form of shared revenues, the majority (93%) of which goes to the central government and only 0.5% is reverted to municipalities, which distribute this amount in proportion to their population. Finally, the tax on the exploitation of quarries and mines is another important source of revenue for municipalities, distributed as follows: 40% goes to the central budget, 20% to the mining administration and 40% to the municipalities.

The distribution of taxes between the national and municipal levels was not designed on the basis of an analysis of the charges and revenues from the various levies. The collection of local tax revenues is carried out by the sole central government tax administration, which often tends to focus more on central-level taxes. The rebate mechanism, preferred to shared tax arrangements, also creates delays in resource mobilization. Municipalities have little room for action: although municipal councils can set tax rates within the limits set by law, the creation of taxes and fees is determined by the national level. Similarly, several tax exemption decisions without compensation have occasionally deprived municipalities of a significant share of revenue.

GRANTS AND SUBSIDIES. Despite its constitutional recognition, the transfer of resources corresponding to the transfer of competences remains limited, particularly from sectoral ministries. The majority of grants are capital grants (73% of total grants) while current grants are 27% of total grants.

Municipalities receive earmarked (from different sectoral ministries) and non-earmarked (from the Ministry in charge of Decentralization) transfers. Allocations to municipalities are set up by the National Commission on Local Finance (CONAFIL), through the FADEC. This mechanism operates through a decision-making body with equal representation of the central government and municipalities. Funds received from this mechanism are allocated to the municipalities as an annual endowment, according to specific criteria set by CONAFIL, including poverty level, surface area, demography and governance performance. The FADEC therefore includes equalization objectives to reduce inequalities between municipalities. The management that distinguishes the administration of the fund from its cash flow is carried out by the Public Treasury through its network of accounting officers. Although progress has been made, predictability and transfer timelines remain major challenges. The 2017 Finance and Management Act provides for the gradual strengthening of earmarked transfers over non-earmarked transfers.

OTHER REVENUES. Tariff and fee revenues come from a number of services provided to users; this is particularly the case for the issuance of civil status documents, land certificates and/or the legalization of administrative documents, the collection of household waste, etc. The municipalities also receive property income, which mainly comes from the occupation of public property and the leasing of part of the municipality's property assets. An important land-use security and urban planning initiative is under way in the pilot municipalities of Cotonou, Porto-Novo and Sèmè-Kpodji, where land titles are gradually replacing residential permits.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. Municipalities are governed by the same budgetary and accounting rules as the State. Municipal budgets must be voted in actual balance. Each section of the budget (current and capital) must be balanced. The municipalities are subject to the controls of the General Inspectorate of Finance and the General Inspectorate of Administrative Affairs. In addition, annual audits are conducted by the FADEC under the supervision of CONAFIL.

DEBT. Municipalities may borrow from national and international banks and on the financial market, but only to finance their capital investments, upon deliberation by the municipal council and with the approval of the regulatory authority. Terms and conditions are specified by the decree 2005-374 of 23 June 2005. The State may contract a loan and on-lend it to the local government. Municipalities borrow very little and their debt level is almost zero. As a result, there are very few specific offerings for municipalities on the financial market. So far, only the municipality of Porto Novo has been able to contract a loan with support from the central government in 2015 (BOAD loan).

SNGWOFI
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Lead responsible: UNCDF
Last update: 02/ 2019
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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data: Local Finance Department of the Ministry of Economy and Finance // National Commission on Local Finance (2018) Les finances locales du Bénin 2016 // Ministry of Economy and Finance (2019) Projet de loi de finances 2019 – document de programmation budgétaire et économique pluriannuelle 2019-2021.
Other sources of information: Annual reports of the sectoral reviews "Decentralization, devolution and spatial planning" // OECD (2017) African Economic Outlook 2017 // UCLGA and Cities Alliance (2018) Assessing the Institutional Environment of Local Governments in Africa.

BOTSWANA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: BOTSWANA PULA (BWP)

POPULATION AND GEOGRAPHY

Area: 581 730 km² (2017)
Population: 2.3 million inhabitants (2017), an increase of 1.8% per year (2010-2015)
Density: 4 inhabitants / km² (2017)
Urban population: 58.0% of national population (2017)
Urban population growth: 2.3% (2017 vs 2016)
Capital city: Gaborone (11.8% of national population)

ECONOMIC DATA

GDP: 39.8 billion (current PPP international dollars), i.e.17 354 dollars per inhabitant (2017)
Real GDP growth: 2.36 (2017 vs 2016)
Unemployment rate: 18.1% (2017)
Foreign direct investment, net inflows (FDI): 400.6 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 31.1% of GDP (2016)
HDI: 0.717 (Medium), rank 101 (2017)
Poverty rate: 18.2% (2016)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Botswana is a unitary Republic. According to the Constitution, the President is elected for a five-year term that runs concurrently with that of the National Assembly. The country has a decentralised system of government but local government is not enshrined in the constitution. The legislative framework for decentralization comprises the Local Government (District Councils) Act of 1965 and the Township Act of 1955, which created urban councils.

The subnational government level consists of 16 administrative districts, as well as land boards. The 16 districts are governed by urban councils (for cities and towns, headed by Mayors) and district councils (for rural districts, headed by chairpersons). Councilors exercise their authority within urban and district councils. Out of 609 councilors, 490 are elected democratically for a five-year period, while 119 councilors are nominated by the Minister of Local Government and Rural Development. The latest local elections were held in 2014.

In addition to districts, land boards are institutional bodies tasked with the responsibility of land administration. They were set up with the Tribal Land Act in 1968, amended in 1984 and 1993. There are 12 land boards in rural areas across the country, which are further divided into 39 sub land boards. Land boards are considered corporate bodies responsible for land administration. They are charged with holding tribal land for the purpose of promoting social and economic development. Land boards have between 12 and 16 members each. They used to be elected and to report to district councilors, but since the last amendment, they are now accountable to the Ministry of Lands and Housing and are also appointed by the Minister of Land and Housing. The Ministry of Local Government also appoints district administrations with a mandate to fulfil certain local government functions. The district commissioner (DC) is appointed by the Ministry of Local Government and heads the district administration.

The country has started developing a decentralisation policy in 2016, which outlines the roles and responsibilities of central government, local government and non-state actors as part of engaging key stakeholders in the process of achieving sustainable local development. The country is still in the process of developing legislative tools to articulate its decentralisation policy.

TERRITORIAL ORGANISATION

2016	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	10 Districts Councils 6 Urban Councils (4 town councils, 2 city councils)			
	Average municipal size: 143 229 inhabitants			
	16			**16**

OVERALL DESCRIPTION. Among the 16 districts, ten are classified as rural districts and the remaining 6 as urban districts. These districts are further divided into a total of 23 sub-districts. Governance at the local level is sub-divided into three local structures: the district (rural) and urban councils, land boards and traditional administrations based on a traditional system of villages headed by a *Kgosi* (Chief).

The Township Act provides for the regulation of cities and townships. In addition, the Tribal Act of 1968 established Land Boards. Land Boards are primarily responsible for the distribution of tribal land to citizens. The Tribal Land Act vests the Land Board with the power to allocate tribal land to the citizens of Botswana. The establishment of subordinate Land Boards in 1973 was a response to the increasing responsibilities of Land Boards. The Act further provides for cooperation with the district council in formulating policy.

The traditional administration plays two key roles in regulating villages and is regarded as the most basic institution of government. Firstly, the *Kgotla* (assemblies of tribes) meetings function as immediate public platforms that allow members of the community to raise their concerns and inform the community about public policies and local level targeted development plans. The traditional administration is thus tasked with the responsibility of linking central government with the local community by providing a channel of communication through the *Kgotlas*. The *Kgotlas* are headed by Chiefs who are responsible for calling these meetings. The second function of the traditional administration consists, under the responsibility of the chiefs and within the framework of these same meetings, in the settlement of customary court cases and the development of the villages. As mandated by the Constitution, eight of the Chiefs also hold office as members of *Ntlo ya Dikgosi* ("House of Chiefs"), a consultative institution that advises the Parliament yet with no executive nor veto powers in executive matters.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

District (rural) and urban councils perform statutory functions under the Local Government District Council Act. The main statutory functions of councils include the provision of five key services, namely, primary education, health care, the supply of water to rural areas, local development and road maintenance. These Acts are further complemented by other relevant Acts including the Local Authority Procurement and Assets Disposal Act of 2008, the Public Service Act of 2008 and the Town and Regional Planning Act of 2013.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPAL LEVEL
1. General public services	Administrative services (electoral register)
2. Public order and safety	Firefighting
3. Economic affairs/transports	Road networks and facilities; Tourism
4. Environmental protection	Nature preservation; environmental protection; Waste management; Sewerage (waste water management and sanitation); Street cleaning
5. Housing and community amenities	Urban and land use planning; Urbanism
6. Health	
7. Recreation, culture & religion	Sports and recreation; Cultural activities (park and open spaces); Religious affairs
8. Education	
9. Social protection	

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data	SNA	Availability of fiscal data	Quality/reliability of fiscal data
Scope of fiscal data: district and urban councils.	SNA 1993	Availability of fiscal data: **Low**	Quality/reliability of fiscal data : **Low**

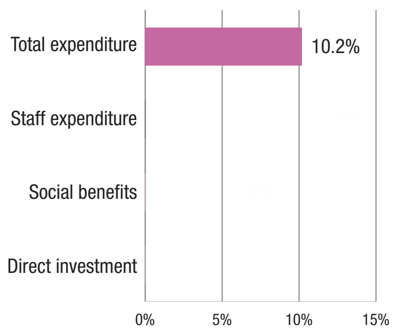
GENERAL INTRODUCTION. Botswana's legal framework regarding finance is well-established and comprehensive. Chapter eight of the 1997 Constitution creates provisions for public management, section seven of the 1965 Local Government (District Councils) Act provides the fiscal framework regulating councils' revenues, accounts and audits for local councils. The 1970 Finance and Audit Act assigns clear roles and responsibilities to the different levels of government and provides a regulatory framework pertaining to public finance.

The Ministry of Local Government plays a key role in coordinating the fiscal relations between national and local government, as well as in providing oversight for municipal financial planning, reporting and management.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**579**	**3.4%**	**100%**
Inc. current expenditure			
Staff expenditure	206	1.2%	35.6%
Intermediate consumption			
Social expenditure			
Subsidies and current transfers			
Financial charges			
Others			
Incl. capital expenditure			
Capital transfers			
Direct investment (or GFCF)			

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. Local government development spending is coordinated by the Ministry for Local Government and Rural Development. In FY 2016/17, approximately 10% of the total General Government expenditure in the country was made at the Local Government level, 35% of which was used to cover staff costs. The level of local expenditure is low, especially considering that Botswana has devolved a significant amount of functions to Local Government. According to available data, local governments are involved in development activities, which represents a non-negligible 47.4% of local expenditure. However, the available data are not sufficiently disaggregated to allow us to know what share is dedicated to intermediate consumption (for the provision of services) and what share is dedicated to investments made by local authorities in the development of the infrastructure and other equipments for which they are responsible.

DIRECT INVESTMENT. The bulk of investment is concentrated at the central government level, with state-owned enterprises (SOEs) contributing a quarter of spending and local government less than 10 percent. Overall public investment spending is low, comprising an insignificant share of total local government spending. Public-Private Partnerships (PPPs) are not significant so far, but they are on the rise. In order to fund capital investments, local authorities may either borrow with the approval of the Ministry of Finance or run overdrafts of up to one-third of the previous year's revenue excluding grants.

BOTSWANA

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

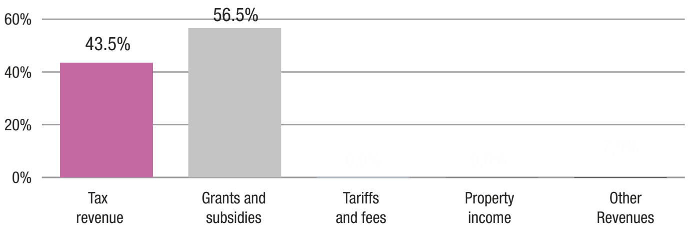
There are no fiscal data available on the expenditure of local government by functions of government. Generally, expenditure priorities include construction and maintenance of primary school and college facilities, teachers' salaries, customary courts, rural administrative centres, and recreational parks.

% GDP | % SNG EXPENDITURE

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**621**	**3.7%**	**11%**
Tax revenue	270	1.6%	
Grants and subsidies	351	2.1%	
Tariffs and fees			
Property income			
Other revenues			

% SNG REVENUE



OVERALL DESCRIPTION. Local Government in Botswana has the statutory power to collect fees and levies to cover operating expenditure, although local governments remain heavily reliant on transfers from the central government. Depending on the council size and location, operational costs, including maintenance spending, are financed through the revenue support grant, which finances about 75 percent of priorities—own revenue amounts to 25 percent on average.

TAX REVENUE. Since 2012, property tax and business tax are applicable in both urban and district (rural) councils. In Botswana, it is the central government that carries out property tax assessments and the local authorities who are in charge of their collection, although they face major challenges regarding the administration of revenue collection. Levels of property and business tax collected are unknown as tax collected are not captured or monitored.

GRANTS AND SUBSIDIES. There are three types of transfers that Local Governments receives from Central Government. The first is the Revenue Support Grant which is a subsidy to offset the expense of the responsibilities which the Local Government is responsible for. It is a formula-based grant which was introduced in 1994 and at the time of its introduction took into account local government's population size, distance from the administrative capital, and surface area for its distribution. By 1997, the formula expanded to include capital investment, the mobilisation of local revenues, and local government's operation costs. The second type of transfer is a local government loan system, the Public Debt Service Fund (PDSF). The PDSF was established in 1973 and serves as a source of funds to service public debt. The third type of transfer is administered through an equipment (capital) grant. National government provides an average of 90% and 80% of district and urban councils' recurrent budgets, and 100% of their capital budgets. Botswana's domestic government revenues are largely generated by mining and national taxes, which are the primary source of revenues transferred to local governments.

OTHER REVENUES. Local government in Botswana can levy tariffs and fees for the services they provide (e.g. leasing of government borehole) or licenses that are issued (e.g .boat registration and licenses), and collect revenue from customary court fines and electricity charges.
Other sources of local tax revenue include rates, service levies and user charges such as trade licenses, beer levy, interest on investments and housing rents.

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. Regarding fiscal accountability of local authorities, Botswana's legal framework comprises the Constitution, the Ombudsman Act, the Corruption and Economic Crime Act, the Accounts and Audit Act and the Local Authority Procurement and Asset Disposal Act. The Auditor General's Department is a statutory authority which audits the accounts of all councils annually; the Local Authorities Public Accounts Committee, appointed by the MLGRD, examines the accounts of local authorities periodically; the Ombudsman deals with complaints of maladministration and the Directorate on Economic Crime and Corruption investigates alleged cases of corruption.

DEBT. Regarding local authorities' capacities to contract debt, Article 47 of the Local Government District Councils Act grants councils borrowing powers. It allows councils 1) to raise loans based on the advice and approval of the Minister of Finance and Development Planning (MFDP) and 2) for these loans to be secured on the revenue and assets of the councils. However, local authorities' borrowing powers are regulated; councils may borrow as they see fit to carry and fulfil their functions yet with some limits. Councils are not permitted to borrow from the open market. Local governments are allowed to incur overdrafts not exceeding one third of previous year's revenue (excluding grants) with approval of MLGRD after consultation with the Ministry of Finance and Economic Development. Urban councils use to receive funds under the Public Debt Service Fund (PDSF), and some councils are yet to repay the funds that have previously been advanced. Although provisions have been created for local government to borrow from the central government, there has been little borrowing by sub-national government in Botswana due to previous heavy debts and problems with repayment. Moreover, the MLGRD does not monitor the performance of loans which could lead to future fiscal risks.

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Last update: 02/ 2019
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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data: Statistics Botswana (2017) National Accounts Statistics Report 2015 // Commonwealth Local Government Forum – Botswana country profile 2017/18 // IMF (2017) Report on public investment.
Other sources of information: UCLGA and Cities Alliance (2018) Assessing the Institutional Environment of Local Governments in Africa // Ministry of Finance and Development Planning of Botswana – web portal // Ministry of Local Government of Botswana – web portal // Kampamba, J., Leima, S. and Svensson, A. (2016) A comparative analysis of residential property tax assessment in Botswana and Sweden.

BURKINA FASO

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOW INCOME

LOCAL CURRENCY: WEST AFRICAN CFA FRANC (XOF)

POPULATION AND GEOGRAPHY

Area: 274 200 km²
Population: 19.193 million inhabitants (2017), an increase of 3% per year (2010-2015)
Density: 70 inhabitants / km²
Urban population: 28.7 % of national population
Urban population growth: 5.3% (2017 vs 2016)
Capital city: Ouagadougou (13.6% of national population)

ECONOMIC DATA

GDP: 35.89 billion (current PPP international dollars), i.e. 1870 dollars per inhabitant (2017)
Real GDP growth: 6.7% (2017 vs 2016)
Unemployment rate: 6.3%
Foreign direct investment, net inflows (FDI): 485.9 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 24.6% of GDP (2017)
HDI: 0.402 (very low), rank 185 (2017)
Poverty rate: 43.7 (2014)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Burkina Faso is a unitary state with a presidential-type system comprising a single chamber (the National Assembly) with a multi-party system. After the political crisis that saw the fall of former President Blaise Compaoré in October 2014, the last coupled presidential and legislative elections were held in November 2015. They led to the election of the President of the Republic by direct universal suffrage for a five-year term, renewable once, and the election of the 127 parliamentarians to the National Assembly for a five-year term. They were followed by local elections in May 2016: Mayors and municipal councillors were elected by direct universal suffrage for a 5-year term, who in turn elected regional councillors.

The decentralization process is based on the June 1991 Constitution. It went through three cycles:

- The first cycle (1993 to 2003) was marked by the creation of the National Commission for Decentralization, the adoption in 1993 of the five decentralization laws, the adoption in 1998 of the decentralization policy texts, and the organization of municipal elections in 1995 and 2000 which allowed the creation of legislative bodies in 33 full-function municipalities and then in 49 urban communes.
- The second cycle (2004 to 2015) was marked by the adoption of the General Code of Local Authorities (Act No. 055/2004/AN of 21 December 2004), the full communalization of the territory, the adoption of the Strategic Framework for the Implementation of Decentralization, the adoption in 2012 of the National Strategy for Capacity Building for Decentralization Actors, and the establishment of the National Decentralization Conference.
- The third and final cycle has just begun with the adoption on 7 March 2018 of new reference frameworks including the Prospective Vision of Decentralizatio in Burkina Faso by 2040, the National Decentralization Policy in Burkina Faso, the 10-year Strategy 2017-2026 for the implementation of the national decentralization policy, and its five-year action plan 2017-2021.

On the basis of these new reference frameworks, the Ministry of Territorial Administration and Decentralization (MATD), which ensures the administrative supervision of local authorities (financial supervision is ensured by the Ministry of the Economy, Finance and Development (MINEFID)), aims to accelerate the decentralization process, in particular through the introduction of direct universal suffrage for the election of regional council presidents, a unified mechanism to channel donor resources, a law on the financial programming of public transfers, access to new sources of financing (public-private partnership, loans and financial markets, diaspora mobilization), broadening the tax base and shared taxation, the introduction of ex-post controls and a reform of public procurement regulation.

A network of parliamentarians for decentralization and local development has recently been established to facilitate the drafting and adoption of decentralization laws and to monitor their implementation.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	351 Municipalities		Regions	
	Average municipal size: 54 681 inhabitants			
	351		13	364

OVERALL DESCRIPTION. Burkina Faso is subdivided into thirteen administrative regions headed by Governors, forty-five provinces headed by High Commissioners and three hundred and fifty-one departments headed by prefects. The two main cities are Ouagadougou, the political capital and Bobo-Dioulasso, the economic capital.

Decentralization enshrines the right of local and regional authorities to administer themselves freely and manage their own affairs in order to promote grassroots development and strengthen local governance. Act No. 055-2004/AN of 21 December 2004 on the General Code of Local Authorities in Burkina Faso defines two levels of local authorities: the region and the municipality (rural and urban). There are a total of 351 municipalities, including 302 rural municipalities, 47 urban municipalities, 2 special status municipalities (Ouagadougou the capital and Bobo Dioulasso) and 13 “local authorities-regions”. The ''special status municipalities'' are subdivided into districts with an elected council within each district and a district mayor at the head of each district. Ouagadougou is divided into 12 districts and Bobo Dioulasso into 7 districts.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The 2004 General Code of Local Authorities (Articles 80 to 105), devolves 11 blocks of competences to municipalities, 10 to regions. The implementation process was carried out in three phases:

- The first phase (2006-2008) saw the transfer of three blocks of competences to urban municipalities: (i) pre-school, primary education and literacy; (ii) health; (iii) culture, youth, sports and leisure;
- The second phase (2009-2013) saw the transfer of four blocks of competences to all municipalities, urban and rural: the first three blocks (i) pre-school, primary education and literacy; (ii) health; (iii) culture, youth, sports and leisure; plus the provision of drinking water and sanitation;
- The third phase (from 2014) led to the transfer by decree of the blocks of competences initially provided for by the Code to all local authorities.

Despite the adoption since 2009 of several decrees on the modalities of the transfer of competences and resources, the process of operationalizing the transfers remains incomplete overall. Implementation is slow and the sectoral administrations concerned are reluctant, both in the development of the relevant regulations and in their implementation.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONS	MUNICIPAL LEVEL
1. General public services	Public buildings and equipment	Administrative services (marriages, births, deaths, etc.); Public buildings and equipment
2. Public order and safety	Civil protection and fire fighting	Municipal police; Municipal signage; Civil protection and fire fighting
3. Economic affairs/transports	Elaboration of regional development plan; Regional economic development; Creation, development and management of regional fair areas; Organisation of regional fairs; Construction and management of regional slaughterhouses; Construction and maintenance of rural roads; Promotion of public transit	Elaboration of a municipal development plan; Creation, development and management of markets; Construction and management of slaughterhouses and slaughter areas;Municipal roads; Public parks; Public transport; Local tourism
4. Environmental protection	Promotion of actions to protect the environment; Natural resource management and sustainable development; Nature conservation; Soil and groundwater protection; Climate protection; Sanitation	Environmental protection; Natural resource management and sustainable development; Parks and green spaces; Waste management; Street cleaning
5. Housing and community amenities	Elaboration and adoption of a regional spatial planning and sustainable development plan (SRADDT)	Construction and renovation; Land development; Drinking water supply; Street lighting; Urban planning
6. Health	Participation in the construction and management of basic health facilities;Construction and management of intermediate health facilities; Promotion of traditional pharmacopoeia	Primary health care, (health centres); Preventive health; Cemetery planning and management; Creation and management of funeral homes
7. Recreation, culture & religion	Construction and management of regional cultural, tourism, youth, sports and leisure infrastructure;Regional museums; Cultural heritage; Regional archives	Construction and management of cultural, tourism, youth, sports and leisure infrastructure at municipal level; Municipal Museum
8. Education	Participation in development of pre-school education, primary education, post-primary and secondary education; Participation in the development of higher education (universities and colleges); Promotion of vocational training	Development of pre-school education, primary education, literacy, post-primary and secondary (middle school) education; Promotion of employment vocational training and non-formal education
9. Social protection	Protection and promotion of human and civil rights; Social promotion of individuals and groups; Organization and management of relief for vulnerable and affected populations	Social protection of children and youth; Organization and management of relief for vulnerable and affected populations

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: municipalities and regions.	SNA: 1993	Availability of fiscal data: **Low**	Quality/reliability of fiscal data : **Low**

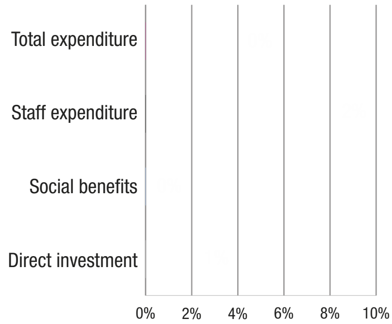
GENERAL INTRODUCTION. The sources of financing for decentralization are defined by Article 110 of the 2004 General Code of Local Authorities, which stipulates that the resources necessary for the performance of the tasks of local authorities shall be allocated to them either by transfer of taxation, or by grants and subsidies, or by both at the same time. There are therefore several sources and mechanisms of financing: direct financial support from the State, support from the Permanent Fund for the Development of Local Authorities (FPDCT), support for the exercise of transferred powers, the reassignment of certain tax revenues to local authorities and donor support through programmes and projects in support of decentralisation. Municipal and regional authorities also have their own resources but have many difficulties in mobilising them. They can also resort to loans.

BURKINA FASO

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
Total expenditure				
Inc. current expenditure				
Staff expenditure				
Intermediate consumption				
Social expenditure				
Subsidies and current transfers				
Financial charges				
Others				
Incl. capital expenditure				
Capital transfers				
Direct investment (or GFCF)				

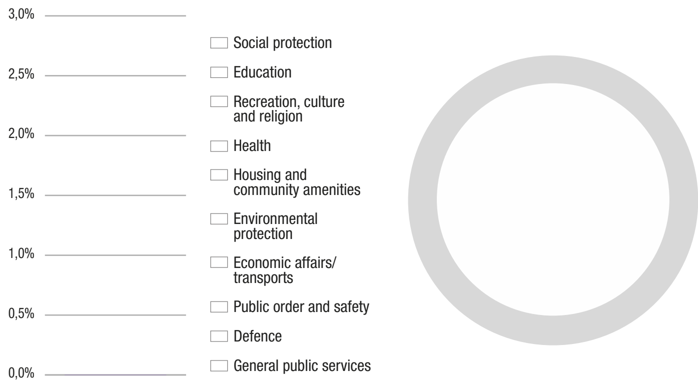


EXPENDITURE. No data available.

DIRECT INVESTMENT. No data available.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

% GDP	% SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2017	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE
Total revenue				
Tax revenue				
Grants and subsidies	1	0.1%		
Tariffs and fees				
Property income				
Other revenues	14	0.8%		

OVERALL DESCRIPTION. The own resources of local authorities are mainly made up of tax resources established by law (patents, residence tax, tax on immovable property, arms tax, tax on enjoyment and contribution of the informal sector, company property tax) and non-tax resources established by decision of the municipal councils (revenue from the exploitation of services, land-use revenues, income from the sale of movable and immovable property, securities and titles belonging to the municipality). According to various estimates, including those made by the Observatory of Local Finance in Africa, the own resources of local authorities range from 1/3 to 1/2 of the total revenue of local authorities. The 'local authority-region' does not have a "tax territory". Its resources come from the proceeds of taxes collected at the municipal level, distributed between the municipality and the region. Own resources are mobilized by the General Directorate of Taxation (DGI) for the benefit of local authorities.

The resources provided by the national government to the local authorities take two main forms: grants and subsidies on the one hand, and financial transfers linked to the competences transferred on the other hand.

The resources transferred by the national government to local authorities in support of the transferred competences take the form of an annual allocation for recurrent costs for the maintenance and operation of the transferred infrastructure, and investment expenditure for the rehabilitation of the transferred infrastructure and the construction of new infrastructure. The distribution of financial resources is defined by joint inter-ministerial decree between MINEFID, MATD and the other ministries concerned.

Between 2016 and 2018, financial transfers to municipalities ranged from $73.3 million PPP in 2016 to $273.6 million PPP in 2017, and are expected to reach $216 million PPP in 2018. In 2017, the operationalization of transfers in various fields through the signing of operational protocols between the State and local authorities and the involvement of 6 new ministries resulted in a significant increase in the amount of resources transferred compared to 2016. As part of the implementation of the National Economic and Social Development Plan (PNDES), the national government is committed to increasing the share of the State budget allocated to local authorities to 10% in 2018 and 15% in 2020. The target of 10% in 2018 set as part of the PNDES has not been achieved since the rate is currently around 5%.
In addition to their own resources and those provided by the national government, local authorities may receive financial assistance from other national or international technical and financial partners.

TAX REVENUE. No data available.

GRANTS AND SUBSIDIES. The national government provides grants and subsidies to local authorities as a contribution to strengthening their operating and investment revenues. These include a global operating allocation (DGF) and a global equipment allocation (DGE). Since 2009, the amount of these grants and subsidies provided by the national government is allocated up to 30% for the DGF and 70% for the DGE.
Local authorities also receive capital investment grants from the Permanent Fund for the Development of Local Authorities (FPDCT) in the form of drawing rights.

OTHER REVENUES. No data available.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. Local authorities are governed by the same budgetary rules as the State. The financial regime of local authorities is based on the principles of budgetary law defined in the "Directives on the transparency code, finance laws and general regulations on public accounting" within WAEMU. The principles of budgetary law applicable to local and regional authorities are: annuality, unity, universality, precedence, sincerity, budget balance, legality of taxation and the specialization of credits. The principle of balanced budget applies to the accounting balance of revenue and expenditure. The total expenditure shall not exceed the total revenue.

DEBT. In accordance with Article 17 of the General Code of Local Authorities, loans are subject to prior authorisation by the supervisory authority, i.e. the Ministry of Finance. The borrowing conditions are specified by decree of the Council of Ministers on the proposal of the Minister of Finance (Decree No. 2009-150/PRES/PM/MEF of 27 March 2009 on the general regulation of public debt and public debt management and Decree No. 98-296/MEF/SG/DGTCP/DDP of 18 December 1998 on the execution of public debt procedures and its related bodies).

The main debt procedures of local authorities are: (i) direct loans to local authorities with sufficient financial capacity to service the debt; (ii) loans contracted by the State and on-lent to the local authority on external or domestic financing; (iii) loans contracted by the local authority and guaranteed by the State.

Unlike central government borrowing, local government borrowing only finances investments and should be included in the Investment section of the local budget. So far, only the cities of Ouagadougou and Bobo Dioulasso have been able to benefit from World Bank loans, which have been on-lent by the State. Ouagadougou has also benefited from AFD sub-sovereign loans.

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Last update: 02/ 2019

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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data: Transfert de compétences et de ressources de l'Etat aux CT pour une mise en œuvre optimale des plans locaux de développement, Rencontre Gouvernement et Présidents de conseils de collectivités territoriales, Ouagadougou, 25-26 janvier 2018.
Other sources of information: Perspectives économiques en Afrique (PEA) 2018 // MATD Vision prospective de la décentralisation au Burkina Faso à l'horizon 2040 // MATD Politique nationale de décentralisation au Burkina Faso // MATD Stratégie décennale 2017-2026 de mise en œuvre de la décentralisation Burkina Faso // BAD (2017) Document de stratégie pays (DSP) 2017-2021 // UCLGA & Cities Alliance (2018) Assessing the institutional environment of local governments in Africa.

BURUNDI

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOW INCOME

LOCAL CURRENCY: BURUNDI FRANC (BIF)

POPULATION AND GEOGRAPHY

Area: 27 830 km^2
Population: 10.8 million inhabitants (2017), an increase of 3.0% per year (2010-2015)
Density: 390 inhabitants / km^2
Urban population: 13% of national population
Urban population growth: 5.7% (2017 vs 2016)
Capital city: Gitega – political capital (1.5% of national population); Bujumbura – economic capital (8.27% of national population)

ECONOMIC DATA

GDP: 7.973 billion (current PPP international dollars), i.e. 733.9 dollars per inhabitant (2017)
Real GDP growth: 0.5% (2017 vs 2016)
Unemployment rate: 1.6% (2017)
Foreign direct investment, net inflows (FDI): -306.5 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 9.4% of GDP (2017)
HDI: 0.417 (low), rank 185 (2017)
Poverty rate: 78.1% (2013)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

According to the new Constitution of 7 June 2018, Burundi is an independent, unitary, sovereign, secular and democratic republic. The Burundian political system is a multi-party presidential system characterized by the mutual separation and independence of powers. The President of the Republic is the head of the state, and he is elected by direct universal suffrage for a renewable seven-year term (Article 97). The President is currently assisted by two Vice-Presidents, pending the application of the constitutional provision stipulating the appointment of a Prime Minister as Head of Government by the President. Legislative power is vested in a bicameral parliament, the National Assembly and the Senate.

The peculiarity of democracy in Burundi, resulting from the 2000 Arusha agreements, is the introduction of a system for distributing seats among the various powers, on the basis of ethnic and gender quotas. Each power must be composed of 60% Hutus and 40% Tutsis, with a minimum of 30% women.

The country is divided into provinces, municipalities, areas and hills (Article 3 of the Constitution). The law defines the organization and functioning of the various territorial subdivisions and may modify their boundaries and number. Title XII of the Constitution on local governments acknowledges the municipality as a decentralized administrative entity. In addition, Law No. 1/016 of 20 April 2005 on the organization of municipal administration, revised in 2010 and subsequently in 2014 with Law No. 1/33, stipulates that the municipality is a decentralized local authority with legal powers, institutional and financial autonomy. The municipality is managed by the municipal administrator under the supervision of the municipal council. The municipal councillors are elected for a 5-year term by direct universal suffrage based on a list proportional representation system. The municipal council elects from among its members a president and vice-president, as well as the municipal administrator. This administrator acts as a mayor and he is responsible for implementing the decisions of the municipal council. The last local elections were held in August 2015.

The central government recently adopted Law No. 1/18 of 8 December 2016, which ratified the African Charter on the Values and Principles of Decentralization, Local Governance and Local Development.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	116 rural municipalities *(ikomine)* 3 urban municipalities of Bujumbura			
	Average municipal size: 91 296 inhabitants			
	119			119

OVERALL DESCRIPTION. Burundi has 119 municipalities, each consisting of at least 15 municipal councillors, of which at least 30% are women. Municipalities can be either urban or rural. The 116 rural municipalities are subdivided into zones and census hills (*collines*) and the 3 urban municipalities into zones and neighbourhoods. The zone is a deconcentrated administrative unit of the municipality and is located between the municipality and the census hill or neighbourhood. The zone head is appointed by the municipal council. The hill, along with the neighbourhood, is administered by a hill (or neighbourhood) council, made up of five members elected by direct universal suffrage for five years. The councillor with the largest number of votes is appointed as the hill or neighbourhood head. From all these administrative divisions, only the municipalities are decentralized local governments with management and budgetary autonomy.

In addition to these territorial sub-divisions, the country has a deconcentrated entity, the province, which is responsible for the supervision of the municipalities and for ensuring the coherence of municipal community development plans, particularly in their intercommunal aspect. There are 18 provinces in total, which are administered by a governor appointed by the central government, in charge of coordinating the deconcentrated services of the central administration located in the province. The urban area of Bujumbura constitutes a province called "Mairie de Bujumbura" (municipal law, art. 123). The Mairie de Bujumbura is administered by a mayor assisted by a cabinet whose composition is the same as that of the other provincial governorates (Municipal Law, art. 126).

Law No. 1/33 of 28 November 2014 provides that municipalities may also cooperate through a system of inter-municipal cooperation in order to promote the economic and social development of their territory.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Law No. 1/33 states that the municipality is responsible for the management of local interests of its people. The municipality provides and manages public services that are not under the direct responsibility of the central government. The government may also delegate the management or implementation of certain tasks to municipalities, such as security (municipal police).

In addition, Law No. 1/016 of 25 May 2015 on the procedures for the transfer of competences – for which implementing decrees have not yet been issued – stipulates that the municipality contributes with the central government, to the administration and planning of the territory, to economic, educational, social, health, cultural and scientific development, to the protection and enhancement of the environment and to the improvement of the living environment of the population.

The provision of basic education and health services are carried out by deconcentrated offices of the Ministries of Education and Health with contributions from the municipalities for the construction and maintenance of infrastructure. Responsibility for road maintenance is shared by municipalities and central government. The provision of electricity and tap water is managed by a national agency (Regideso).

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPAL LEVEL
1. General public services	Administrative services (civil status); Real estate
2. Public order and safety	Municipal police
3. Economic affairs/transports	Urban roads; Urban transport; Local tourism (as a general competence pending the implementing decrees of the law on the transfer of competences)
4. Environmental protection	Parks and green spaces; Waste management; Street cleaning (Idem)
5. Housing and community amenities	Construction/renovation; Drinking water supply; Public lighting; Urban planning (Idem)
6. Health	Primary health care (health centres); Preventive health (Idem)
7. Recreation, culture & religion	Sports; Librairies; Municipal museum (Idem)
8. Education	Pre-school and primary education (Idem)
9. Social protection	Social protection of children and youth; Family support services (Idem)

SUBNATIONAL GOVERNMENT FINANCE

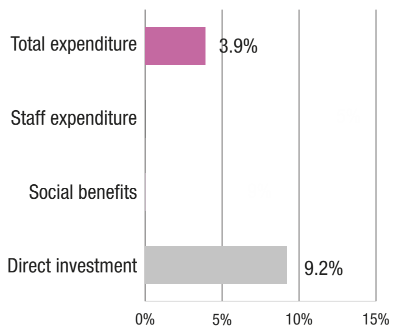
Scope of fiscal data: municipalities.	Bank of the Republic of Burundi (for national data) and Ministry of the Interior, Patriotic Formation and Local Development (for local data)	Availability of fiscal data: **Low**	Quality/reliability of fiscal data : **Low**

GENERAL INTRODUCTION. Progress is slow on fiscal decentralization in Burundi. Fiscal data on municipal expenditure are partial. Municipal own revenues are estimated on average at around 100 million UBF, i.e. PPP$ 0.02 per capita. To address this issue, the government created the National Municipal Investment Fund (FONIC) in 2007, through which it is stipulated that 15% of the national budget should be transferred to the municipal level. To date, these transfers are still below the target of 15% of the national budget, and the municipalities' capacity to deliver on their mandate remains limited.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**6**	**0.8%**	**100%**
Inc. current expenditure	3	0.3%	41.4%
Staff expenditure			
Intermediate consumption			
Social expenditure			
Subsidies and current transfers			
Financial charges			
Others			
Incl. capital expenditure	4	0.5%	58.6%
Capital transfers			
Direct investment (or GFCF)	4	0.5%	58.6%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. Article 89 of Law 1/33 on the organisation of municipal administration provides a list of expenditure items at the municipal level, including staff compensation; community development plans; maintenance costs of municipal infrastructure; operating costs of municipal services; annual loan repayments; and expenditure relating to the transfer of competences. In 2016, total local government expenditure represented only $6 per capita and less than 4% of total public expenditure.

BURUNDI

UNITARY COUNTRY

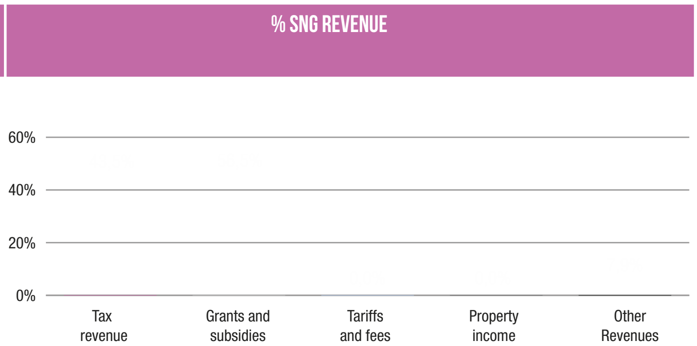
DIRECT INVESTMENT. In 2016, municipal capital expenditure accounted for 0.5% of GDP and 9.2% of general government capital expenditure. In this context, financing municipal community development plans relies almost entirely on international technical and financial partners. In addition, the maintenance and operation costs of basic social infrastructure (health clinics, primary and secondary schools, water distribution points) are also limited, which further reduces the ability of local governments to improve citizens' access to social services.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

On the basis of the compulsory expenditure listed in Article 89 of Law No 1/33 and the competences assigned to municipalities, the key sectors of intervention of Burundian municipalities are as follows: economic development (maintenance of socio-economic infrastructure and municipal roads); environmental protection (waste and wastewater treatment); and health and social protection (providing care for sick pupils and indigent people).

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**7**	**0.9%**	**7.0%**
Tax revenue			
Grants and subsidies			
Tariffs and fees			
Property income			
Other revenues			



OVERALL DESCRIPTION. The main sources for municipal revenues are taxes levied by municipalities; loans; subsidies granted by the government (through FONIC mechanism); donations (with donor-funded projects); property tax and tax on rental income.

In 2016, municipal revenues amounted to $PPP 7 per capita, i.e. 7% of total public revenue. There are large disparities in the potential for revenue collection across municipalities. A study carried out by the World Bank in 2014 indicates that the municipalities located in the northeast of the country seem to be the most efficient in terms of revenue collection per inhabitant. Nonetheless, this study also points out the weakness of the municipal tax system in Burundi combined with very limited transfers from the central government.

TAX REVENUE. The sub-national tax system is mainly regulated by Law 1/02 of 3 March 2016 on municipal tax reform, which is currently under revision. This law specifies the taxes, duties and contributions levied for the benefit of the municipalities' budgets. Article 3 of the law stipulates that "municipalities establish, collect, administer and account for the taxes and duties paid to them with the same obligations and prerogatives as the central government's tax administrations". However, this provision does not apply to the contribution of VAT and more recently to the tax on rental income, which are both collected at central level by the Burundian Revenue Office (OBR).

Ten taxes and duties for the benefit of municipalities are provided for by law: the tax on large livestock, the tax on the sale of livestock, the slaughter tax, the tax on cycles and motorcycles, the property tax, the tax on pylons, the fixed tax on activities, the tax on industrial crops, the tax on rental income and the contribution of the VAT to municipal development. Most rural municipalities face difficulties in defining the tax base and collecting these taxes (particularly the last six).

GRANTS AND SUBSIDIES. A system of appropriate transfers for current expenditure is yet to be defined: To date, there is no mechanism in place to ensure that municipalities receive equitable and transparent transfers to cover their recurrent expenditure.

With regard to capital transfers, Law No. 1/33 introduced a financial transfer from the central government to the local governments as budgetary support. This capital grant amounts to five hundred million FBI per municipality per year (i.e. 0.08 PPP dollars per inhabitant), accounting for nearly 5% of the national budget (article 85). This grant, channelled through the National Municipal Investment Fund (FONIC), seeks to promote balanced development among all municipalities by enabling them to develop basic socioeconomic infrastructure. However, the weakness of this subsidy, which does not reach the target of 15% of the national budget to be transferred to municipalities, coupled with the absence of current transfers, threatens the financial viability of the municipalities.

OTHER REVENUES. No data available.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. The draft budget adopted by the municipal council must be submitted to the provincial governor for approval. Legislation also provides for regular audits of financial accounts for local governments to be carried out. The administrative and municipal accounts are reviewed and validated by the Court of Audit. However, these audits are carried out irregularly.

DEBT. Law No. 1/33 stipulates that "the municipality may, within the limits of its financial capacity to service the debt, contract loans under the conditions laid down by law and financial regulations" (article 83). However, these loans can only be used to finance capital investments.

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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data: World Bank // Burundian Institute of Statistics and Economic studies – ISTEEBU (2017) Annuaire statistique du Burundi 2016 // Bank of the Republic of Burundi (2016) Rapport annuel de la Banque de la République du Burundi.
Other sources of information: World Bank (2014) Burundi - Fiscal decentralization and local governance: managing trade-offs to promote sustainable reforms // Nicaise, Guillaume (2015) Évaluation de la performance des collectivités décentralisées : une étude comparée entre le Rwanda et le Burundi // UCLGA and Cities Alliance (2018) Assessing the Institutional Environment of Local Governments in Africa // Weneger, Alexander (2018) Les finances locales dans l'Afrique francophone subsaharienne : une étude comparative sur dix-huit pays et leurs systèmes des finances locales.

CABO VERDE

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME
LOCAL CURRENCY: ESCUDO DE CABO VERDE (ECV)

POPULATION AND GEOGRAPHY

Area: 4 033 km^2
Population: 0.546 million inhabitants (2017), an increase of 1.8% per year (2010-2015)
Density: 136 inhabitants/km^2
Urban population: 65.3% of national population
Urban population growth: 2% (2017 vs 2016)
Capital city: Praia (26% of national population)

ECONOMIC DATA

GDP: 3.73 billion (current PPP international dollars) i.e. 6 657 dollars per inhabitant (2017)
Real GDP growth: 4% (2017 vs 2016)
Unemployment rate: 9% (2017)
Foreign direct investment, net inflows (FDI): 110 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 34.5% of GDP (2014)
HDI: 0.648 (medium), rank 122 (2017)
Poverty rate: 8.1% (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The current constitution was adopted in 1980 and revised in 1992, 1995 and 1999. The country's Second Constitution (Act No. 1/99 of 23 November 1999) recognizes the unitary nature of the State and the existence of the autonomy of a local power, as well as a pluralist democracy and interdependence between the different levels of power. It organizes a political system close to a parliamentary regime. The President of the Republic, elected by direct universal suffrage for a five-year term, is not the head of government. This function is carried out by a Prime Minister, leader of the parliamentary majority. Legislative power is exercised by a unicameral parliament. The National Assembly is composed of 72 deputies. Deputies are elected from multi-member lists. The National Assembly is elected for a five-year term. The last parliamentary elections were held on 20 March 2016 and the next parliamentary and presidential elections will be held in 2021. Cape Verde is considered by many institutions as the most stable country in Africa. It generally stands out among African countries for its good governance. In 2017, the country ranked 4th out of 54 African countries on the Mo Ibrahim Index of African Governance, 3rd least corrupt country in Africa (Transparency International) and 27th in the world press freedom index.

The legal framework for decentralization is governed by Law No. 134/IV/95, which defines the administrative autonomy (Article 2) and financial autonomy (Article 3) of local authorities. In 2010, the government approved the Decentralization Framework Law No. 69/VII/2010. The last municipal elections were held on 4 September 2016, the next elections are scheduled for 2020.
The municipalities are under the supervision of the Ministry of State Reform, Public Administration and Local Government. They are grouped within the National Association of Cape Verde Municipalities (ANMCV).

As part of the 2018-202 Economic Plan for Sustainable Development (PEDS), the Programme for the Improvement of Private Sector Competitiveness and Development of the Local Economy, supported by the African Development Bank, calls for a reduction in municipalities' dependency ratios on public transfers and recommends the development of local economic plans. The legislative corpus on decentralization should also be revised. The revision of the 2005 Law on Municipal Financing, the Law on the Status of Municipalities and the Framework Law on Decentralization (No. 69/VII/2010) are planned. A law on regionalisation is being finalised and will introduce a new level (regions) between the central government and municipalities.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	22 Municipalities *(Concelhos)*			
	Average municipal size: 24 818 inhabitants			
	22			22

OVERALL DESCRIPTION. The territorial organisation of the State is inspired by that of Portugal, taking into account the specific characteristics of an archipelagic country. The administrative divisions are *Concelhos* (Councils), freguesias (parishes or subdivisions of councils) and povoados or bairros.

CONCELHO is the administrative district in which not only the powers of the State with the decentralized services of the ministries are organized, but also the local power with the local authorities (*Municípios*). This constituency is also the reference framework for legislative elections.

MUNICIPALITIES. Since 2005, Cape Verde has been divided into 22 municipalities (*concelhos*) and 32 parishes (*freguesias*).
Municipalities are spread over the 9 inhabited islands (on 10 islands in the country). Santiago Island, the most populated island, has 9 municipalities while 5 islands have only one municipality, another has 2 municipalities and 2 islands (Santo Antão and Fogo) have 3 municipalities.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Through Act No. 134/IV/95 on the status of municipalities, the State transferred certain prerogatives and powers to municipalities, in particular in the following areas: sanitation, planning, rural development, health, housing, land, transport, education, social promotion, culture, sport, tourism, the environment, internal trade, civil protection, employment and vocational training, police and municipal investment. The transfer of powers to municipalities has not always been accompanied by the transfer of resources (financial, material and human) necessary for the exercise of the transferred powers.

The new regulations to be adopted on the status and financing of municipalities aim to ensure the political autonomy of sub-national entities. Under the PDES, the strategic objective is the decentralization (not delegation) of key functions. In this regard, municipalities will be responsible for the planning and implementation of local economic development plans that will be integrated into the overall framework provided for in the regionalized PDES. At the end of 2018, 8 municipalities completed the diagnosis and began drafting participatory economic plans with UNDP support.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPAL LEVEL
1. General public services	Administrative services (marriages, births, etc.); Public buildings and equipment
2. Public order and safety	Municipal police; Urban signage
3. Economic affairs/transports	Urban roads; Public parks; Urban transport; Local tourism
4. Environmental protection	Parks and green spaces; Waste management; Street cleaning
5. Housing and community amenities	Construction/renovation;Drinking water supply; Street lighting; Urban planning
6. Health	Primary health care (health centres); Preventive health
7. Recreation, culture & religion	Sports; Libraries; Local museums
8. Education	Pre-primary and primary education
9. Social protection	Social protection of children and young people; Family support services

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: municipalities.	Conta Geral do Estado 2016	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. The Law on Municipal Financing No. 79/VI/2005 defines the rules and way in which each municipality must manage its revenues, can accumulate debts and receives transfers from the central government.

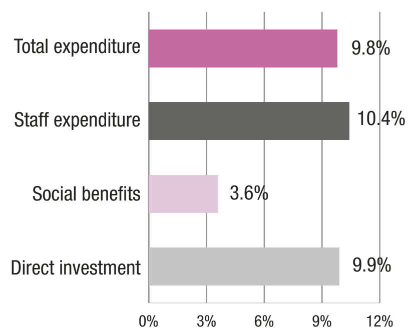
Despite significant changes in the structure of expenditure and revenue since the 1990s, the self-financing capacity of municipalities remains limited. Municipalities are struggling to broaden their tax base and remain significantly dependent on government transfers.

The new law on municipal financing, currently in preparation, is expected to improve the framework for revenue generation, clarify the distribution of public resources between the State and municipalities and refine the criteria for the distribution of the Municipal Finance Fund (FFM), the main national tool for financing decentralization.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**213**	**3.3%**	**100%**
Inc. current expenditure	158	2.4%	74.0%
Staff expenditure	85	1.3%	39.9%
Intermediate consumption	25	0.4%	11.9%
Social expenditure	8	0.1%	3.6%
Subsidies and current transfers	3	0.0%	1.3%
Financial charges	11	0.2%	5.4%
Others	26	0.4%	12.0%
Incl. capital expenditure	55	0.8%	26.0%
Capital transfers			
Direct investment (or GFCF)	25	0.4%	11.6%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. 3/4 of the municipalities' expenditure is current expenditure. Staff costs represent almost 40% of total expenditure (54% of current expenditure); they are the highest expenditure item. Five municipalities (out of a total of 22) account for 62% of total expenditure: the capital Praia (27%), São Vicente (12%) Porto Novo (8%), Boa Vista (7.5%) and Santa Catarina (7.5%).

DIRECT INVESTMENT. ICT, water, energy and transport are the main areas of capital investment, also supported by national investment but deficits remain high. They represent barely 10% of national investment expenditure and not even 1% of GDP. The new provisions of the PDES in terms of supporting local economic development and strengthening decentralization should lead to an increased role for municipalities in direct investment.

CABO VERDE

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

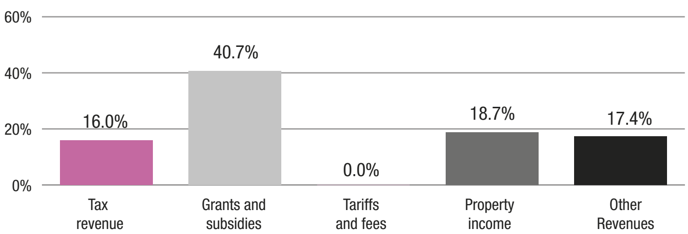
At the beginning of the 2010 decade, general public services, housing and amenities, recreation, culture and religion together accounted for more than 80% of total municipal spending. These figures have probably changed little since then, but they are likely to evolve with the gradual implementation of the PDES, which places greater emphasis on economic development and the transport sector.

% GDP | % SNG EXPENDITURE

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**304**	**4.7%**	**14.7%**
Tax revenue	49	0.8%	3.6%
Grants and subsidies	124	1.9%	
Tariffs and fees			
Property income	57	0.9%	
Other revenues	53	0.8%	

% SNG REVENUE



OVERALL DESCRIPTION. The total revenue of municipalities represents just under 5% of GDP. This is a percentage that remains low but has nevertheless increased slightly since the beginning of the decade (it was 3.6% in 2011). With more than 40%, grants and subsidies represent a significant part of municipalities' resources. This percentage is lower than in 2011, when it amounted to 60%, reflecting a decrease in municipalities' dependence on state transfers.

TAX REVENUE. Almost all of the municipalities' tax revenues (95% in 2016) come from property taxes (*Imposto Único sobre o Património*-IUP) and the rest mainly from a tax on motor traffic (4.5% of tax revenue in 2016).
65% of the total amount of revenue is generated by six municipalities (out of 22 in the country): the capital Praia (27%), Santa Catarina (9%), Sao Vicente (9%), Sal (8%), Porto Novo (5.5%) and Boa Vista (5.5%).

GRANTS AND SUBSIDIES. Data are not available on the distribution of grants and subsidies between current and capital grants. The Municipal Finance Fund (FFM) provides more than 90% of central government grants to municipalities. FFM grants in many cases represent more than 50% of municipal revenues. The FFM consists of two funds, the Municipal Common Fund (*Fundo Municipal Comun*, FMC, representing 75% of the total fund) and the Municipal Solidarity Fund (*Fundo de Solidariedade Municipal*, FSM, representing the remaining 25%). The distribution formula for MFF grants is as follows: 20% of the funds are distributed equally among municipalities, 50% are based on population, 15% on the percentage of children and 15% on the area of the municipality. Municipalities can benefit from other subsidies, in particular under 'programme contracts' for infrastructure financing and also receive contributions from public international bodies. Nearly 40% of FFM grants go to 4 out of 22 municipalities: the capital Praia (13%), Santa Catarina (10%), Sao Vicente (8%) and Santa Cruz (8%).

OTHER REVENUES. Property income is a significant part of the revenues of most municipalities. It represents nearly 40% of the revenues of the capital Praia.

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. No data available.

DEBT. The Law on Municipal Financing (No. 79/VI/2005) allows local governments to borrow on national financial markets to finance local investments. Debt in international financial markets requires government approval.
In 2016, 12 of 22 municipalities reported borrowing in their revenue accounts. In total, borrowing revenues represent less than 5% of municipal revenues.

SNGWOFI World Observatory on Subnational Government Finance and Investment

Lead responsible: UCLG
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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data: World Bank. Ministry of Finance Conta geral do Estado 2016.
Other sources of information: African Development Bank (2018) Programme d'amélioration de la compétitivité du secteur privé et de développement de l'économie locale (PSC-LED) - Phase I // African Development Bank (2018) Note pays Cabo Verde 2018 // UCLGA & Cities Alliance (2018) Assessing the institutional environment of local governments in Africa // Judite Nascimento and Rui Jacinto (2015) « Villes et conditions de vie urbaine au Cap Vert.

CAMEROON

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: CENTRAL AFRICAN CFA FRANC (XAF)

POPULATION AND GEOGRAPHY

Area: 475 442 km^2
Population: 24.053 million inhabitants (2017), an increase of 2.7 % per year (2010-2015)
Density: 48.7 inhabitants / km^2
Urban population: 52.3% of national population (2017)
Urban population growth: 4.3 % (2017)
Capital city: Yaoundé (11.4% of national population)

ECONOMIC DATA

GDP: 89.4 billion (current PPP international dollars), i.e. 3 714 dollars per inhabitant (2017)
Real GDP growth: 3.5% (2017 vs 2016)
Unemployment rate: 4.2% (2017)
Foreign direct investment, net inflows (FDI): 814 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 23.0% of GDP (2017)
HDI: 0.556 (low) rank 151 (2017)
Poverty rate: 23.8% (2014)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Cameroon is a decentralised unitary republic. The president is the head of state, directly elected by universal suffrage for an unlimited number of seven-year terms. The bicameral parliamentary system consists of the National Assembly and, since 2013, the Senate. The Senate is an upper chamber comprising 100 senators, 70 of whom are indirectly elected by the councilors of the 360 local councils (i.e. seven for each of the ten regions). The remaining 30 senators are appointed by the president - three per region. The members of the National Assembly are elected by universal suffrage. All parliamentarians serve a five-year term.

The current system is a legacy of the coexistence of the French and British colonial administrations: the first in East Cameroon and the second in West Cameroon. After the independence, Cameroon was unified as a federal state on 1 October 1961 with two federated states, each with a legislative assembly, a separate jurisdiction and capital cities: Buea (West) and Yaoundé (East). In 1972, the country adopted the unitary form and a constitutional reform (Act No. 96-06 of 1996) established the decentralized unitary state and the 360 local councils. The 2004 Constitution and the 2004 Decentralization Acts set the objective of modernizing the state (Act No. 2004/17 on the Orientation of Decentralization) to be achieved with the effective implementation of the regional councils (Article 55 of the Constitution, 2008 Constitutional Amendment). Progress has been rather slow: the deconcentrated administrative system (10 regions and 58 departments) is functional, but the regional councils are not yet active. Lastly, local traditional chiefs are auxiliaries to local administration and play an important role in encouraging citizens to vote.

The Ministry of Territorial Administration and Decentralization (MINATD) was responsible for the preparation, implementation of territorial administration and decentralization policies. Since the adoption of the New Urban Agenda, the Ministry of Housing and Urban Development has initiated a national urban policy. Both ministries are involved in regulating and supervising the organization and functioning of regional and local governments. Under the responsibility of the MINATD, the National Council for Decentralization and the Interministerial Committee on Local Services, a consultative body, are responsible for monitoring and rolling out decentralization policies. Moreover, the United Councils and Cities of Cameroon has an advisory role to the national government. In march 2018, a Ministry of Decentralization and Local Development (MINDDEVEL) was created.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	Councils *(Commune)*		Regions	
	Average municipal size: 66 805 inhabitants			
	360		10	370

OVERALL DESCRIPTION. In Cameroon, the deconcentrated administrative structure of the central government is similar to the delimitation of the levels of subnational governments: ten regions and 360 local councils at the decentralized level correspond to 10 regions and 360 districts at the deconcentrated level. The administrative regions include 58 departments. Local councils are the first level of self-government. There are 315 local councils in rural areas. Traditional chiefs have the legal status of administrative assistants to these councils and serve as a link between the administration and the villages. In urban areas, there are 45 local councils, identified as 'divisional councils', grouped into 14 'urban councils'.

MUNICIPALITIES: All local councils, as established by law (Act Nº. 1987/015), are headed by a mayor and municipal councillors elected by direct universal suffrage. The deputy mayors are elected from the municipal council and form the executive body. The number of councilors depends on the size of the population. The council may appoint commissions to work on any relevant issues, the members of which may include persons who are not members of the Council and who must be convened in the first year of the council.

REGIONS: Ten administrative regions are each under the authority of a Governor. They are sub-divided into 58 departments, each under the authority of a Prefect, and 360 districts each under the authority of a Sub-Prefect. The Governor, the Prefect and the Sub-Prefect are the heads of administrative jurisdiction, they are placed under the hierarchical authority of MINATD and represent the President of the Republic. To date, regional councils are not effective. Several regions are currently facing significant challenges, including the high level of insecurity linked to the presence of the Boko Haram group in the northern regions, conflicts with secessionist groups in the north-western and south-western regions, and the influx of refugees and displaced persons from the Central African Republic into the Adamaoua and eastern regions.

URBAN COUNCILS AND INTER-MUNICIPAL COOPERATION: The urban council is composed of at least 2 councils (Chapter 5 of Law No. 2004/18 of July 2004 comprising Rules Applicable to Councils). It is mostly the case, except for the urban councils of Douala (established by Decree 1987/1366) and Yaoundé (established by Decree 1987/1365), composed of six and seven divisional councils respectively. The urban council is composed of the mayor of each divisional council and five councilors from each divisional council elected by their peers. It has an executive body composed of the government delegate and his deputies appointed by presidential decree and has the same level of duties and powers as mayors. In addition, the Special Fund of Equipment and Mutual Assistance (FEICOM), an investment support structure, is intended to promote inter-municipal cooperation. Since 2018, it is also responsible for promoting and supporting interregional cooperation, in collaboration with national and deconcentrated administrations.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Local and regional governments may assume competences in the areas transferred to them by the State (Article 9 of Act Nº. 2004/017) on the basis of the principles of subsidiarity and specifying that for any transfer of competences, adequate resources should also be transferred. To date, the status and professional careers of local government staff have not been regulated by any regulatory text, which often leads to a lack of administrative skills, including in large urban councils. All local councils and urban councils have similar responsibilities and powers (Act Nº. 2004/018) in the provision of services. Act Nº. 2004/019 establishes the competences of the Regions. The transfer of powers is made effective by national decrees promulgated for each devolved power. According to a 2018 study on Localizing the SDGs in Cameroon, in 2016, 97% of the competences transferred to local councils as provided for in the law were effective.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONS (PENDING IMPLEMENTATION)	MUNICIPAL LEVEL
1. General public services		Civil registry and statistical office; Management of public cemeteries
2. Public order and safety	Fire-fighting, particularly, bushfire control; The development of specific regional emergency response and risk prevention plans	
3. Economic affairs /transports	Promotion of economic development linked to small and medium enterprises; Promotion of craft industry; Promotion of agricultural, pastoral and fishery; Support to the creation of regional economic clusters; Promotion of tourism; Support to inter-urban transportation and road maintenance	Promotion of economic development linked to agriculture and fishery; Development of local touristic activities and craft production; Construction and maintenance of equipment; Transportation; Market facilities and slaughterhouses; Local trade fairs; Support for micro-projects ; Storage or distribution of food products
4. Environmental protection	Management, protection and maintenance of regional protected natural areas and regional water management; Creation of woodlands and regional natural parks; Implementation and monitoring of regional environmental action plans	Cleaning of municipal streets, paths and public spaces; Industrial and household waste management; Reforestation and protection of municipal woodlands;Protection of groundwater; Promotion of green spaces, parks and gardens
5. Housing and community amenities	Regional planning; Support to urban planning including housing	Urban planning and maintenance of public spaces; Urban renewal; Drinking water supply
6. Health	Operation and maintenance of regional health centers; Development of health prevention plans; Provision of health services and drug according to the national health policy	Operation and maintenance of health facilities; Sanitary control in local industries packaging
7. Recreation, culture & religion	Support to regional sports associations; Operation and maintenance of sports and socio-educational facilities; Promotion of regional sportive events	Promotion of sports and youth activities; Maintenance of municipal stadiums and sports facilities; Organization of traditional cultural events, local orchestras, ballet and theatre companies; Creation and management of sociocultural centers and public libraries; Support to sport and cultural associations
8. Education	Maintenance and operation of middle and high-school as well as vocational training facilities (shared with the municipalities); Management of furniture and scholarships; Support to primary schools; Implementation of plans for eliminating illiteracy (shared with the municipalities)	Maintenance and operation of nursery, pre-school and primary schools; Management and administration of secondary schools and vocational training facilities and programs (shared with the regions); Implementation of plans for eliminating illiteracy (shared with regions)
9. Social protection		Operation and maintenance of local social welfare centers

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: local councils..	SNA 1993	Availability of fiscal data: **Low**	Quality/reliability of fiscal data : **Low**

GENERAL INTRODUCTION. Formally, Cameroon has one of the most advanced systems of financial transfers from central government to local governments. The several legislative texts, Act No. 2009/011 on the financial regime of local councils, Act No. 2009/017 on decentralization, Act No. 2009/019 on the local tax system and its many implementing decrees, directives and circulars are intended to provide local councils with the necessary tools to ensure their financial autonomy. In practice, the harmonization of these rules and the specification of local councils' powers and duties are under way and the overlapping of responsibilities between the central government, the regions and local councils is an obstacle to the full implementation of this system. Overall, there is a scarcity of data on local finances in Cameroon.

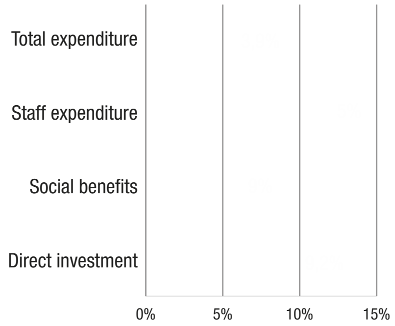
CAMEROON

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure			
Inc. current expenditure			
Staff expenditure			
Intermediate consumption			
Social expenditure			
Subsidies and current transfers			
Financial charges			
Others			
Incl. capital expenditure			
Capital transfers			
Direct investment (or GFCF)			

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. Aggregate expenditure information across all local councils is not available.

According to CLGF, in 2015, local government total expenditure accounted for approximately 2.9% of general government expenditure. Annual budgets must be voted in compliance with a balance of income and expenditure recorded in the same single document. According to the legal framework, current expenditure must not exceed 60% of total expenditure including staff costs (35%) and minimum rate of capital expenditure must be set at 40% of total expenditure. The issue of local government capacity to actually make direct investments has not been fully addressed in the decentralization laws. The Decentralization General Grant (created under Article 23, Act Nº.2009/017) aims to compensate for the additional expenditure resulting from the gradual transfer of new competences.

DIRECT INVESTMENT. The FEICOM is the financial intermediary that allows effective investments by local governments. According to its regulation, local governments' investment is mainly in social infrastructure (i.e. schools, utilities, healthcare) and transport infrastructure. Due to the overlap in functional assignments, local governments direct investments are often limited to investment plans set within the FEICOM which promotes inter-municipal and, in theory, inter-regional, investment plans.

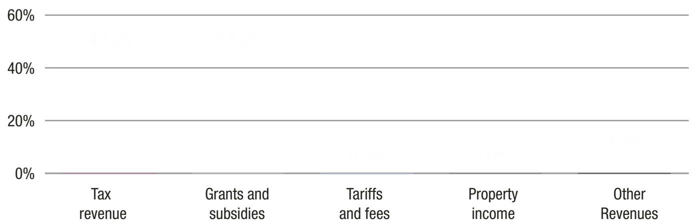
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

% GDP	% SNG EXPENDITURE

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue			
Tax revenue			
Grants and subsidies			
Tariffs and fees			
Property income			
Other revenues			

% SNG REVENUE



OVERALL DESCRIPTION. According to a PEFA assessment released in 2017, in 2015, the total revenue of local councils amounted to XOF 151.6 billion, or 29 dollars PPP per capita. Local councils are allowed to levy taxes and duties, but the total amount of local own revenues is limited: it was 10% in 2013 according to the previous UCLG-OECD 2015 survey on fiscal decentralization. Local taxes are levied as part of a system that distinguishes between own and shared taxation, which is levied by the state tax services.70% of shared tax revenues are directly redistributed by the Treasury and 20% indirectly through the FEICOM within the framework of the Intermunicipal Cooperation and Equalisation Fund (the remaining 10% covers administrative costs). In 2015, according to the same PEFA assessment, 78.7% of local government total revenue is derived from tax revenue (own and allocated); 6.6 % from revenue transferred as part of the devolution of competences to local councils by the relevant ministerial departments and 14,7% from other revenues including market trading licenses, ground rents on shops and public transport licenses.
The high level of dependency on intergovernmental transfer and the fragmented nature of revenue mobilization including the ad-hoc allocation criteria of resources to councils has led to considerable territorial imbalances.

TAX REVENUE. According to the 2017 PEFA study, in 2015, total tax revenue (own and allocated) was XOF 119.3 billion, around 23 dollars PPP per capita. In 2016, the Cameroons' Treasury reports a total of XOF 127.3 billion i.e. around 24 dollars PPP per capita. Local councils are responsible for the administration and management of two sets of taxes. These taxes must be created by law, voted by the local council and subsequently approved by the Prefect.

The first set includes the patent, the license, and the additional municipal centimes (CAC). All these taxes pre-date the 2009 Local taxation law and are both issued and collected by the tax administration on behalf of the local council and transferred back to them. The CAC is a 10% additional rate to certain national taxes such as VAT (value added tax), IS (corporate tax), IRPP (personal income tax) and IRCM (income tax on capital). By law, 10% of CAC revenue are reserved for the tax base costs of the State tax administration in charge of collection and 20% allocated to the FEICOM (its single main source of revenue) to be indirectly transferred to municipalities via grant allocation. According to Treasury, in 2016, it represented 74.7% of local councils share of national revenue and approximately 18 dollars PPP per capita). According to CLGF, 20% of this local council's share is allocated to Douala; 40% to Yaoundé and 36% to other councils.
The second set includes tax on property, the tax on games of chance and entertainment, property transfer taxes, car stamp duty (vignette), the annual forest tax (of which, 40% is redistributed to councils on a per capita basis), stamp duty on advertising, the local development tax and registration duties on leases. Since 2009, local councils are entitled to levy them. To this list must be added stamp duties on car registration documents, airport stamp duty and certain charges on the exploitation of natural resources, which are intended for the Regions but are not yet effective.

GRANTS AND SUBSIDIES. The financial system of local councils in Cameroon make them very dependent on transfers from the central level of government. The Decentralization General Grant is divided into two main components, namely the General Operating Grant (Block Grants) prepared by MINFI and the General Investment Allocation prepared by MINEPAT. Block grants are received as part of the devolution of responsibilities. The General Investment Allocation is primarily intended for the investment expenditure of local councils, in particular capital expenditure, (i.e the provision of basic services to the population, local economic development and poverty alleviation).

In addition, equalization grants are transferred from national government through MINATD via the ten regional branches of the FEICOM. These grants are weighted according to the council's population, area and other considerations. The main priorities for FEICOM's grant allocation include utilities and urban development. Funding is also available to support infrastructure projects in border councils or to help councils affected by natural disaster. Lastly, the FEICOM equalization grants support the training of local staff. FEICOM also provides councils with non-financial support, including expert technical assistance, project evaluation, and other facilities. This is a vital role, given the lack of technical competence in many councils. In 2018 FEICOM was reformed (decree n° 2018/635) to broaden the sources of financing and to include regional councils in its field of intervention. Also in 2018, the National Council for Decentralization adopted a Local Development Index to enable the Government to improve allocation of resources to local councils in priority areas, beyond the sole criterion of population size that has prevailed so far for the distribution of equalization revenues.

OTHER REVENUES. According to the 2017 PEFA study, in 2015, other resources amounted to XOF 22.3 billion, approximately 4 dollars PPP per capita. These mainly include deferrals (deferral of local council taxes subject to equalization, operating and investment deferrals), sales revenue, cooperation resources, other non-tax resources resulting from the operation of the estate and urban council's services (i.e. rental of municipal buildings, water and electricity sessions, revenue from leased or concession services, rights on boats, concession products and advertising spaces).

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. The National Local Finance Committee (Article 109 of Act No. 2009/011) is responsible for the optimal mobilization and management of local finances. In compliance with the public finances and budgeting standards of the Economic and Monetary Community of Central Africa, local councils should introduce programme budgeting by 2021. This was instructed by the General Regulation on Public Accounting in 2013 and since 2012 national ministries in partnership with the Association Internationale des Maires Francophones are deploying a strategy for the modernization of municipal budgetary and accounting chain. This is enshrined in recent reforms (Act N°2018/012 on the State's financial regime and Act N°2018/011 on the code of transparency and good governance).

DEBT. Since local councils are required to incur expenses strictly to the extent of their ability to pay, they are not allowed to borrow in the financial markets or from private financial institutions. Yet, deficits are often observed and debt is incurred during fiscal years, due to the lack of realism of annual budgets. FEICOM is the financial intermediary that provides local councils with access to loans for a maximum period of two years. Four local government representatives are members of the FEICOM Board of Directors together with seven representatives of the national government. This institution provides the necessary guarantees for the repayment of local councils loans and thereby plays a crucial role as a financial intermediary between local councils and the financial markets. Refinancing is ensured by the redistribution of local taxes.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: UCLG
Last update: 02/ 2019

www.sng-wofi.org

Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data: PEFA Cameroon 2017.
Other sources of information: Commonwealth Local Government Forum (2017) Country Profile Cameroon // PEFA Cameroon (2017) // UCLG Africa and Cities Alliance (2018) Assessing the Institutional Environment of Local Governments in Africa // Barthélemy Kom Tchuente (2014) Cameroon: La Décentralisation en marche UNCDF FMDV and RIAFCO (2018) Studies on Financial Resources and Diversification for Local Government Financing Institutions in Africa.

CHAD

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOW INCOME

LOCAL CURRENCY: CENTRAL AFRICAN CFA FRANC (XAF)

POPULATION AND GEOGRAPHY

Area: 1 284 000 km^2
Population: 14.900 million inhabitants (2017), an increase of 3.28% per year (2010-2015)
Density: 12 inhabitant / km^2
Urban population: 22.9% of national population
Urban population growth: 3.84% (2017 vs 2016)
Capital city: N'Djamena (10.3% of national population)

ECONOMIC DATA

GDP: 28.9 billion (current PPP international dollars), i.e. 1 941 dollars per inhabitant (2017)
Real GDP growth: -3.1% (2017 vs 2016)
Unemployment rate: 5.8% (2017)
Foreign direct investment, net inflows (FDI): 335 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 20.6% of GDP (2017)
HDI: 0.396 (low), rank 186 (2017)
Poverty rate: 38.4% (2011)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Chad is a republic with a presidential regime. The last presidential election was held on 10 April 2016. Following the National Forum held in March 2018, the parliament adopted a new constitution on 30 April 2018, which was promulgated on 4 May 2018. Under the new constitution, the President of the Republic is elected for a six-year term, renewable once. He is head of state and head of government. Legislative power is vested in Parliament, which is normally bicameral, but since the Senate has not yet been established, its powers have been temporarily devolved to the National Assembly. The National Assembly is composed of 188 members. The last parliamentary elections were held in 2011.

After three decades of civil war, Chad has been engaged since the early 1990s in a process of political reforms aimed at creating and consolidating the rule of law and democracy. The Constitution adopted on 31 March 1996 guarantees fundamental freedoms, establishes political pluralism and creates a decentralised unitary state based on the creation of 4 levels of decentralised territorial authorities (regions, departments, municipalities and rural communities), endowed with legal personality, financial autonomy and freely administered by elected bodies.

The promulgation of Organic Law No. 002/PR/2000 of 16 February 2000, establishing the status of regions, departments and municipalities, marks the transition from deconcentration to real devolution. It adopts three levels of local authorities and refers the status of rural communities to another organic law, Act No. 007/PR/2002 of 5 June 2002. Ordinance No. 01/PR/2003 lists the regions, departments and municipalities created. The decentralized territorial authorities created overlap with the administrative division. Through Act No. 009/PR/2005 of 15 July 2005, the city of N'Djamena has a special status and is organized into a municipality of the city and district municipalities, each of which has legal personality and financial autonomy. The city is divided into 10 districts, comprising 69 neighbourhoods. Ordinance No. 010/PR/2012 of 2 March 2012 grants 31 other municipalities a special status. The State is represented in each of the municipalities with a special status by a General Delegate of the Government, assisted by a Secretary General.

On 22 January 2012, 12 years after the adoption of the Organic Law on the Status of Local Authorities, the first local elections were held in 42 municipalities: 10 districts of N'Djamena, 9 cities departmental capitals with more than 20,000 inhabitants and 23 regional capitals.

TERRITORIAL ORGANISATION

2018 MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
municipalities	departments	provinces	
Average municipal size: 41 000 inhabitants			
365	95	23	483

OVERALL DESCRIPTION. Organic Law No. 02/PR/2000 of 16 February 2000, on the status of decentralized local authorities, defined four levels of local authorities: (i) Rural Communities; (ii) Municipalities (including regional, departmental and sub-prefecture capitals); (iii) Departments; (iv) Regions (higher level). In August 2004, administrative reform in Chad accelerated significantly at the institutional level with the creation of 18 administrative regions and the transformation of prefectures into departments (50 in number).

In 2018, a new administrative organisation was adopted by the Council of Ministers and an ordinance creating administrative units and autonomous communities was signed on 07 August 2018. From now on, the administrative units and autonomous communities are subdivided into 23 provinces, 95 departments and 365 municipalities. The 4-level organization in place since 2000 has been replaced by a 3-level organization: Province, department and municipality. The city of N'Djamena is a province with a special status and governed by specific legislation.

The provinces are administered by governors and the departments by prefects. Only 42 municipalities (out of 365) are headed by elected mayors. The appointment of the mayor in all other municipalities remains the responsibility of the executive.

The statutes and powers of the heads of administrative units are determined by decree of the Council of Ministers. The territorial boundaries of the provinces are those of the former regions and those of the departments and municipalities are determined by decree of the Council of Ministers, in accordance with the ordinance.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The division of competences between the State and local authorities was established by Act No. 033/PR/2006 of 11 December 2006. The law exhaustively lists the areas of competence shared by the local authorities: education, literacy; health, social action; culture, youth and leisure; agriculture, livestock, fisheries; preservation of the environment and natural resources, urban planning, housing, spatial planning, trade, industry, crafts, tourism and civil protection; police and civil protection, etc. The division of competences currently suffers from the absence of implementing legislation.
Municipalities are the only operational local authorities since the municipal elections of 22 January 2012.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	PROVINCES	DEPARTMENTS	MUNICIPAL LEVEL
1. General public services			Issuance of civil status certificate; Administrative police; Recruitment and personal management
2. Public order and safety	Maintenance of order and security of property and persons	Maintenance of order and security of property and persons	Maintenance of order and security of property and persons; Administrative police
3. Economic affairs /transports	Participation in the preparation of socio-economic development plans and spatial planning; Promotion of trade, industry, crafts and tourism; Contribution to the elaboration of the regional transport plan	Participation in the preparation of socio-economic development plans and spatial planning; Promotion of trade, industry, crafts and tourism; Contribution to the elaboration of the regional transport plan	Participation in the preparation of socio-economic development plans and land use planning; Contribution to the elaboration of the regional transport plan; Urban roads; Public parks; Urban transport; Local tourism
4. Environmental protection	Creation, management, protection and maintenance of forests, parks, protected areas and natural sites; Protection of fauna and flora; Preservation of groundwater and surface water resources; Preparation of bushfire control plans; Issuance of hunting farm-out permits	Creation, management, protection and maintenance of forests, parks, protected areas and natural sites; Protection of fauna and flora; Preservation of groundwater and surface water resources; Preparation of bushfire control plans; Issuance of hunting farm-out permits	Creation, management, protection and maintenance of forests, parks and other protected areas natural sites;Protection of fauna and flora; Preservation of groundwater and surface water resources; Preparation of bushfire control plans; Issuance of hunting farm-out permits
5. Housing and community amenities	Urban planning: Opinion on the preparation of urban reference plans and master plans	Urban planning: Opinion on the preparation of urban reference plans and master plans	Approval and supervision of urban development projects;Issuance of building permits; Allocation of parcels of land for the estate's occupation permits; Support for basic social services (drinking water)
6. Health	Management, maintenance of health facilities; Recruitment and personal support management; Application of public health regulations; Development of the health map	Management, maintenance of health facilities; Recruitment and personal support management; Application of public health regulations; Development of the health map	Management, maintenance of health facilities; Recruitment and personal support management; Application of public health regulations; Development of the health map
7. Recreation, culture & religion	Creation and management of cultural event areas; Maintenance of museums, libraries, sports and cultural associations	Creation and management of cultural event areas; Maintenance of museums, libraries, sports and cultural associations	Creation and management of cultural event areas ; Maintenance of museums, libraries, sports and cultural associations
8. Education	Education; Literacy; Promotion of national languages and vocational training	Education; Literacy; Promotion of national languages and vocational training	Education; Literacy; Promotion of national languages and vocational training
9. Social protection	Maintenance and management of social reintegration; Assistance structures for the poor	Maintenance and management of social reintegration; Assistance structures for the poor	Maintenance and management of social reintegration; Assistance structures for the poor

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: 42 full-function municipalities.	Decentralization Directorate General - Local Finance Directorate	Availability of fiscal data: **Low**	Quality/reliability of fiscal data : **Low**

GENERAL INTRODUCTION. The subnational government financial and fiscal framework is governed by Act No. 2011 of 7 June 2004. In August 2017, an inter-ministerial technical committee in support of the High Committee on Institutional Reforms made a series of recommendations to improve the financing of local authorities, including:

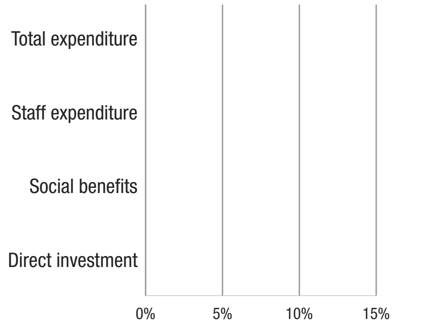
- Give them real autonomy through the effective transfer of human and financial resources.
- Organise the overall tax reform to enable them to have resources consistent with the level of needs of the territories, through: revision of tax bases and rates; updating of tax allocation criteria; simplification of local taxes and collection procedures; modernisation of the tax system; widening the tax base.
- Include in the constitution the taxes due to them and regulate the exploitation of the subsoil in order to ensure equalization.
- Create an agency or commissioner-type body responsible for managing resource transfers, with a specific roadmap, an adequate budget and accountable to the government and the national representation.

CHAD

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
Total expenditure				
Inc. current expenditure				
Staff expenditure				
Intermediate consumption				
Social expenditure				
Subsidies and current transfers				
Financial charges				
Others				
Incl. capital expenditure				
Capital transfers				
Direct investment (or GFCF)				



EXPENDITURE. No data available.
In 2013, local government expenditure accounted for about 0.4% of general government expenditure. For their part, the expenditure of the city of N'Djamena and its districts represented 38.8% of local expenditure.
The figures have certainly changed little since that date. The lack of financial, human and material resources and poor financial management of local authorities are a major obstacle to the development of local public investment. The largest part of the local authorities' budget is spent on current expenditure.

DIRECT INVESTMENT. No data available.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

% GDP	% SNG EXPENDITURE

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE
Total revenue				
Tax revenue				
Grants and subsidies				
Tariffs and fees				
Property income				
Other revenues				

OVERALL DESCRIPTION. Under the terms of Article 1 of Law No. 2011 of 7 June 2004 on the Financial and Fiscal Regime of Decentralised Local Authorities, the resources of decentralised local authorities come from various sources: State taxes, part of the proceeds of which are allocated to decentralized local authorities; the Global Operating Grant, the Equipment Grant and possibly the Decentralization Grant allocated by the State to decentralized local authorities; regional, departmental, municipal and rural taxes collected through roles; regional, departmental, municipal and rural taxes collected as revenue; revenues from taxes and duties voted by decentralized local authorities; grants and subsidies allocated by the State to decentralized local authorities; the proceeds of loans contracted by decentralised local authorities on the internal or external market, after agreement by the national monetary authorities with or without a government guarantee; the property income of decentralized local authorities; the percentage of the product of the soil and subsoil resources; donations and legacies; miscellaneous income.

There is a lack of available information on local finances in Chad, and the exact share of each type of revenue is unknown.

TAX REVENUE. According to the law, municipalities, as the only elected decentralized authorities, can levy local taxes and receive a share of the national tax through the "additional cents" system. Local authorities are allowed to vote on tax rates, within the limits set by law.

The General Tax Code (CGI), which is supplemented or amended each year by the provisions of the Finance Act, determines a certain number of taxes and duties, the proceeds of which are allocated to the municipalities. These include: the General Tax in Lieu of Liability (IGL), the Civic Tax; the Land Contribution of Built Properties; the Land Contribution of Undeveloped Properties; the Patent Contribution; the Licence Contribution; the Entertainment, Gaming and Entertainment Tax; the Business Premises Rental Value Tax (TVLP); the Public Services Tax.

GRANTS AND SUBSIDIES. In addition to sharing the proceeds of certain taxes collected at national level, the State provides grants and subsidies to local governments. These are the global operating grant, the method of calculation and distribution of which are defined by decree, balancing subsidies granted in exceptional cases (cases of major imbalances in the accounts) and equipment grants awarded in connection with the implementation of certain projects of interest provided for in the municipalities' development plans.

Since the installation of the elected bodies in 2012, apart from a subsidy for waste disposal granted to them in 2013, each of the 42 municipalities has received 32 million CFA Francs of unconditional and non-earmarked subsidies. it was not until 2015 that a subsidy of two billion one hundred million (about PPP$ 10 million) was allocated to them from the year's budget. The same amount of two billion one hundred million was allocated in 2016, then one billion six hundred million in 2017 (PPP$ 7.9 million) and one billion five hundred and thirteen million in 2018 (PPP$ 7.5 million).

In total, between 2016 and 2018, the total subsidies granted to the 42 full-function municipalities amounted to CFA Francs 5.213 billion, or about PPP$ 25 million. Between 2016 and 2018 subsidies therefore represented 0.03-0.04% of GDP, which represents roughly 0.5 PPP dollar per capita per year over the period.
Other revenues include revenues from patents, licenses, utility fees, etc. Rates may be established by municipal councils, with the approval of the supervisory authority, and within the limits set by law.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. No data available.

DEBT. According to the law, "part of the resources of local authorities come from the proceeds of loans contracted on the domestic or foreign market, after agreement by the national monetary authorities with or without a State guarantee". As a general rule, Chadian local authorities do not have access to loans.

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Lead responsible: UCLG
Last update: 02/ 2019

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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data: Direction générale de la décentralisation - Direction des finances locales.
Other sources of information: Haut comité chargé des Réformes Institutionnelles (2017) Rapport final du comité technique interministériel d'appui : 65 actions pour moderniser nos institutions // UCLGA & Cities Alliance (2018) Assessing the institutional environment of local governments in Africa.

ESWATINI (FORMERLY SWAZILAND)

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: LILANGENI (SZL)

POPULATION AND GEOGRAPHY

Area: 17 360 km^2
Population: 1.367 million inhabitants (2017), an increase of 1.8% per year (2010-2015)
Density: 79 inhabitants / km^2
Urban population: 23.4% of national population
Urban population growth: 2.5% (2017 vs 2016)
Capital city: Mbabane (5.0% of national population)

ECONOMIC DATA

GDP: 11.6 billion (current PPP international dollars), i.e. 8 640 dollars per inhabitant (2017)
Real GDP growth: 1.8 % (2017 vs 2016)
Unemployment rate: 26.4% (2017)
Foreign direct investment, net inflows (FDI): -59 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 11.7% of GDP (2017)
HDI: 0.588 (medium) rank 144 (2017)
Poverty rate: 42% (2009)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Kingdom of Eswatini (formerly known as Swaziland until April 2018) is a unitary constitutional monarchy with a bicameral parliament composed of the House of Assembly and the Senate, elected for five-years. The King is the head of the State and he appoints the Prime Minister, who is usually the majority party leader in the House following an election, for a maximum of two five-year terms. The King also appoints the cabinet on the advice of the Prime Minister. The House of Assembly has 65 members, 55 of whom are elected by universal suffrage directly from tinkhundla centres and ten are appointed by the King for a term of up to five years. The Senate is composed of 30 members, of whom ten are elected by the House and 20 are appointed by the King.

The 2005 Constitution brought about significant reforms within the country's local government. The Constitution sets provisions for local governments and describes the system of government as "a democratic, participatory, tinkhundla-based system which emphasises devolution of state power from central government to *tinkhundla* areas and individual merit as a basis for election or appointment to public office" (Section 79, Chapter 7). The establishment of a *tinkhundla* system of government is the product of government's efforts to decentralise state power. An *inkhundla* is established by the King to serve for the election of members of the House (Section 80). Elections take place in two phases: chiefdoms hold primary elections to nominate members at the *inkhundla* level and each *inkhundla* elects a member to the House. The latest local elections took place in 2017and the next are scheduled for 2022. The urban local authorities are under the responsibility of the Ministry of Housing and Urban Development while the regions, *tinkhundla* and chiefdoms are located within the Ministry of *Tinkhundla* Administration and Development.

Other main legislative texts include the 1969 Urban Government Act, the 1978 Regional Councils Order and the 1978 Establishment of Parliament Order. The Urban Government Act No.8 established the urban areas of local government and currently functions as the main legal instrument that governs local government. The Regional Councils Order and the Establishment of Parliament Order both established local government in rural areas. In 2006, a national decentralisation policy was adopted and in 2015 a bill was presented to Parliament which sought to replace the Urban Government Act. This new piece of legislation aims at promoting inclusive governance and it also grants the rural *tinkhundla* legal status.

TERRITORIAL ORGANISATION

2016	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	13 urban councils *urban municipalities* 55 rural councils (singular *'inkhundla'*, plural *'tinkhundla'*)			
	Average municipal size: 20 407 inhabitants			
	68			68

OVERALL DESCRIPTION. Eswatini has 68 local governments and is divided into four administrative regions, namely Hhohho, which functions as the administrative capital, Manzini, Shiselweni and Lumbobo. Local government is divided into rural and urban councils.

URBAN AREAS. There are 13 urban councils (also referred as urban municipalities) and 55 rural councils (known as "*tinkhundla*"). There are three tiers of government in the urban areas: city councils, town councils and town boards. Decisions are made by full council based on recommendations from the various subcommittees. The town clerk is the chief advisor in each local authority council or town board. The status of town councils and town boards differs from the position and status of city councils. Town boards and town councils are managed by a partly elected and partly appointed board/council while city councils are administered by a fully elected council. Urban councils are divided into wards and councillors are elected from various wards based on the first-past-the-post-system. The councillors' term of office is three years. The Urban Government Act grants urban council the power to assist in maintaining order and good governance within its jurisdictional area. The Act further creates provisions for the election of a Mayor by the councillors from the council itself, the position is part-time and is limited to chairing council meetings and performing ceremonial functions.

RURAL AREAS. Similarly, there are three tiers of government in the rural areas: the administrative regions, the *tinkhundla* and chiefdoms. According to the Constitution, each administrative region is directed by a regional administrator appointed by the King for a five-year period, and their term of office coincides with the term of Parliament. A regional administrator serves as the political head of a region (section 83 of the Constitution). The regional councils play an advisory role and provide assistance to the Regional Administrator on issues relating to the social and economic development of the region (section 84).The *tinkhundla* can be rural or urban, or partly rural and partly urban. They are smaller than administrative regions but bigger than chiefdoms, and are managed by a regional administrator through elected members in each *inkhundla*. Below the *tinkhudla* (at sub-municipal level) are 360 chiefdoms. Leadership in the chiefdoms is hereditary. A chief is appointed in line with each chiefdom's protocols and procedures, but can only assume chieftaincy once blessed by the King.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Local government is mainly responsible for town planning, housing, roads, regulation of water and sanitation, refuse collection and disposal, environmental protection, parks and open spaces, cemeteries and crematoria and slaughterhouses. Local authorities have discretionary powers in the provision of sports and leisure facilities, welfare homes and tourism promotion. Urban and rural councils, share the same responsibilities, with the exceptions of the agriculture, forestry and fisheries sectors which are sole responsibility of urban councils.

Central and local spheres of government also have joint responsibilities, including housing, urban roads, electoral register, family welfare services, primary health care, environmental protection, parks and open spaces, cemeteries and crematoria and slaughterhouses, sports, and leisure facilities, welfare homes, tourism promotion, local economic development, and trade and industry.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPAL LEVEL (URBAN AND RURAL COUNCILS)
1. General public services	Administrative services (electoral register)
2. Public order and safety	
3. Economic affairs/transports	Road networks and facilities (urban roads); Support to local enterprises and entrepreneurship; Tourism; Commerce; Agriculture; Forestry; Fisheries (only Urban Councils)
4. Environmental protection	Parks and green areas; Environmental protection; Waste management (collection, treatment and disposal of waste); Cemeteries and crematoria; Slaughterhouses
5. Housing and community amenities	Housing/Town planning (Construction/renovation); Housing (Management); Urban and land use planning; Urbanism
6. Health	Primary healthcare (medical centres)
7. Recreation, culture & religion	Sports and recreation; Libraries; Religious affairs
8. Education	
9. Social protection	Support services for families

SUBNATIONAL GOVERNMENT FINANCE

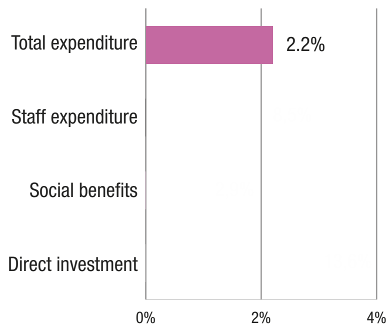
Scope of fiscal data: urban and rural councils.	SNA: Other	Availability of fiscal data: **Low**	Quality/reliability of fiscal data : **Low**

GENERAL INTRODUCTION. The main legislative tools that outline and regulate local authorities' fiscal framework are the Urban Government Act of 1969 and the Public Finance Management Act of 2010. The first Act makes provisions for the regulation of municipal funds for urban authorities and its principles are also used in rural authorities (Section 9). The objective of the Public Finance Management Act is to ensure accountability, transparency and the management of the revenue, expenditure, assets and liabilities of various public institutions including local government authorities.
Urban municipalities in Eswatini hold revenue-raising and budget-setting powers whilst rural councils (*tinkhundla*) do not. *Tinkhundla* operate with direct funding from government. Municipal councils are permitted to set deficit budgets where they are able to ensure sustainability.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2014	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**60**	**0.7%**	**100%**
Inc. current expenditure			
Staff expenditure	23	0.3%	37.9%
Intermediate consumption			
Social expenditure			
Subsidies and current transfers			
Financial charges			
Others			
Incl. capital expenditure			
Capital transfers			
Direct investment (or GFCF)			

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



ESWATINI (FORMERLY SWAZILAND)

UNITARY COUNTRY

EXPENDITURE. Financial data on subnational government expenditures are only available for fiscal year 2013-2014. Eswatini has low expenditure at local government level, although there are some infrastructure intensive services which have been devolved to local government as per the national decentralisation policy adopted in 2006. There are relatively low levels of service coverage, which may account for the lower than anticipated level of expenditure. The country has seen, over the years, an exceptionally large wage bill. In fiscal year 2014, staff expenditure accounted for 38% of total subnational government expenditures.

DIRECT INVESTMENT. The Kingdom of Eswatini has adopted a national strategy for public investment that empowers regions through *Tinkhundlas* (and chiefdoms) to: a) facilitate the coordination and implementation of government priorities as outlined in the National Development Strategy, PRSPs, SDGs and other national priorities within the portfolio of the Ministry for *Tinkhundlas* Administration (MTA); b) provide financial and technical support to the Regional and *Tinkhundla* Centres and Committees to help address and reduce the impact of poverty; c) facilitate and implement the decentralisation of all basic services from the national government to the grassroots level; d) efficiently disburse and monitor development funds aimed at poverty reduction (Regional Development Fund, Empowerment Fund and Community Poverty Reduction Fund); and e) undertake research that will inform local economic development planning.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

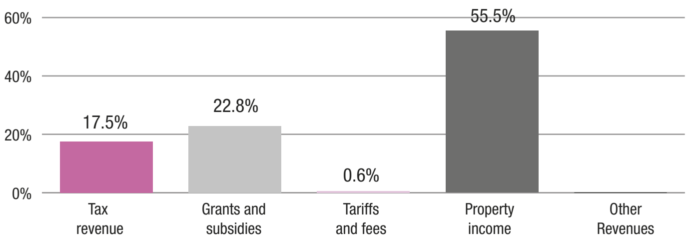
The majority of expenditure is spent on health services and education. However, spending is very low as the high level of wages crowds out other types of government expenditure that could be dedicated to the provision of services, especially in the areas of health, education and infrastructure.

% GDP | % SNG EXPENDITURE

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**67**	**0.8%**	**2.9%**
Tax revenue	12	0.1%	1.0%
Grants and subsidies	15	0.2%	
Tariffs and fees	0	0.0%	
Property income	37	0.4 %	
Other revenues			

% SNG REVENUE



OVERALL DESCRIPTION. Financial data on subnational government revenues are available for fiscal year 2016-2017. Local Government revenue is almost 3% percent of the total revenue of general government. The majority of revenue comes from property income (55%) while transfers from Central Government represent the second main revenue source (23%). Tax revenue and other revenues jointly account for 17.5% of the total local government revenues.

TAX REVENUE. Municipalities hold revenue-raising and budget-setting powers while tinkhundla do not, they operate with direct funding from government. According to OECD Statistics 2016, revenues from property taxes represent the only source of tax revenue for subnational governments in Eswatini. The Rating Act of 1995 regulates the power of local governments to establish, evaluate and collect rates on all immovable property on the basis of the valuation of the land and its improvements (Part I of the Act). 36% of property taxes are levied on government properties, with the remainder coming from private residences and commercial properties. There is ministerial supervision of locally raised taxes. This oversight is conducted through examination of the overall budgets set by municipal councils.

GRANTS AND SUBSIDIES. The *tinkhundla* (rural councils) are funded entirely by government grants from an Empowerment Fund of SZL130 000 per council per annum (i.e. 26 573 dollars PPP) and a Regional Development Fund of SZL10 million per region per annum (i.e. 2 million dollars PPP). These funds are mainly for stimulating local economic development through funding viable projects.

Tinkhundla are fully reliant on central government for funding in order to operate. Urban councils, on the other hand, receive national government transfer payments according to a set formula. Both general and specific grants are allocated.

OTHER REVENUES. There is very little revenue from other activities. Other revenues are collected from fine and miscellaneous and unidentified revenues.

Focus on tariffs and fees

Urban municipalities may levy tariffs and fees for sales of goods and services rendered. Section 86 of the Urban Government Act grants the urban councils the power to generate revenue by charging rates, license and permit fees. However, in the case of town boards, this power should be assigned to them by the Minister through publishing a notice in the Gazette. The power to charge these fees is regulated by by-laws which are subject to the Minister's approval. Tariffs and fees make up only 4% percent of local government revenue.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. The Minister of Housing and Urban Development may use its powers under the Act to conduct an inspection or commission an audit. All local authorities are required to submit their accounts and financial statements for external independent audit. The audit report is then presented to both the council and the minister.

DEBT. Regarding sub-national governments debt, the Urban Government Act grants urban councils borrowing powers (section 94). The Council by a majority vote may apply to the Minister for the authority to borrow for any purpose subject to the Ministers' approval. The level of local government debt is unknown.

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Last update: 02/ 2019

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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data: Ministry of Finance (2015) Swaziland Budget Speech // OECD (2016) Revenue Statistics // Ministry of Finance Open Data.
Other sources of information: Cities Alliance & UCLGA (2018) Assessing the institutional environment of local governments in Africa // Local Authorities Managers Association of Swaziland – LAMAS // Ministry of Housing & Urban Development // Ministry of Tinkhundla Administration and Development // Commonwealth Local Government Forum (2015) The Local Government System in Swaziland: Country Profile 2017-18.

ETHIOPIA

FEDERAL COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOW INCOME

LOCAL CURRENCY: ETHIOPIAN BIRR (ETB)

POPULATION AND GEOGRAPHY

Area: 1 104 300 km^2
Population: 105 million inhabitants (2017), an increase of 2.6 % per year (2010-2015)
Density: 95 inhabitants / km^2
Urban population: 20.3% of national population
Urban population growth: 4.7% (2017 vs 2016)
Capital city: Addis Ababa (4.2% of national population)

ECONOMIC DATA

GDP: 199.3 billion (current PPP international dollars), i.e. 1 899 dollars per inhabitant (2017)
Real GDP growth: 10.2% (2017 vs 2016)
Unemployment rate: 5.2% (2017)
Foreign direct investment, net inflows (FDI): 4 017 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 39.0% of GDP (2017)
HDI: 0.463 (low), rank 173 (2017)
Poverty rate: 27.3% (2015)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Until 1991, Ethiopia had a centralist government led by a military junta – the Derg government. In 1991, the Derg was overthrown by the Ethiopian People's Revolutionary Democratic Front (EPRDF) which departed from its unitary past and instituted a legal framework that reconstituted the state into a Federal Democratic Republic. The EPRDF further devolved power along nationality and ethnic lines to regional states first, and then to the woreda (district) and kebele (village) levels. The Constitution ratified in 1994 and in force since 1995 states that "every Nation, Nationality and People in Ethiopia has an unconditional right to self-determination, including the right to secession" (article 39 of the Constitution).

Decentralization in Ethiopia has occurred in two distinct phases: the first started in 1992 and lasted until 2001. During this phase, powers, functions and resources were transferred from the centre to the regional governments. The EPRDF reorganized the state into new administrative divisions consisting of 9 Regional States, the federal capital city of Addis Ababa, and the special administrative region of Dire Dawa. This process opened the way for increased political development across Ethiopia. The 1995 Constitution of Ethiopia is neutral on the subject of local government. However, article 39 of the Constitution provides for the right to a full self-government including the right to establish institutions of government in the territory. This provision has been used by the regional states to establish local governments. Each region has developed specific proclamations that specify the powers, duties and responsibilities of local governments.

The second phase of decentralization started in 2001. This period marked the beginning of a process of deepening decentralization in Ethiopia by transferring powers, resources and functions beyond the regional states to the local governments (*woreda*/district).

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	Districts (800 *Woredas* and 116 city administrations)		11 Regional States (of which 2 are chartered cities – Addis Ababa and Dire Dawa) Singular *Kilil*, plural *Kililoch*	
	Average municipal size: 114 630 inhabitants			
	916		11	927

OVERALL DESCRIPTION. Since 1991, the current government has adopted a system of devolution to local government, within a federal system, as a strategy to advance and to manage the ethnic diversity of Ethiopia. The 1995 Constitution established the country as a federation of multi-ethnic nations and identified nine regional states as the subnational entities that constitute the Ethiopian federation. In addition to the regional states are the federal capital city of Addis Ababa, and the special administrative region of Dire Dawa. Until 2001, Ethiopia was composed of four levels of government – federal, regional, *woredas* (municipal/city) and *kebele* (neighbourhood level). In 2001, a revision in the 1995 Constitution resulted in the recognition of an additional layer of local government, the zonal government. Zonal governments are intermediary between regional states and *woredas*.

REGIONAL LEVEL. The regional states all have their own individual constitutions. In each regional state, there is a regional council that is the decision-making organ. The council members are directly elected and represent the various woredas. Zonal governments are de-concentrated bodies of regional states. However, in some regions (Amhara and Southern Nations, Nationalities, and Peoples' Region (SNNP) state), the zonal level have an elected council and is more relevant than in other regional states.

MUNICIPALITIES. The *woredas* are created by regional constitutions. They are the most important institutions established to exercise autonomous power next to the regional states. Although *woredas* are not formally established by the federal Constitution, the regional constitutions have made provisions concerning their existence, power and functions. *Woredas* consist of a council and an executive. The *woreda* councils are made up of directly elected representatives from each *kebele* in the *woredas*. In addition to *woredas*, there are city administrations, which are considered at the same level as the *woredas*. A city administration has a mayor who is elected by members of the city council.

The lowest level of local government is the *kebele*. The *kebele* is at the neighbourhood level and is the primary contact for the majority of citizens living in Ethiopia. A *kebele* administrative unit consists of an elected council, a cabinet (executive committee), a social court and the development and security staff posted to each. *Kebeles* are accountable to their *woreda* councils and are typically responsible for providing basic services such as education, primary health care, agriculture, water, and rural roads.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

According to the Ethiopian constitution (Article 52), regional states are granted, among others, the power/liberty to "enact" their constitution, to administer land and other natural resources, to levy taxes and duties on revenue sources reserved for the states, to enact and enforce state civil service laws, and to establish state police force and to administer it.

The state constitutions aim to allocate power among state organs and power centres, to limit powers of government and to guarantee protection for citizens.

State constitutions are a symbol of sub-national sovereignty. They typically establish a clear division of powers between state and local governments. Most state constitutions deal with the legislative, executive and judicial powers and organizational structure of local governments (zones, woredas and city governments).

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	STATE LEVEL	MUNICIPAL LEVEL
1. General public services	Administrative services (marriage, birth, etc.); Public buildings and facilities (town houses, etc.); Administration and operation of general services (non-assigned to specific functions); Basic research activities (non-assigned to specific areas)	Administrative services (marriage, birth, etc.); Public buildings and facilities (town houses, etc.); Administration and operation of general services (non-assigned to specific functions); Basic research activities (non-assigned to specific areas)
2. Public order and safety	Police; Firefighting; Civil protection & emergency services; Road traffic control and traffic signs and lights; Defence (military and civil)	Civil protection; Emergency services
3. Economic affairs /transports	Road networks and facilities (highways, national, regional); Railway networks and facilities (national, regional, local); Airports (international, national, local); Ports (sea and fishing, inland waterways); Public transport (road, railways, tramway); Support to local enterprises and entrepreneurship; Agriculture, rural development, irrigation; Telecommunications and IT; Manufacturing and construction; Mining; Tourism; Commerce; Energy (electricity)	Road networks and facilities (local); Agriculture; Rural development; Irrigation; Support to local enterprises and entrepreneurship; Energy (electricity); Transport facilities (bus terminals and market places); Slaughterhouses
4. Environmental protection	Parks and green areas; Nature preservation	Waste management (collection, treatment and disposal of waste); Sewerage (waste water management); Street cleaning; Environmental protection; Air pollution; Soil and groundwater protection
5. Housing and community amenities	Housing (subsidies); Housing (Construction/renovation); Housing (Management); Urban and land use planning	Housing supply; Drinking water distribution; Urban and land use planning
6. Health	Primary healthcare (medical centres); Hospital services (general and specialist); Preventative healthcare	Primary healthcare (medical centres); Public health services
7. Recreation, culture & religion	Sports and recreation; Libraries; Museums; Cultural heritage and monuments; Media and Broadcasting and publishing services; Religious affairs	Cultural activities (language)
8. Education	Pre-primary education; Primary education; Secondary education; Higher education; Vocational education and training; Special education; Research & Development	Primary education; Secondary education
9. Social protection	Social care for children and youth; Support services for families; Elderly; Disabled people; Social exclusion and poverty (benefits and policies); Social welfare centres; Housing subsidies and benefits; Unemployment subsidies and benefits	Social welfare centres; Unemployment subsidies and benefits

SUBNATIONAL, STATE AND LOCAL GOVERNMENT FINANCE

Scope of fiscal data: regional states and local governments (*woredas* and city administrations). No distinction is made across subnational levels.	Other: Ministry of Finance and Economic Cooperation	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Low**

GENERAL INTRODUCTION. Although Ethiopia has adopted a strong legal framework for fiscal decentralization and the management of resources, there is still room for improvement in the federal government's overall fiscal transparency. The budget is not available to the public at the time it is submitted to Parliament, nor are budget execution reports during the year. In addition, the Constitution of Ethiopia does not provide for the auditing of local government accounts – the Article 101 on the Auditor General limits this office's field of action to ministries and other agencies of the federal government.

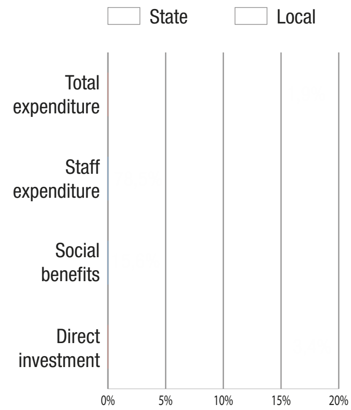
ETHIOPIA

FEDERAL COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2015/2016	DOLLARS PPP / INH.			% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT EXPENDITURE		
	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total expenditure	152			8.8%			100%		
Inc. current expenditure	95			5.5%			62.4%		
Staff expenditure									
Intermediate consumption									
Social expenditure									
Subsidies and current transfers									
Financial charges									
Others									
Incl. capital expenditure	57			3.3%			37.6%		
Capital transfers									
Direct investment (or GFCF)	57			3.3%			37.6%		

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. Total national expenditure has increased significantly in Ethiopia and two major shifts in the national expenditure patterns have been observed in the last decade, which include (1) a reallocation of national expenditure from federal to regional governments, and (2) a reallocation of national expenditure from current to capital expenditure. Since 2006/07, the share of national capital expenditure has reached more than 50% of the total. While the share of the federal government spending declined from 63.4% in 2009/10 to 47.9% in 2014/15, the share of subnational government expenditure increased from 36.6% to 52.1% of the total respectively. In FY 2015/16, total SNG expenditure accounted for 48% of total GG expenditure.
As noted in a 2017 UNICEF budget analysis report, subnational governments are primarily undertaking current expenditures (62.4% of SNG total expenditure in FY2015/16), leaving more responsibility for federal government to finance large countrywide capital projects. As a result, the share of subnational governments in national current expenditure has been higher than the share of the federal government.

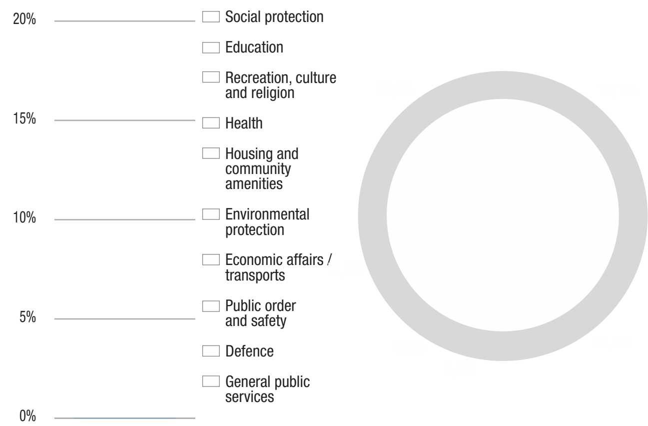
DIRECT INVESTMENT. No data available.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

	% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT		
	SNG	State	Local	SNG	State	Local
Total expenditure						
1. General public services						
2. Defence						
3. Security and public order						
4. Economic affairs / transports						
5. Environmental protection						
6. Housing and community amenities						
7. Health						
8. Recreation, culture and religion						
9. Education						
10. Social protection						

SNG EXPENDITURE AS A % GDP

% OF TOTAL SNG EXPENDITURE



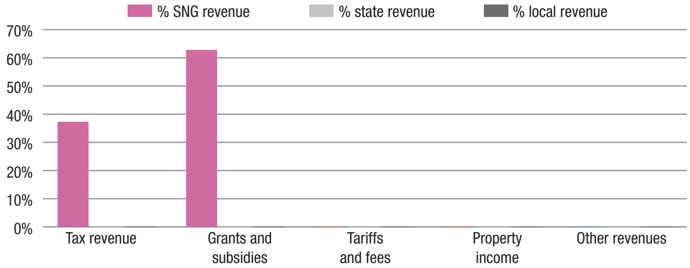
As part of Ethiopia's public sector-led development strategy, the federal government has maintained a high level of pro-poor expenditure (in the areas of education; health and nutrition; road construction; water, energy and electricity; as well as agriculture and food security), averaging over 12% of GDP over the past decade. In FY 2015/16, the distribution of pro-poor expenditure accounted for 68% of total national expenditure.

Most of the total social sector expenditure is undertaken at the sub-national level. For example, in 2015/16 about 60% of the national health and nutrition on-budget expenditure and 47% of the national education expenditure were incurred by subnational governments.

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2015/2016	% GDP			% GENERAL GOVERNMENT (SAME REVENUE CATEGORY)		
	SNG	State	Local	SNG	State	Local
Total revenue	10.0%			57.8%		
Tax revenue	3.7%			30.1%		
Grants and subsidies	6.3%					
Tariffs and fees						
Property income						
Other revenues						

% SUBNATIONAL, STATE AND LOCAL GOVERNMENT REVENUE



OVERALL DESCRIPTION. The regional governments are entitled to collect their own revenue in their respective regions from individual businesses, farmers, land and property. In FY2015/16, the federal government collected 75 % of all revenues. The share of domestic regional government revenue in the country's total domestic revenue is gradually increasing over time: it has grown from 19% in 2010 to 30 % in 2016. Nevertheless, nearly two thirds of regional government resources still come from grants and subsidies.
According to the 2016 World Bank Ethiopia Public Expenditure Review, aside from the two city administrations of Addis Ababa and Dire Dawa as well as Harari, Tigray region is by far the most decentralized, with 56% of expenditure made at woreda level. This is in contrast to Afar region, at the opposite end of the spectrum, where 38% of spending is carried out at the *woreda* level. To address the imbalances, 1% of the total regional subsidy budget is generally allocated unconditionally to Afar, Benishangul-Gumuz, Gambella and Somali regional states.

TAX REVENUE. The federal government in Ethiopia collects the majority of the tax revenue. The nine regional states and the two chartered cities (Addis Ababa and Dire Dawa) accounted for only 30 per cent of total tax revenue collection in FY 2015/16. Of that amount, the largest share was collected by Addis Ababa, followed by Oromia, Amhara, and Southern Nations, Nationalities and Peoples' Region (SNNP), with the remaining six regional states and Dire Dawa city administration accounting for less than 4%. With the exception of the Addis Ababa city administration, the tax revenues collected by regional states is insufficient to cover expenditure needs. As a result, regional states depend on federal government transfers to cover the majority of their spending.
The Ethiopian constitution identifies three groups of revenue sources that are assigned either exclusively to the federal government (Art. 96) or states (Art. 97), or jointly to both levels of government (Art. 98). Taxes assigned exclusively to regional states include: income taxes on employees of the state and private enterprises; taxes on the income of private farmers and farmers incorporated in cooperative associations; profit and sales taxes on sole traders carrying out business within their territory; and profit sales excise and personal income taxes on the income of enterprises owned by the states.

GRANTS AND SUBSIDIES. Federal transfers to subnational governments have more than doubled over the last three years. Regional states receive both block grants and conditional special grants from the federal government. Transfers are made to regional governments based on an equity formula that takes into account population size, level of infrastructure development (with priority given to disadvantaged regions), revenue potential and expenditure assessment for the provision of basic services, at the level of each region. In FY 2015/16, total subsidies and grants to subnational government amounted to ETB 96.85 billion, i.e. $109 PPP per capita, (of which ETB 84.85 billion were allocated to regional block grants, i.e. $95 PPP per capita, and ETB 12 billion for SDG/MDG support, i.e. $14 PPP per capita). These grants and subsidies represented more than 60% of SNG total revenue.

OTHER REVENUES. Regional states and chartered cities (Addis Ababa and Dire Dawa) benefit from other sources of revenues such as administrative fees and charges, 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. For example, the city of Addis Ababa raises revenues through urban land lease. However, the overall share of other revenues is minimal and has tended to decline in recent years.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.			% GDP			% GENERAL GOVERNMENT DEBT			% SNG DEBT		
	SNG	State	Local	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total outstanding debt												
Financial debt*												

* Currency and deposits, loans and bonds

FISCAL RULES. No data available.

DEBT. Regional states are legally allowed to borrow, with a set of limitations. They can only borrow on the domestic market and with the supervision and approval of the federal state which decides on the amount to borrow based on the region's financial capacity. However, borrowing appears to be very limited at the local level in Ethiopia.

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Lead responsible: UCLG
Last update: 02/ 2019
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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data: World Bank (2016) Ethiopia Public Expenditure Review // UNICEF (2017) Budget Brief, Ethiopia.
Other sources of information: UCLG Africa and Cities Alliance (2018) Assessing the Institutional Environment of Local Governments in Africa // UNDESA (2017) Ethiopia Voluntary National Review // Tilahun, M. (2014) Local Government in Ethiopia: Practices and Challenges. Journal of Management Science and Practice // Ayele, Z. A. (2014) The politics of sub-national constitutions and local government in Ethiopia. Perspectives on Federalism // Gebre-Egziabher, T., & Dickovick, J. T. (2010) Comparative assessment of decentralization in Africa: Ethiopian desk study. USAID // Yesegat, W. A., & Krever, R. (2018) Subnational Value Added Tax in Ethiopia and Implications for States' Fiscal Capacity.

GHANA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: GHANAIAN CEDI (GHS)

POPULATION AND GEOGRAPHY

Area: 238 540 km^2
Population: 28.8 million inhabitants (2017), an increase of 2.4% per year (2010 – 2015)
Density: 121 inhabitants / km^2
Urban population: 55.4 % of national population (2017)
Urban population growth: 3.4% (2017)
Capital city: Accra (8.4% of national population)

ECONOMIC DATA

GDP: 133.8 billion (current PPP international dollars), i.e. 4 641 dollars per inhabitant (2017)
Real GDP growth: 8.1% (2017 vs 2016)
Unemployment rate: 2.4% (2013)
Foreign direct investment, net inflows (FDI): 3.3 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 20.6% of GDP (2017)
HDI: 0.592 (medium), rank 140 (2017)
Poverty rate: 13.3% (2016)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Ghana is a unitary country organized as a constitutional republic with a unicameral parliament. The President is the head of State and government, elected directly for a maximum of two four-year terms, as is the case also for the members of Parliament. The cabinet, known as the Council of Ministers, is nominated by the President and approved by Parliament. There exist two advisory bodies to the President: the House of Chiefs, whose membership is hereditary, and the Council of State, comprised of 25 prominent citizens, indirectly elected representatives of the regions and members appointed by the President.

The Government of Ghana has for several years pursued a decentralisation reform as part of wider efforts to enhance good governance. Two moments may be distinguished in the country's decentralization process. Firstly, since 1859 until 1988, ordinances and acts were passed that made the distinction between the central and local levels explicit, yet that did not entail an effective devolution of powers nor resources. Secondly, the creation of District Assemblies in 1988 with the Provisional National Defence Council marks the beginning of major administrative reform in the country. The objectives of the decentralisation reform are enshrined in the 1992 Constitution of Ghana. In particular, article 35 (6) (d) provides that the "State shall take appropriate measures to make democracy a reality by decentralising the administrative and financial machinery of government to the regions and districts and by affording all possible opportunities to the people to participate in decision-making at every level in national life and in government".

The 1993 Local Government Act contains the provisions for the articulation of the decentralization process. It outlines the proceedings regarding the establishment of local governments, their functions and finance. The legal framework for decentralization was then complemented by the 1994 National Development Planning System Act and a revision of the Civil Service Act. Since 2010, Ghana has elaborated quadrennial National Decentralisation Action Plans (2010-2014 and 2015-2019), with the objectives of clarifying the roles of traditional authorities and civil society groups in local governance and the development of a comprehensive, well-sequenced approach to decentralization. The latter emphasizes the harmonisation of development funding and local governments' capacity building. The contents of the documents have been factored into the 2016 amendment of the Local Government Act, which currently represents the framework within which decentralization takes place in the country. Ministerial oversight of local governments is carried out by the Ministry of Local Government and Rural Development.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	Metropolitan, Municipal and District Assemblies			
	Average municipal size: 113 519 inhabitants			
	254			254

OVERALL DESCRIPTION. Local government in Ghana comprises Metropolitan, Municipal and District Assemblies (MMDAs). In 2017, there were 6 Metropolitan Assemblies (Accra, Tema, Kumasi, Tamale, Sekondi-Takoradi, and Cape Coast), 56 Municipal Assemblies and 154 District Assemblies in Ghana. In March 2018, the new government created 38 new districts and municipal assemblies to be added to the already existing 216 local government units, raising the number of MMDAs to 254. The country is divided into 16 regions for administrative purposes.

MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION. According to the legal definition, a metropolitan assembly is a local government unit or area with a minimum population of 250,000 people; a municipal assembly is a single compact settlement with a minimum population of 95,000 people and a district assembly is a local government unit or area with a minimum population of 75 000 people.

According to the MMDAs' classification, there exist sub-municipal local government units. Metropolitan assemblies are subdivided into sub-metropolitan district councils, town/area councils and unit committees; municipal assemblies are integrated by departments that implement the decisions of the MMDAs' assemblies; and district assemblies are subdivided into urban/town/area councils and unit committees. Town or area councils and unit committees do not have legislative powers but play an important role enhancing citizen participation since they are the level of local government that is the closest to the citizens. They play an important role in the organization of communal labour, revenue raising, environmental protection and in registering births and deaths. Assemblies are pivotal in the decentralization process. They are non-partisan councils of which 70% of the members are directly elected while 30% are presidential appointees. Elections take place every four years. Last local elections took place in 2015 and the next elections are programmed for 2019. Since 1962, the National Association of Local Authorities of Ghana (NALAG) is the association promoting nationwide decentralized cooperation.

REGIONS. According to the Constitution, the President may create new regions, alter the boundaries between them or merge two or more regions. Following a national referendum on December 2018, six new regions were created, increasing the total number of regions in the country from 10 to 16.
At the regional level, the Regional Coordinating Council (RCC) represents the highest political and administrative body. The RCCs are headed by a regional minister appointed by the President. Their main functions are to coordinate, monitor, harmonise and evaluate plans, programmes, activities and performance of the MMDAs, as well as to carry out any other function assigned to them by legal enactment.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Local governments' responsibilities were firstly outlined in the 1993 Local Government Act and revised with the 2016 Local Government Act. Assemblies are responsible for the overall development of the district, for which they have deliberative, legislative and executive authority. The 2016 Act details the specific responsibilities to be undertaken by the Assemblies, which include administrative, development planning, service delivery and budgeting functions. Assemblies are also responsible for the coordination and harmonization of the development projects carried out by Ministries, other public bodies and non-governmental organizations in the district. As a result, functions often overlap and coordination problems arise.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPAL LEVEL
1. General public services	Civil status register; Statistical Office
2. Public order and safety	Municipal police; Fire protection; Civil protection
3. Economic affairs/transports	Local roads; Public transport; Trade and industry; Tourism
4. Environmental protection	Environmental management and improvement; Sanitation
5. Housing and community amenities	Development of infrastructure; Development, management and improvement of human settlements; Town and regional planning; Water provision; Refuse collection; Cemeteries; Crematories; Slaughterhouses
6. Health	Primary care; Hospitals; Health protection
7. Recreation, culture & religion	Preservation and promotion of cultural heritage; Museums, parks, theatres, open spaces; Sports and leisure
8. Education	Pre-school, primary secondary and higher education; Education sponsorship
9. Social protection	Family welfare services; Welfare homes; Social Security

SUBNATIONAL GOVERNMENT FINANCE

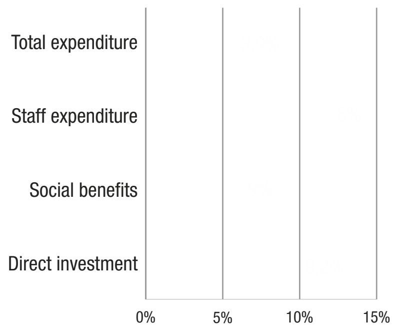
Scope of fiscal data: metropolitan assemblies, municipal assemblies, and district assemblies.	SNA 1993	Availability of fiscal data: **Low**	Quality/reliability of fiscal data : **Low**

GENERAL INTRODUCTION. The National Decentralization Action Plan establishes the policy measures to ensure that the principle of "funds follow functions" is followed, which include the empowerment of the newly created MMDAs and the enhancement of the Assemblies' revenue mobilization capacity. The 2016 Local Government Act effectively regulates MMDAs' expenses and revenues, including the allocation of the resources from the District Assemblies Common Fund and the sources of locally generated revenue. A number of policies and interventions have been introduced by the Controller and Accountant General's Department to strengthen and enhance service delivery in the financial sector of the central and sub-national government levels. These include the 2016 Public Financial Management (PFM) Act 921 and the Ghana Integrated Finance Management and Information System (GIFMIS). To improve the understanding of the financial management framework of Ghana, the PFM Act 921 aims to ensure discipline, effective and efficient use of public funds as well as safety, custody and integrity of public funds in line with the new global trends in accounting.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure			
Inc. current expenditure			
Staff expenditure			
Intermediate consumption			
Social expenditure			
Subsidies and current transfers			
Financial charges			
Others			
Incl. capital expenditure			
Capital transfers			
Direct investment (or GFCF)			

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



GHANA

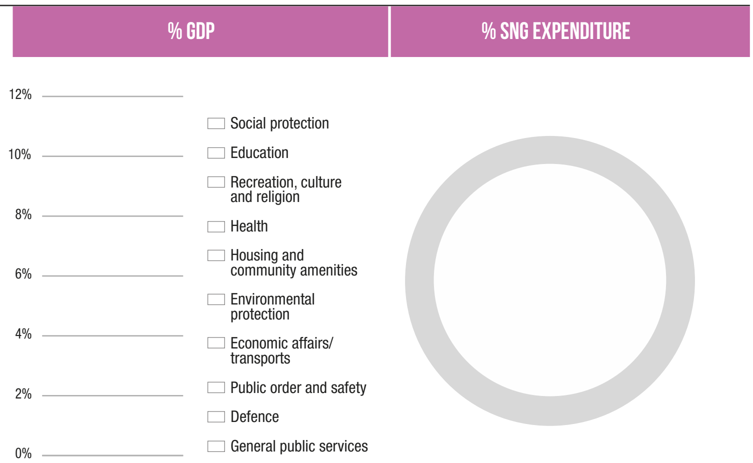
UNITARY COUNTRY

EXPENDITURE. Only partial information is available. In FY 2017, the total expenditure (by economic classification) of 143 MMDAs (including most of the 62 metropolitan and municipal assemblies) was 2 106 886 dollars PPP, of which 16% (337 101 dollars PPP) was for compensation of employees, 60% (1 264 132 dollars PPP) was for intermediate consumption and 10% (210 688 dollars PPP) was devoted to covering current social expenditure. The total expenditure of the 143 local governments accounted for 0.13% of GDP and 0.7% of the general government expenditure. In addition, total compensation of employees of 211 local governments was 26 798 442 dollars PPP and intermediate consumption of 212 local governments was 95 085 352 dollars PPP.

DIRECT INVESTMENT. The is no information available that is disaggregated on investment, but the main items of expenditure can be identified as being education, economic and transport affairs, sanitation, followed by housing and health.

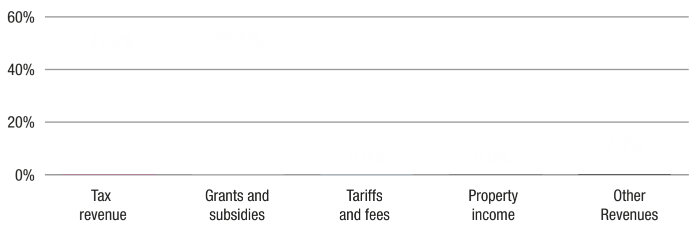
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Partial information on expenditure for 162 MMDAs is available. According to the available information, in FY 2017, the largest line of expenditure was management and administration costs (108 605 311 dollars PPP), followed by expenditure on education (93 972 947 dollars PPP). MMDAs also incurred expenditures related to environment and sanitation (37 399 360 dollars PPP), housing and community amenities (32 040 460 dollars PPP), health (27 993 dollars PPP) and local roads (24 623 643 dollars PPP). The smallest amount was devoted to social welfare expenditure (4 443 091 dollars PPP).



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE
Total revenue				
Tax revenue				
Grants and subsidies				
Tariffs and fees				
Property income				
Other revenues				



OVERALL DESCRIPTION. The revenues of Assemblies comprise (a) decentralised transfers; (b) internally generated funds (IGF); and (c) donations and grants. Decentralised transfers comprise funds from the following revenue sources: (a) the District Assemblies Common Fund; (b) grants-in-aid from the central government; and (c) any other revenue transferred from the central Government to the Assembly.
The 1992 Constitution confers MMDAs the legal authority to set taxes, although in reality the local tax base does not allow sufficient taxes to be collected to enable MMDAs to carry out their assigned responsibilities. MMDAs also have the authority to raise non-tax revenues such as licenses and fees, although the total raised remains limited. In general, MMDAs heavily depend on central government transfers from the District Assembly Common Fund.

The horizontal allocation of resources between SNG entities is transparent and rule-based only for approximately 38% of the transfers. Information on central government allocations to MMDAs becomes available with significant delays after the start of the fiscal year and for some transfers not at all. Even when information on available resources is provided to the MMDAs for the three main funding sources (i.e. District Assemblies Common Fund (DACF), District Development Facility (DDF) and Minerals Fund), the actual transfers may be substantially delayed. This gives rise to the accumulation of arrears and often undermines the implementation of their budget.

Information is available on the revenue of 155 local governments. In FY 2017, the total revenue of these 155 MMDAs was 2 117 218 807 dollars PPP, of which total grants made up 94%. Property income and sales of goods accounted for the majority of their total IGF, 48% (57 470 276 dollars PPP) and 45% (54 248 043.9 dollars PPP) respectively. Revenue from fines and penalties was 6 676 623 dollars PPP, constituting 6% of total IGF; other miscellaneous revenue was 1 941 180 dollars PPP, accounting for 1% of total IGF.

TAX REVENUE. MMDAs have the authority to collect taxes and modify their rates. However, the ratio of IGF to total income is low for the majority of Assemblies. Tax collection levels are low and lack of accountability undermines MMDAs' tax collection capacities. For the 155 MMDAs with available fiscal data, tax on property and sales of goods represented 93% of total IGF, but only 5% of their total revenue in FY 2017. Property tax was 57 470 277 dollars PPP and sales tax was 54 248 044 dollars PPP. Greater Accra was the biggest contributing region, accounting for approximately 35% of the total of both taxes.

GRANTS AND SUBSIDIES. The District Assemblies Common Fund (DACF), embodied in the 1992 constitution of Ghana and implemented for the first time in 1994 is, together with donor support, the largest source of income for the Assemblies. Other funds released to MMDAs from Central Government are wages and salaries of the local government staff at the Assembly. Much of the funding received via central government transfers, including DACF, is earmarked in some way and, as a result, MMDAs have little flexibility in the use of this funding.

Since 2006, the District Development Facility (DDF) is another source of funding for MMDAs. The DDF is a pooled funding from both development partners and the Government of Ghana. The DDF includes performance-based criteria to serve as an incentive to enhance financial management practices in the Districts; yet, designed in such a way that no MMDAs is punished for actions beyond their control. The District Assemblies who meet the criteria receive additional resources. Assessment is conducted based on the Functional and Organisational Assessment Tool (FOAT). The DDF also provides a more systematic approach to capacity building as capacity building is targeted at those Districts that are not performing adequately based on the FOAT assessment. Nevertheless, the DDF is targeted toward development and capacity building and does not impact recurrent expenditures.

For the 155 local governments with available fiscal data, total grants in FY 2017 were 1 996 882 682 dollars PPP (of which 80% went to the Greater Accra Region), representing 94% of their total revenue. Donor support accounted for 83% of total grants to these 155 governments, while DACF constituted 14% and DDF 3%.

OTHER REVENUES. No data available

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. The 2016 PFM outlines that fiscal objectives include the maintenance of fiscal balance at a sustainable level over the medium term, in order to ensure macroeconomic stability within the fiscal framework. Ghana is still in the early stages of this policy initiative and it is expected that the Minister of Finance will introduce some further regulations regarding local government authorities' capacity and limits with respect to borrowing, as well as provide some further guidelines on how to advance the process of enhancing fiscal balance.

DEBT. The PFM Act seeks to control borrowing by local government authorities by introducing provisions regarding debt management. In accordance with the PFM, local governments may borrow from within the country and up to the limit determined by the Minister of Finance, in consultation with the Minister for Local Government and in a manner consistent with the medium-term fiscal balance strategy (Art. 74). The Minister of Finance may issue a guarantee on behalf of the government to back up debt undertaken by MMDAs, provided that the Minister considers the beneficiary of the guarantee to have the capacity to fulfil its contracted obligations (Art. 73). If a local government wishes to borrow an amount above the limit set by the Minister or to issue debt securities to the public, it must first obtain written approval from the Minister of Finance. Upon the issuance of a debt security or the contraction of an overdraft, the local government must submit a record of the transaction to the Minister of Finance within 10 working days.

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World Observatory on Subnational Government Finance and Investment

Lead responsible: UNCDF
Last update: 02/ 2019
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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data: OECD/UCLG (2016) Subnational Governments Around the World Structure and Finance: A First Contribution to the Global Observatory on Local Finances // Ministry of Finance (2017) Composite Budget // Ministry of Finance, National Budgets.
Other sources of information: Cities Alliance and UCLGA (2018) Assessing the institutional environment of local governments in Africa // Friedrich Ebert Stiftung, Local Government Institute (2016) Guide to District Assemblies in Ghana, second edition // PEFA (2013) Performance Review Final Report // Alam, Koranteg et al. (2011) Decentralisation in Ghana // Inspectorate Division of the Ministry of Local Government and Rural Development // Ghana Public Expenditure Review: Fiscal Consolidation to Accelerate Growth and Support Inclusive Development // Ministry of Local Government and Rural Development – official website.

GUINEA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOW INCOME

LOCAL CURRENCY: GUINEAN FRANC (GNF)

POPULATION AND GEOGRAPHY

Area: 245 860 km^2
Population: 12.717 million inhabitants (2017), an increase of 2.3% per year (2010-2015)
Density: 51.73 inhabitants / km^2
Urban population: 38% of national population
Urban population growth: 3.8% (2017 vs 2016)
Capital city: Conakry (14.5% of national population)

ECONOMIC DATA

GDP: 29.0 billion (current PPP international dollars), i.e. 2 284 dollars per inhabitant (2017)
Real GDP growth: 12.7% (2017 vs 2016)
Unemployment rate: 4.5% (2017)
Foreign direct investment, net inflows (FDI): 1 512 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 75% of GDP (2017)
HDI: 0.459 (low), rank 175 (2017)
Poverty rate: 35.3 (2012)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The current Guinean Constitution was promulgated on 7 May 2010, following those of 1991, 1982 and 1958. This constitution proclaims a republic with a presidential regime. The President of the Republic, Head of State, appoints a Prime Minister, Head of Government. Executive power is in the hands of the government and legislative power is shared between the government and the National Assembly. Article 136 of the Constitution recognizes that "Local authorities are freely administered by councils elected under the control of a state delegate who is responsible for national interests and respect for the law".

The decentralization process in Guinea began some 30 years ago, with the keynote address by the Head of State on 22 December 1985, which established decentralization as the means chosen by the first government after the First Republic (1958-1984) to involve the population in public management. The reforms undertaken at that time were intended to improve governance to make policy choices and implementation more effective. The stated ambition was to design and implement policies and strategies that would better meet the needs freely expressed by the population. Decentralization should enable people to take responsibility and participate in the development process through elected bodies and effective local administration.

The Local Government Code, adopted in 2006, represents a significant step forward in the structuring of decentralization in Guinea. It recognizes that local authorities have a large degree of financial autonomy and prerogatives, with 33 powers to be transferred to them. Another very important step was taken in March 2012 with the approval by decree of the National Policy Letter on Decentralization and Local Development (LPNDDL) and its action plan. The LPNDDL is a practical instrument of strategic guidance for strengthening decentralization and local development. An Inter-Ministerial Steering Committee (CIP) of the LPNDDL, composed of the majority of the Government, is set up by the Prime Minister in 2013 and is responsible for monitoring the implementation of the action plan. This step forward in terms of decentralization should be contrasted. From 2015, the vast majority of elected officials were replaced by special delegations appointed by the central level, until the last municipal elections held in February 2018. The previous ones were held in 2005.

TERRITORIAL ORGANISATION

2016	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	342 *Communes* 38 urban *communes* (including the 5 *communes* of Conakry) 304 rural *communes*		8 Regions (including the special Region of Conakry)	
	Average municipal size: 37 185 inhabitants			
	342		8	350

OVERALL DESCRIPTION. According to the 2010 Constitution, Guinea's territorial organization consists of territorial divisions (prefectures and sub-prefectures) and local authorities (regions, urban and rural communes). The country has 33 prefectures and 304 sub-prefectures (deconcentrated level). As regards decentralized local authorities, Guinea has 8 regions (including the Conakry Special Region) and 342 communes, including 304 rural communes and 38 urban communes (including 5 communes in the Conakry Special Region).

Rural municipalities and sub-prefectures share the same territory, which results in low visibility of rural municipalities to the benefit of the corresponding sub-prefectures. The urban communes correspond to the chief cities of the 33 prefectures (excluding the five communes of Conakry). Rural municipalities are subdivided into sectors and urban municipalities into districts.

The municipalities have a deliberative body, the municipal council, and an Executive, the Mayor and his/her deputies. The regions operate with a deliberative regional council composed of elected representatives from the municipalities that make up the region. The members of the council elect a president and vice-presidents for a fixed term of office.

INTER-MUNICIPAL COOPERATION. Two inter-municipal cooperation schemes are worth mentioning:
In the Boffa region, a Public Interest Group, GRENPAH has been organising the maintenance of rural tracks since 1995. It is a unique structure in the Republic of Guinea (the country's first inter-municipal cooperation structure). Reorganized in 2003, it has 10 contributing members (legal entities) and supports 44 Village Rural Track Maintenance Committees (CVEP) and 2 Urban Road Maintenance Committees (CEVU). GRENPAH builds an average of 6 crossing structures per year and represents the interest of the populations of the prefecture of Boffa in the maintenance of rural tracks and urban roads. The GRENPAH is structured around a General Assembly, a Management Board and a technical team
In addition, a Special Economic Zone has recently been created in the Boké region (Decree of 25 April 2017) to make the most of the potential of this region rich in mineral resources.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

According to articles 29 and 30 of Law L/2017/040/AN of 24 February 2017, on the revised Local Government Code of the Republic of Guinea, the Municipalities have 14 areas of competence and the Regions 8. However, in reality, the municipalities assume very little of their responsibilities due to a lack of human and financial resources. The only real competence they assume is civil status.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONS	MUNICIPAL LEVEL
1. General public services	Creation, organisation, modification of administrative and public services at regional level	Creation, organisation, modification of administrative and public services of local authorities; Administrative, financial, budgetary, accounting and public procurement management; Capacity building for elected officials and staff of decentralized services; Civil status
2. Public order and safety		Municipal police; Firefighting; Urban signage; Combating the divagation of animals
3. Economic affairs/transports	Maintenance of regional road infrastructure; Support to regional economic activities	Urban roads; Public parks; Urban transport; Local tourism; School pick-up; Commercial equipment; Economic infrastructure
4. Environmental protection	Nature conservation; Soil and groundwater protection; Climate protection	Parks and green spaces; Waste management and sanitation; Environment and living conditions (hygiene and sanitation)
5. Housing and community amenities		Construction and renovation; Access to drinking water (boreholes); Public lighting; Urban planning; Housing; Social and administrative infrastructure
6. Health	Management of prefectural and regional hospitals	Primary health care (health centres); Preventive health
7. Recreation, culture & religion	Promotion of cultural and sporting activities	Sports; Libraries; Local museums
8. Education	High school management; Vocational training	Pre-school, primary and secondary education; Literacy; Civic education
9. Social protection		Social work

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: no data available.		Availability of fiscal data:	Quality/reliability of fiscal data :

GENERAL INTRODUCTION. The revised 2017 Local Government Code in Title V - Chapter 1 defines the general provisions concerning local government finances. These are managed in accordance with the provisions of Organic Law L/2012/012/CNT on Finance. Chapter 3 deals with the resources of local authorities and has the status of a tax law. The finances of local authorities and their financially autonomous public services are managed according to the general principles of public finance. Rural and urban municipalities have a budgetary nomenclature composed of revenues (tax revenues, non-tax revenues, state grants and subsidies, miscellaneous and accidental revenues and mining sector revenues) and expenditures.

They must prepare, adopt and have approved annually by the supervisory authority the estimated statement of revenue and expenditure of their local authority. To this end, they have a single budget nomenclature and chart of accounts for the budgetary and accounting management of the local authority.

In 2017, the Government decided by decree to create a National Local Development Fund (FNDL), the management of which will be entrusted to a Public Administrative Establishment (EPA), an organisation with decision-making and management autonomy. This EPA is called ANAFIC for National Agency for the Financing of Local Authorities. The FNDL will be financed from mining royalties (Article 165 of the Mining Code) and will be used for the investment and operation of all local authorities in the national territory according to distribution rules and an equalization mechanism.

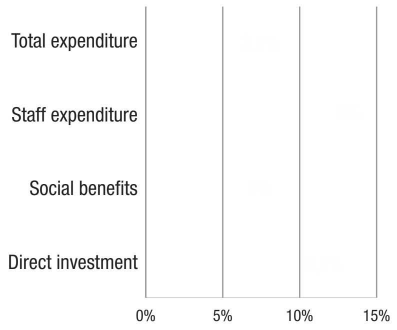
GUINEA

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure			
Inc. current expenditure			
Staff expenditure			
Intermediate consumption			
Social expenditure			
Subsidies and current transfers			
Financial charges			
Others			
Incl. capital expenditure			
Capital transfers			
Direct investment (or GFCF)			

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. No data available.

DIRECT INVESTMENT. To date, as the regions are not functional, only the municipalities are in a position to make capital investments.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Local authorities incur operating and investment expenses in accordance with the Annual Investment Plan (PAI), which is derived from each municipality's Local Development Plan (PDL). Operating expenses relate to: Debts, Salaries and Wages, Current Expenses, Economic and Social Interventions, Exceptional, Past and Miscellaneous Expenses, and Financial Expenses.

Capital expenditures are based on:

- The economic development programme covering the following sectors: Agriculture, Livestock, Fishing, Crafts, Aquaculture, Tourism, Industry and SMEs, Energy, Trade, Transport infrastructure (bus station, landing stage, port, tracks and roads etc...) - The commune's social development programme including sectors such as Education, Health, Water, Culture and Worship, Youth, Women's Development and Children, Communication, Hygiene and Sanitation, etc;
- The Impact Limitation Program (recommended environmental measures);
- The Institutional Development Programme, including capacity building and conflict and disaster prevention/management.
- These investments are based on the priorities for action and financial capacities of each municipality.

% GDP	% SNG EXPENDITURE

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue			
Tax revenue			
Grants and subsidies			
Tariffs and fees			
Property income			
Other revenues			

% SNG REVENUE

TAX REVENUE. Local authorities are assisted in the mobilization of taxes by the prefectoral tax services under the supervision of the national tax authorities. The prefectoral tax service is responsible for editing the roles. Compliance with the tax allocation rules is ensured by the Prefectural Tax Directorate.

GRANTS AND SUBSIDIES. The law (Revised Local Government Code - Title V, Chapter I, Section 2, Articles 428, 429 and 430) provides for two types of State grants, an operating grant and an equipment grant. In practice, these state grants and subsidies to local authorities (urban and rural municipalities) vary from one municipality to another in the same year and from one year to another. An urban municipality can receive up to 300 million Guinean francs per year (just under 100 000 PPP dollars) while the average for rural municipalities is 100 million Guinean francs (about 30 000 PPP dollars) per year.

OTHER REVENUES. No data available

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. According to the revised Local Government Code (Title V, Chapter I, Section 1, Articles 423 and 424), the finances of local authorities and the public institutions attached to them are managed in accordance with the provisions of Organic Law L/2012/012/CNT of 6 August 2012, in particular in its Titles: I, II, VI and VII. The same applies to the finances of local authority groupings. Chapter V, Section 1, Article 531, stipulates that local authority accounting includes budget accounting and general accounting. Budgetary accounting records, for a given year, the operations of local authorities' budget implementation in terms of revenue and expenditure, in accordance with the budget nomenclature. The accounts are kept in single part. This makes it possible to monitor the collection of budgetary revenue and the commitment, liquidation, authorisation and payment of public expenditure.

DEBT. In terms of borrowing, a system exists at the central bank level for local authorities. However, it is not operational and local authorities are currently unable to borrow.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: UNCDF
Last update: 02/ 2019
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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data: not applicable.
Other sources of information: Cities Alliance et CGLUA (2018) Assessing the institutionnal environment of local governments in Africa // AIMF (2017) Etude sur la localisation des objectifs de développement durable en vue d'appuyer le processus de plaidoyer des autorités locales dans les pays francophones d'Afrique - Cas de la Guinée // Ministère de Décentralisation et du Développement local (2011) Lettre de politique nationale décentralisation et développement local.

IVORY COAST

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: WEST AFRICAN CFA FRANC (XOF)

POPULATION AND GEOGRAPHY

Area: 322 463 km^2
Population: 24.294 million inhabitants (2017), an increase of 2.5% per year (2010-2015)
Density: 75 inhabitants per km^2
Urban population: 50.3% of national population
Urban population growth: 3.4% (2017 vs 2016)
Capital city: Yamoussoukro (1.1% on national population)

ECONOMIC DATA

GDP: 96.1 billion (current PPP international dollars), i.e. 3 972 dollars per inhabitant (2017)
Real GDP growth: 7.8% (2017 vs 2016)
Unemployment rate: 2.6% (2017)
Foreign direct investment, net inflows (FDI): 674.7 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 21% of GDP (2017)
HDI: 0.474 (low) rank 171 (2017)
Poverty Rate: 28.2 (2015)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Republic of Ivory Coast is a unitary state with a presidential regime and a political system based on multi-partyism. The constitutional text currently in force is the Constitution of 8 November 2016, which establishes the Third Republic. It was approved by the people in a referendum on 30 October 2016.

The President of the Republic is elected by universal suffrage for a 5-year term. The president is assisted by a Vice-President, who is elected at the same time. The president appoints the Prime Minister and members of the government. Legislative power is held by Parliament, which is based on a bicameral system: (i) the National Assembly (lower house); (ii) the Senate (upper house), which represents local authorities and Ivorians living outside the country and is composed of 99 senators, two thirds of whom are elected by indirect universal suffrage by members of municipal, regional, district and National Assembly councils, and the remaining third is appointed by the President of the Republic for a five-year term (the last election dates from 24 March 2018). Draft laws relating to local authorities are submitted first to the Senate.

The decentralization process in Ivory Coast can be subdivided into four major phases since the country's independence in 1960. The first phase (1960-1979), led to the creation of twenty-six municipalities and was intended to assess their functioning before extending the process. The second phase (1980-1999) brings the number of municipalities to 197 in 1995. Between 1995 and 1999, the government also creates new territorial authorities at regional level. The third phase (2000-2011) deepens the decentralization policy with the creation of 1,084 municipalities, 197 of which are effectively functional, the creation of 56 Departments and 02 districts. New texts are also adopted concerning the organisation of territorial administration, the status of supra-municipal authorities, the transfer of powers, the financial, fiscal and domanial regime and the status of SNG staff. The fourth phase begins in 2011 and aims at refocusing the decentralization policy. Two decentralized entities are selected as territotial authorities, the municipality and the region, with the objective of turning the regions into economic development poles.

Finally, the Ministry in charge of decentralization and local authorities is planning to set up a National Institute for Capacity Building for Local Authorities (INRCCT). The texts creating the INRCCT were drafted and sent to the General Secretariat of the Government, but the decree establishing the Institute has not yet been signed.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	Municipalities		31 Regions 2 Autonomous Districts (Abidjan and Yamoussoukro)	
	Average municipal size: 121 000 inhabitants			
	201		33	234

OVERALL DESCRIPTION. Territorial authorities, administrative entities with legal personality and financial autonomy, are composed of the region and the municipality, pursuant to article 36 of Ordinance No. 2011-262 of 28 September 2011 on the general organization of the State's territorial administration.

Act No. 2014-451 of 5 August 2014 on the general organization of the Territorial Administration sets out the general framework for decentralized administration. In accordance with the provisions of this text, Ivory Coast currently has 234 territorial authorities, namely: 2 autonomous districts, 31 regions and 201 municipalities (the creation in 2018 of 4 new municipalities increased their number from 197 to 201).

Elections for regional and municipal councils are held every five years by direct universal suffrage. The last elections were held on 13 October 2018. Participation rates (46.4% in regional elections and 36.2% in municipal elections) were relatively low but similar to those of 2013.

According to article 2 of Ordinance No. 2011-262 of 28 September 2011 on the general organization of the State's territorial administration, "deconcentrated territorial administration is performed within the framework of hierarchical administrative constituencies, namely districts (headed by appointed governors), regions (administered by regional prefects), departments (by departmental prefects), sub prefectures (by sub-prefects), and villages". To date, the number of administrative units is as follows: 12 districts, 31 regions, 108 departments, 475 sub prefectures and 8 576 villages.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Act 2003-208 of 7 July 2003 defines the transfer and distribution of powers between the State and territorial authorities. It establishes the transfer to decentralized entities of 16 areas of competence initially held by the line ministries (see attached table). "Local authorities contribute, together with the State, to the economic, social, health, educational, cultural and scientific development of the population and, in general, to the constant improvement of their living environment." The municipalities in particular are responsible for organising community life and the participation of the population in the management of local affairs, promoting and implementing local development, modernising the rural world, improving the living environment, managing the land and the environment.
To better align with the organization of territorial administration defined by Act No. 2014-451, Act n° 2003 - 208 is currently being updated, under the responsibility of a Review Committee chaired by the Ministry of Interior and Security and composed of the line ministries.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONS	MUNICIPAL LEVEL
1. General public services	Communication	Communication
2. Public order and safety	Security and Civil Protection	Security and Civil Protection
3. Economic affairs/transports	Spatial planning; Development planning; Roads; Transportation; Promotion of economic development and employment; Promotion of tourism	Spatial planning; Development planning; Roads; Transportation; Promotion of economic development and employment; Promotion of tourism
4. Environmental protection	Environmental protection and natural resource management	Environmental protection and natural resource management
5. Housing and community amenities	Urban planning and housing; Water and sanitation; Electrification	Urban planning and housing; Water and sanitation; Electrification
6. Health	Health; Public hygiene and quality	Health Public hygiene and quality
7. Recreation, culture & religion	Sport and leisure	Sport and leisure
8. Education	Education; Scientific research; Vocational and technical training	Education; Scientific research; Vocational and technical training
9. Social protection	Social, cultural and human development action; Promotion of the family, youth, women, children, the handicapped and the elderly	Social, cultural and human development action; Promotion of the family, youth, women, children, the handicapped and the elderly

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: municipalities, regions, 2 autonomous districts.	SNA 1993	Availability of fiscal data: **Low**	Quality/reliability of fiscal data : **Low**

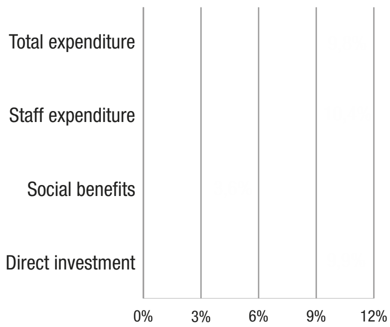
GENERAL INTRODUCTION. Act No. 2003-489 of 26 December 2003 governs the organization of local public finances. Following the changes in architecture of decentralization, a new law is currently being prepared. In addition, the State is considering the creation of a National Committee on Local Finance (CNFL) whose main tasks would include ensuring the effective transfer by the State of local taxation and the various allocations and resources resulting from the transfer of powers. The texts establishing the CNFL have been drafted, but it is not yet in place.

Territorial authorities remain highly dependent on state subsidies. In order to optimize their resources, the Directorate General of the Treasury and Public Accounting (DGTCP) advocates for a better management of the local tax base; the creation of mixed brigades for the collection of revenue; increased collaboration with the local services of the General Tax Directorate; and sensitizing territorial authorities to collect revenue from income-generating activities.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure			
Inc. current expenditure			
Staff expenditure			
Intermediate consumption			
Social expenditure			
Subsidies and current transfers			
Financial charges			
Others			
Incl. capital expenditure			
Capital transfers			
Direct investment (or GFCF)			

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. No data available.

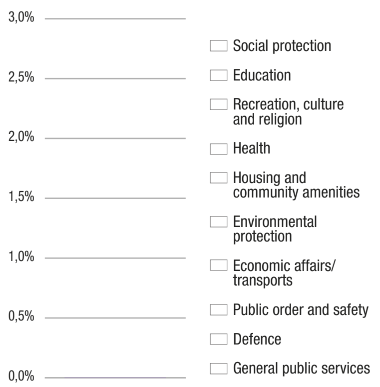
DIRECT INVESTMENT. No data available

IVORY COAST

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

% GDP	% SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue		**< 1% (estimate)**	
Tax revenue	18	0.4%	3.1%
Grants and subsidies	11	0.3%	
Tariffs and fees			
Property income			
Other revenues			

% SNG REVENUE

OVERALL DESCRIPTION. Tax revenues transferred by the state to sub-national governments from shared taxes represent just over 3% of total general government tax revenues.

The sharing of the proceeds of certain taxes between the State and territorial authorities is based on Act No. 2003-489 of 26 December 2003. This sharing consisted for the State, until the 2015 financial year, in divesting itself of the share that should go to territorial authorities without recording it in the finance law. Since the 2016 Finance Act, this share of shared taxes has been recorded in the State budget as assigned revenue under Title 4, Special Treasury Accounts. These revenues allocated to local authorities in respect of shared taxes are distributed among the various authorities in accordance with the provisions of the 2014 tax schedule, which provides for a distribution by inter-ministerial decree.

TAX REVENUE. The tax regime for local authorities includes:

- State taxes, the proceeds of which are paid to territorial authorities. They are collected by the General Tax Directorate (DGI). These are the patent, property tax, synthetic tax and sticker. Before 2014, the law set a distribution key on the basis of which each territorial authority received its share directly. Since 2014, the shares of all the territorial authorities have been merged and the share of each is transferred to it according to the procedures defined by an inter-ministerial decree of the same year;
- local taxes levied by means of tax rolls (flat-rate tax for small traders and craftsmen; tax on premises rented with a furnished interior);
- local taxes levied on revenue (tax on fuel pumps, tax on taxis, taxes on carts and pushchairs; tax on the operation of boats; tax on advertising, tax on shows and galas, taxes on nightclubs, port and airport taxes).

GRANTS AND SUBSIDIES. In 2017, State financial support to territorial authorities amounted to 167.46 billion CFA francs (684 million PPP dollars), of which 104.20 billion (426 million PPP dollars or 17.6 PPP dollars per capita) corresponds to the share of shared taxes allocated to territorial authorities and 63.26 billion (258 million PPP dollars or 10.7 PPP dollars per capita) to grants and subsidies. Around 45% of grants were current grants, and 55% were capital grants. Territorial authorities are supported by the State in the management of their operations and in the implementation of their investments (water, road maintenance, construction and equipment of schools and health centres), as provided for in Act No. 2003-489 of 26 December 2003. Annex 5 of the Finance Acts on the State budget sets out, by territorial authority, the annual amount of operating grants and the distribution of capital grants in the different sectors of activity. Capital investment support is also provided through the Investment and Urban Development Fund (FIAU) and the Regional Rural Development Fund (FRAR). Subsidies are allocated to all territorial authorities, with the exception of the Autonomous District of Abidjan, which can only benefit from them exceptionally and for specific operations, taking into account its capacity to mobilise own resources and the size of the share of shared taxes that is paid to it.

OTHER REVENUES. Territorial authorities also collect fees for the provision of public services, including parking fees, public transit fees, etc. The collection of these fees is often hampered by the lack of human, technical and financial resources within local governments.

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. Articles 5 and 11 of the law of 26 December 2003 establish the principle of annuality by stating respectively that "the budget of territorial authorities covers an annual financial year which coincides with the exercise of the State budget" and that "all the revenues and expenses of the territorial authority are planned annually and are specified in the budget". Article 14 sets out the principles of budgetary balance and sincerity in these terms: "the balance between the estimates of revenue and expenditure shall be achieved for each of the two Titles (operations and investments) of the budget. The budget must be sincere. No fictitious revenue or over- or underestimated expenditure may be entered in the budget in order to achieve the apparent balance".

DEBT. The Council may contract loans to cover expenditure under Title III of the budget (relating to the investment budget) within the limits and under the conditions laid down by decree adopted by the Council of Ministers without prejudice to the application of the provisions of the law on the organisation of the territorial authority concerned.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: UCLG
Last update: 02/ 2019

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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data: Annexe 5 : Opérations et dotations transférées aux collectivités territoires Loi de finances portant budget de l'Etat pour 2015,2016 et 2017 // Loi de finances initiale portant budget de l'Etat pour 2017.
Other sources of information: AfDB (2018) Côte d'Ivoire Note pays // UCLGA and Cities Alliance (2018) Assessing the institutional environment of Local Governments in Africa // UCLGA (2016) Etat des lieux du développement économique en Côte d'Ivoire // World Bank (2016) Diversified Urbanization The case of Côte d'Ivoire // Alexis Essono Ovono (2012) L'autonomie financière des collectivités locales en Afrique noire francophone Le cas du Cameroun, de la Côte-d'Ivoire, du Gabon et du Sénégal.

KENYA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: KENYAN SHILLING (KES)

POPULATION AND GEOGRAPHY

Area: 580 370 km^2
Population: 49.7 million inhabitants (2017), an increase of 2.7 % per year (2010-2015)
Density: 86 inhabitants / km^2
Urban population: 26.5% of national population
Urban population growth: 4.2% (2017 vs 2016)
Capital city: Nairobi (8.8% of national population)

ECONOMIC DATA

GDP: 163.3 billion (current PPP international dollars), i.e. 3 286 dollars per inhabitant (2017)
Real GDP growth: 4.9% (2017 vs 2016)
Unemployment rate: 11.5% (2017)
Foreign direct investment, net inflows (FDI): 671.5 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 17.8% of GDP (2017)
HDI: 0.590 (medium), rank 142 (2017)
Poverty rate: 36.8% (2015)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Republic of Kenya is a unitary country with a multi-party democratic political system. The President is both head of state and government and he is directly elected by the citizens. The Kenyan parliament is a bicameral house consisting of the National Assembly and the Senate. The Senate represents the counties, and serves to protect the interests of the counties and their governments. It participates in the law-making function of Parliament by considering, debating and approving Bills concerning counties. The 2010 Constitution recognizes two levels of government: the national government and the county governments. Both levels are defined in Article 6 (2) as distinct and interdependent and are required to conduct their mutual relations on the basis of consultation and cooperation. Each of the county governments is composed of a county assembly and a county executive. The governor and members of the county assembly are directly elected during the general elections. The county assembly is composed of members elected with a number of special seats to ensure that no more than two thirds of the membership is of the same gender as well as members of marginalized groups including persons with disabilities.

The main devolution laws include: a) the County Government Act of 2012 providing for county governments' powers, functions and responsibilities to deliver services; b) the Transition to Devolved Government Act of 2012, providing a framework for the transition to devolved government pursuant to section 15 of the Sixth Schedule to the Constitution; and c) the Intergovernmental Relations Act of 2012, providing a framework for consultation and cooperation between the national and county governments and amongst county governments to establish mechanisms for the resolution. Other Acts passed to operationalize the devolved system of government include the Transition County Allocation Revenue Act of 2013 and the County Public Finance Management Transition Act of 2013.

Kenya has held its general elections for presidential, parliamentary and local authorities' offices every five years since its independence in 1963. The current Constitution, promulgated in 2010, ushered in a new political dispensation. The first elections following the enactment of the 2010 Constitution were held in 2013 and subsequently in 2017 (Presidential, Parliamentary and County all on the same day). In 2017, Kenya adopted a Devolved System of Government policy, clarifying and strengthening roles and responsibilities of both the national and the county governments to strengthen the implementation of devolution as envisaged in the Constitution. The government is also reviewing the County Government Act and the Intergovernmental Relations Act to address emerging devolution concerns.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	County Governments *(Kaunti)*			
	Average municipal size: 1 057 444 inhabitants			
	47			47

OVERALL DESCRIPTION. One of the objectives of Kenyan devolution is to promote social and economic development and the provision of proximate and easily accessible services throughout the country. To achieve this, the 2012 County Government Act envisages the establishment of other levels of decentralization, namely: 1) the urban areas and cities within the county established in accordance with the Urban Areas and Cities Act of 2011; 2) the sub-counties equivalent to the constituencies within the county established under Article 89 of the Constitution; 3) the Wards within the county established under Article 89 of the Constitution; and 4) village units in each county determined by the county assembly of the respective county. In establishing a village unit, a county assembly is required to consider the following: population size, geographical features, community of interest, historical, economic and cultural ties, and means of communication. These different levels of decentralization are not local self-governments. They are only for purposes of proximate service delivery. Moreover, these levels only operate on delegated responsibility and they are administered directly from the county headquarters.

Currently, only the county governments are operational while the cities, municipalities and towns have not yet been fully established. The Urban Areas and Cities Act of 2011 gives effect to Article 84 of the Constitution to provide for: the classification, governance and management of urban areas and cities; criteria for establishing urban areas; and the principle of governance and participation of residents and for connected purposes. The Act was later amended to provide for a reasonable population threshold for qualification of an urban area to be a city, municipal or a town. Under these powers, there are currently one city (Kisumu), two municipalities (Nakuru and Eldoret) and 103 towns. These powers are managed by boards appointed by the county government. The decentralization of county government functions and service provision to non-urban sub-counties are provided for in the Constitution and the County Governments Act of 2012.

The State Department of Devolution in the Ministry of Devolution and Planning (MDP) is responsible for overseeing successful devolution in Kenya. The MDP main mission is to 'provide leadership, coordination, an enabling environment for planning, transformed public service delivery and management of the devolved system of government'. Although a high degree of autonomy has been granted to the counties, the MDP still plays an important role in assisting with the coordination of intergovernmental relations and coordinating implementation of all devolved programs and projects.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The Constitution introduces three categories of responsibilities: exclusive, corresponding to functions assigned and performed by only one level of government; concurrent, which may be performed by both national and county governments; and residual, i.e. functions that are not expressly assigned by the Constitution to either level of government (article 186 of the Constitution). In the latter case, these functions reside with the national government. The powers and functions of the national and county governments are set out in the Fourth Schedule. Where a function or power is conferred on more than one level of government, it becomes a function or power within the concurrent jurisdiction of each of the two levels of government. Counties are responsible for implementing national government policies at their level. County governments have generally been assigned social (welfare) functions. These include provision of water, health care, county planning, housing, agriculture, local economic development, roads, sanitation and waste management.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	COUNTY LEVEL
1. General public services	Basic research activities (statistical office)
2. Public order and safety	Firefighting
3. Economic affairs /transports	Road networks and facilities (highways, national, regional, local); Ports (sea and fishing, inland waterways); Public transport (road); Support to local enterprises and entrepreneurship; Agriculture, rural development, irrigation; Commerce; Energy (electricity, gas, etc.)
4. Environmental protection	Parks & green areas; Nature preservation; Waste management (collection, treatment and disposal of waste); Sewerage (waste water management); Street cleaning
5. Housing and community amenities	Drinking water distribution; Housing (subsidies); Housing (Construction/renovation); Housing (Management); Urban and land use planning; Urbanism
6. Health	Primary healthcare (medical centres); Hospital services (general and specialist); Preventative healthcare; Public health services
7. Recreation, culture & religion	Sports and recreation; Libraries; Museums
8. Education	Pre-primary education; Special education
9. Social protection	Social care for children and youth; Support services for families; Elderly; Disabled people; Social exclusion / poverty (benefits and policies); Immigrants; Integration of foreigners; Social welfare centres; Housing subsidies/benefits; Unemployment subsidies/benefits

SUBNATIONAL GOVERNMENT FINANCE

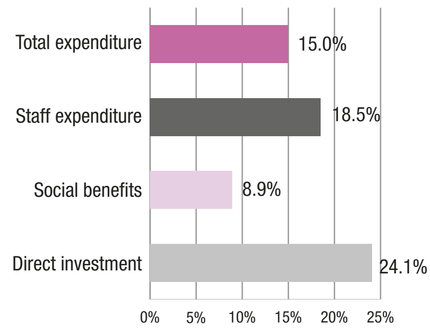
Scope of fiscal data: the "local government sector" for which financial data are provided: municipal councils, town councils and county councils.	Other IMF GFS	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. The Constitution assigns specific powers, functions and fiscal resources to each level of government (Article 6(2)). Furthermore, the Constitution requires all county governments to operate a financial management system that comply with any requirements prescribed by national legislation (Article 190). The Public Finance Management Act of 2012 provides for the effective management of public finances by the national and county governments; the oversight responsibility of parliament and county assemblies; and the different responsibilities of government entities and other bodies. It also prescribes the Integrated Financial Management Information System (IFMIS) to be adopted by both national and county governments. In the event that a county government does not operate the said financial management system or is unable to perform its duties, the national government may then intervene. The Senate determines the allocation of national revenue among counties, and exercises oversight over national revenue allocated to the county governments.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**133**	**4.2%**	**100%**
Inc. current expenditure	90	2.9%	67.9%
Staff expenditure	50	1.6%	37.8%
Intermediate consumption	30	0.9%	22.2%
Social expenditure	3	0.1%	2.6%
Subsidies and current transfers	0	0.0%	0.2%
Financial charges	3	0.1%	2.3%
Others	4	0.1%	2.7%
Incl. capital expenditure	43	1.4%	32.1%
Capital transfers			
Direct investment (or GFCF)	43	1.4%	32.1%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



KENYA

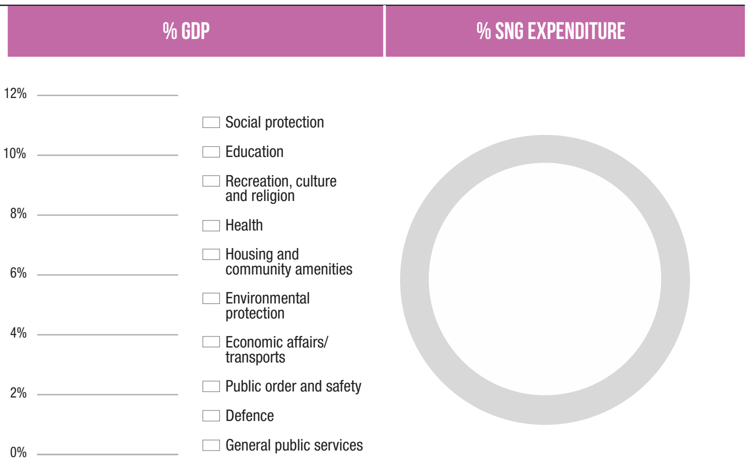
UNITARY COUNTRY

EXPENDITURE. The Public Finance Management Act of 2012 gives county governments latitude to determine and finance their expenditure priorities. The preparation and approval of budgets is done at the county level. In FY 2016, the total expenditure by county governments was 15% of the general government's expenditure. More than two thirds of counties' total expenditure e (68%) fall under current expenditure, with staff costs being the highest, accounting for almost 60% of the counties' current expenditures and almost 40% of the counties' total expenditure. Capital expenditure represents 32% of total county expenditures.

INVESTMENT. A Public Private Partnership Act enacted in 2013 allows government to engage the private sector for the provision of public services, providing counties with the opportunity to deliver services to their community in a more effective manner by partnering up with the private sector. Opportunities for external funding and the use of Public Private Partnerships are likely to increase direct investment at county level.

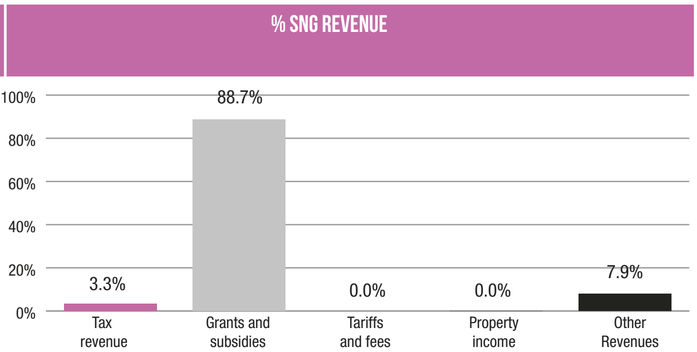
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

No data available.
In line with their responsibilities, Local governments in Kenya generally devote the majority of their budget to economic affairs & transport, environmental protection, housing and community amenities, and the implementation of programs and projects in the areas of health, education and culture.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**137**	**4.3%**	**20.6%**
Tax revenue	5	0.1%	0.9%
Grants and subsidies	121	3.8%	
Tariffs and fees	0	0.0%	
Property income	0	0.0%	
Other revenues	11	0.3%	



OVERALL DESCRIPTION. County government revenues represent 20% of total general government revenues. A very limited part of the revenue raised comes from tax and other revenues. The bulk of county governments' revenues come from grants and subsidies, which account for nearly 90 per cent of all county government revenues.

TAX REVENUE. Tax collection rates are low in Kenya and tax revenues represent less than 4% of subnational revenues. A 2018 study estimates that, on average, Narok County had the highest share of own-source revenues, accounting for 71% of its total revenues, followed by Nairobi City County and Isiolo County with 66% and 60% respectively.

County governments are only allowed to levy property and recreation taxes, which they collect in collaboration with the Kenya Revenue Authority (KRA). Property tax collection is particularly low due to incomplete and obsolete information on tax cadastres and over-reliance on the valuation of individual parcels - without the use of simpler mass valuation techniques. The entertainment tax is imposed on entertainment, is borne by the consumer of entertainment and is paid by the service provider. The legal framework governing entertainment taxes is provided for in the Constitution, under the Entertainment Tax Act Cap. 479 and the Betting, Lotteries and Gaming Act (Cap. 131). Similarly, the collection of recreation tax is also low, due to a lack of clarity in legislation and responsibilities for tax collection at the county level.

Only an Act of Parliament can authorize the levying of any other taxes by county governments. However, county governments may charge fees for the services they provide. The legislation specifies that a county's tax and other revenue collection powers must not be exercised in a manner that adversely affects national economic policies, economic activities beyond the county's borders or the national mobility of goods, services, capital or labour.

GRANTS AND SUBSIDIES. County governments receive nearly 90% of their revenues in the form of grants and subsidies from the central government. And there is currently no policy in place to support an increase in local revenues.

A study carried out in 2018 showed that there are significant inequalities in grants and subsidies received by the different counties: In recent years, on average, Nairobi County has received 10.7% of intergovernmental transfers, compared to Lamu County, which received only 0.6%.

According to the Constitution, marginalized communities within counties are also entitled to receive resources from government equalization funds (section 203), through conditional grants. Equalization funds are intended to improve services such as water, roads, health and electricity in marginalized communities to bring them up to standard. However, the level of funds transferred to marginalized counties is not recorded.

OTHER REVENUES. Other revenues represent an estimated 8% of total subnational government revenue collected. These revenues are non-tax revenue, mostly from collection of county governments' user fees and charges from the sale of goods and services within the communities. Common fees and charges revenue collected are from market and trade licensing fees, parking fees, liquor licensing, county parks, beaches and public cemeteries, as well as licensing of domestic animals, ferries, tourism and casinos.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**16**	**0.5%**	**1.0%**	**100%**
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. The Constitution provides for the establishment of constitutional commissions and independent offices (Auditor General and Budget Controller) to strengthen the balance of power within the government. The financial statements must be presented at the end of each fiscal year for audit by the Comptroller and Auditor General. Kenya counties have improved the transparency of their budgets and are publishing more budgetary information.

The Financial Administration Act 2012 gives the Secretary of the Cabinet (Minister) responsible for the National Treasury the power to stop the transfer of funds to a county government if it is established that there has been a serious or persistent material breach of the measures provided for in the Act. However, Parliament may not approve or renew a decision to stop the transfer of funds unless the Comptroller has submitted a report on the matter to Parliament and the county government has had an opportunity to respond to the allegations made against it and present its arguments before the relevant parliamentary committee.

DEBT. County government debt account for less than 1% of Kenya's GDP in FY 2016. County governments are allowed to take out loans within Kenya, as long as they comply with the legislation. To borrow abroad they need to secure a guarantee from the national government. Borrowing by county governments is however restricted and is implemented under the condition, provided that the national government guarantees the loan and with the approval of the county assembly.

Recently, the World Bank Group launched a Creditworthiness Academy to assess the credit worthiness of counties. The objective of the Academy is to build capacity of county government financial officials and central government staff, to master the principles of creditworthiness. Through this initiative, officials are encouraged to identify solutions to key risks, market failures, and obstacles that prevent market-based financing from playing a greater role in addressing development challenges.

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World Observatory on Subnational Government Finance and Investment

Lead responsible: UCLG
Last update: 02/ 2019

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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data: IMF-GFS Data // The Office of the Controller of Budget of Kenya.
Other sources of information: UCLG Africa and Cities Alliance (2018) Assessing the Institutional Environment of Local Governments in Africa // George Githinji (2019) A look at presidential system of government in Kenya // Commonwealth Local Government Forum (2017) The Local Government System in Kenya. Country Profile // UN Sustainable Development Knowledge Platform (2017) Kenyan Voluntary National Review 2017 // Ministry of devolution and planning, Implementation of the Agenda 2030 for Sustainable Development in Kenya // UNDP (2016) National Urbanization Strategies // International Journal for Innovation Education and Research (2018) Effects on fiscal decentralization on poverty reduction in Kenya.

MADAGASCAR

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOW INCOME

LOCAL CURRENCY: ARIARY (MGA)

POPULATION AND GEOGRAPHY

Area: 581 800 km^2
Population: 25.570 million inhabitants (2017), an increase of 2.7% per year (2010-2015)
Density: 44 inhabitants/km^2
Urban population: 36.5% of national population
Urban population growth: 4.5% (2017 vs 2016)
Capital city: Antananarivo (11.6% of national population)

ECONOMIC DATA

GDP: 39.764 billion (current PPP international dollars), i.e. 1 555 per inhabitant (2017)
Real GDP growth: 4.2% (2017 vs 2016)
Unemployment rate: 1.8% (2017)
Foreign direct investment, net inflows (FDI): 465 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 15.1% of GDP (2017)
HDI: 0.52 (low), rank 161 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Republic of Madagascar is a semi-presidential unitary state. The last elections for the Head of State were held in 2018, the previous ones in 2013. Sub-national governments are recognised in the Constitution, from the 1st Constitution of 29 April 1959 (Article 55 paragraph 1) to the last Constitution of 11 December 2010, Article 3 of which stipulates that "The Republic of Madagascar is a State based on a system of decentralised territorial authorities composed of municipalities, regions and provinces". Sub-national governments are governed by the following legislative and regulatory provisions: Organic law n°2014-018 of 12 September 2014 governing the powers, organisation and functioning of Decentralised Territorial Authorities, as well as the management of their own affairs; Act No. 2014-020 of 27 September 2014 on the resources of decentralized local authorities, the procedures for elections, as well as the organization, functioning and powers of their bodies; Act No. 2014-021 of 12 September 2014 on the representation of the State; Act No. 2015-002 of 26 February 2015 supplementing Schedule No. 01 to Act No. 2014-020 of 27 September 2014; and the various laws n° 2015-009/10/11 of 1 April 2015 on the special status of the urban municipalities of Nosy Be, Sainte Marie and Antananarivo.

Multi-level governance reforms have been undertaken since the mid-2000s, including a territorial reform providing for the division of the six provinces into 22 regions (Law No. 2004-001 of 1 June 2004). On 27 April 2007, a revision of the 1992 Constitution abolished the function and role of the provinces, but in the Constitution of 11 December 2010 (Article 3), the provinces were again mentioned. Finally, Decree No. 2015 - 817 of 6 May 2015 amends Annex No. 02 of Decree No. 2015-592 of 1 April 2015 classifying municipalities into urban or rural municipalities and increasing their total number to 1695. At the municipal level, Mayors are elected by direct universal suffrage. The last election was held in 2015, the next is scheduled for 2019. The regions are administered by Regional Chiefs. The current regional chiefs were appointed by the Council of Ministers in 2013. Elections were scheduled to be held in 2016, but none have been held to date. As far as the provinces are concerned, no elections have yet been held.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	Municipalities *(Kaominina)*	Regions *(Faritra)*	Provinces *(Faritany)*	
	Average municipal size: 16 121 inhabitants			
	1 695	22	6	1 723

OVERALL DESCRIPTION. Madagascar has 1695 municipalities, 22 regions and 6 provinces. At each level, the national government is represented by a State Representative. The organization, functioning, powers and legality control of the State Representative are set by Act No. 2014-021 of 22 August 2014 on State representation. The State Representative has a support and advisory role for each decentralized territorial authority.

At the municipality level, the State is represented by a Head of District who has two deputies, one responsible for general and territorial administration and the other for supporting the municipalities and local development. At the regional level, the State is represented by a Prefect; at the provincial level, by a Commissioner General.
More than two thirds of the municipalities in Madagascar have between 5000 and 19999 inhabitants and represent more than 50% of the national population. The most populated municipalities are the six districts of the city of Antananarivo, which have 130 000 to 350 000 inhabitants each.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Organic Law No. 2014-018 of 12 September 2014 regulating the powers, organisation and functioning of decentralised territorial authorities defines the responsibilities and the division of powers of sub-national governments. Article 4 mentions the different fields of competence of decentralised territorial authorities with the assistance of the State, namely: public security, civil defence, administration, spatial planning, economic development, environmental protection and the improvement of the living environment. Article 27 stipulates that the Municipality's areas of competence include: (i) the identification of economic, social, cultural and environmental potential and needs and the implementation of related operations; and (ii) the performance of any other activities falling within its competence under specific legislative and regulatory texts. Article 28 supplements these provisions by defining the powers of the municipalities.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONS	MUNICIPALITIES
1. General public services	Regional public buildings and facilities; Partnership and interregional cooperation	Administrative services (marriage, birth, census, etc.); Partnership and inter-municipal cooperation; Municipal public buildings and equipment
2. Public order and safety	Public safety	Local safety and civil protection
3. Economic affairs/transports	Elaboration and implementation of framework programmes and of the Regional Development Plan; Hydro-agricultural development; Agriculture and livestock; Fisheries, industrial, craft and commercial promotion; Promotion of the service sector	Realization and management of infrastructures and commercial equipment (public squares and markets, cattle markets and parking areas, slaughterhouses, green spaces, etc.); Management of roads, tracks, bridges and ferries of municipal interest; Local tourism
4. Environmental protection	Parks, green spaces and recreation areas	Parks, green spaces and recreation areas; Preservation, enhancement and management of the environment and natural resources; Prevention and control of bushfires and deforestation; Household waste management; Municipal sanitation
5. Housing and community amenities	Regional spatial planning; Social housing; Management of public facilities (high schools, regional hospitals, roads); Construction of parks, green spaces and recreational areas	Water management; Definition and implementation of housing programmes and public facilities; Allocation of social housing; Management of basic social, educational, cultural, sports and health infrastructure and public facilities (pre-schools, public primary schools, general secondary schools); Construction of parks, green spaces and leisure activities for the municipality
6. Health	Management of prefectural and regional hospitals	Primary health care (health centres); Preventive health
7. Recreation, culture & religion	Promotion of cultural and sporting activities	Sports; Libraries; Local museums
8. Education	High school management; Vocational training	Pre-school, primary and secondary education; Literacy; Civic education
9. Social protection		Social work

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: municipalities.	National Observatory of Decentralisation and Local Development	Availability of fiscal data: **Low**	Quality/reliability of fiscal data : **Low**

GENERAL INTRODUCTION. Law No. 2014-020 of 27 September 2014 contains legal provisions relating to sub-national finances and general comments on financial decentralization in Madagascar. Articles 137 to 238 contain the various provisions concerning the budget and resources of decentralised territorial authorities. Articles 138 to 146 stipulate that each of them must have an annual budget, including authorized planned expenditures and revenues. Chiefs of Regions and Mayors are the authorising officers of their respective budgets. The Minister of Finance and Budget validates the nomenclature, presentation and financial management. A public investment program adopted by the Council must exist in each DTA for a three-year period.

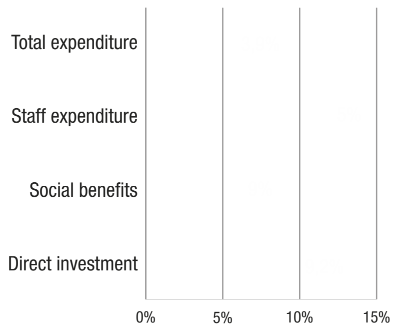
Data concerning the finances of the DTAs are centralised within the Observatory of Decentralisation and Local Development (ODDL) established at the National Office for Consultation on Decentralisation (ONCD). The latter was created by Decree No. 2014-068 of 1 July 2014, amended by Decree No. 2015-928 of 16 June 2015.

In 2017, ONCD had partial data on 993 of the country's 1 695 municipalities. The figures and indicators reported below only concern this set of 993 municipalities. No data are available for provinces and regions.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure			
Inc. current expenditure			
Staff expenditure			
Intermediate consumption			
Social expenditure			
Subsidies and current transfers			
Financial charges			
Others			
Incl. capital expenditure			
Capital transfers			
Direct investment (or GFCF)			

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



MADAGASCAR

UNITARY COUNTRY

EXPENDITURE. At the beginning of the 2010 decade, various studies estimated the amount of public expenditure carried out by DTAs at about 5% of total public expenditure at the national level. In 2017, according to ONCD data, capital expenditure represents about 15% of total municipal expenditure. In addition, of the 966 municipalities for which data are available, 51% of total expenditure (68% of current expenditure) is related to staff costs.

DIRECT INVESTMENT. According to Article 22 of Decree 2015 - 959, the portion dedicated to capital investment in the budget of a DTA must represent at least fifteen percent (15%) of its own revenues. In 2017, according to the data available at the ONCD, investments represent just over 54% of municipal revenues excluding subsidies.

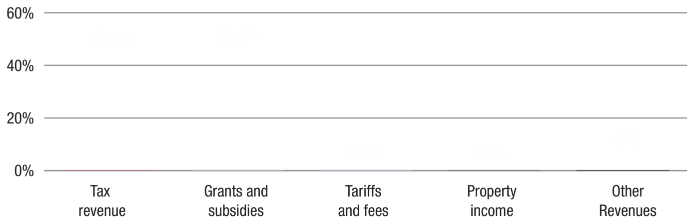
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

% GDP	% SNG EXPENDITURE

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue			
Tax revenue			
Grants and subsidies			
Tariffs and fees			
Property income			
Other revenues			

% SNG REVENUE



OVERALL DESCRIPTION. In 2008, a report from the African Development Bank indicated that DTAs were directly dependent on the central government for 97% of their resources
In 2017, according to data available at the ONCD, 46% of municipal revenues are made up of government subsidies and 54% of own resources, with tax and non-tax revenues accounting for approximately equal shares.

TAX REVENUE. The rates, basis and methods of collection of local taxes are the responsibility of the State and are set by the Finance Act and various legislative and regulatory texts.

Three main taxes account for about a third of municipal revenues excluding subsidies: synthetic tax - IS (12%), property tax on land - IFT (6%) and property tax on built properties - IFPB (11.6%). The synthetic tax applies to the income of legal or natural persons exercising a liberal activity, and whose gross annual income does not exceed 20 million ariary (~ 20 000 dollars PPP). It concerns in particular farmers, producers, shopkeepers, craftsmen, artists and service providers. The rate is 5% of the taxable base, calculated on the basis of the previous year's income, with a minimum annual tax payment of 16 000 ariary. The property tax on land is intended for owners of bare land, it amounts to 1% of the market value of the property. The property tax on built properties amounts to between 5 and 10% of the rental value of the property. If the property is occupied by the owner, the taxable amount is then estimated at 1/3 of its rental value.

In addition to these revenues, there is a tax on goods and services (7.8%) and various other revenues and taxes (15%).

GRANTS AND SUBSIDIES. A Local Development Fund - FDL, designed to facilitate and rationalize investment support for DTAs, was set up in 2007 (Decree No. 2007 - 530). With the aim of streamlining the current transfer system, in 2017 the State undertook a reform of the financial transfer mechanisms to the DTAs. By Decree No. 2017 - 014 of 4 January 2017, the FDL was reorganized to "ensure equitable, balanced and sustainable socio-economic development of all decentralized territorial authorities through the financing of their investments and related capacity building". A National Equalization Fund - FNP has also been created, defined by Article 3 of Law 2017-014 as a "mechanism for redistributing taxes to reduce inequality between municipalities". The FNP is funded by taxes on broadcasting games.

In its work to build the capacity of DTAs, the FDL is supported by several international partners, including the World Bank (through the Public Sector Performance Support Project - PSPSP) and German Cooperation (through the Inclusive Communal Development and Decentralization Project - ProDecID).

All capital grants to municipalities are in principle the responsibility of the FDL. But other Funds continue to mobilize subsidies directly in support of municipalities, for example the Road Maintenance Fund (FER), resulting in coordination problems.

OTHER REVENUES. Non-tax revenues of DTAs are mainly composed of refunds, royalties, levies and administrative fees.
Refunds and royalties are made up of mining revenues and are constantly decreasing. They have been on average divided by 4 since the beginning of the decade. They represent just over 10% of the municipalities' non-tax revenues in 2017.
Although still low, forest and fisheries revenues could increase significantly in the coming years, particularly in view of the evolution of exploitation and exports in the fishing sector.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. Decree No. 2005-210 of 26 April 2005 on the Public Operations Chart of Accounts (PCOP 2006) specifies that it must be used by DTAs. Nevertheless, the ONCD notes that in 2017 70% of municipalities still use the Minimum Treasury System (and not the PCOP), making it very difficult to analyse and monitor non-tax revenues in particular.

The rules for allocating and balancing budgets for operations and investment, as well as the borrowing rules for DTAs, are defined in laws 2014-020 and 2015-959. In 2017, according to data available at the ONCD, about 70% of municipalities recorded a budget surplus, while 27% recorded a deficit.

DEBT. DTAs can in principle access national and international financial markets to finance investment projects. Borrowings must be deliberated and authorized by the Council and approved by decree of the Minister in charge of Finance. No consolidated information is available on DTAs' access to financial markets.

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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data: World Bank, National Office for Consultation on Decentralisation – ONCD.
Other sources of information: Gouvernement de la République de Madagascar, Plan stratégique de modernisation de la gestion des finances publiques // UNDP (2018) Rapport national sur le développement humain Madagascar 2018 // UCLGA & Cities Alliance (2018) Assessing the institutional environment of local governments in Africa.

MALAWI

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOW INCOME

LOCAL CURRENCY: MALAWI KWACHA (MWK)

POPULATION AND GEOGRAPHY

Area: 118 480 km² (2017)
Population: 18.622 million inhabitants (2017), an increase of 2.9 % per year (2010-2015)
Density: 157 inhabitants / km² (2017)
Urban population: 16.6% of national population (2017)
Urban population growth: 4.1% (2017 vs 2016)
Capital city: Lilongwe (5.2% of national population (2015)

ECONOMIC DATA

GDP: 22.4 billion (current PPP international dollars), i.e. 1 202 dollars per inhabitant (2017)
Real GDP growth: 4.1% (2017 vs 2016)
Unemployment rate: 5.8% (2017)
Foreign direct investment, net inflows (FDI): 227 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 13.4% of GDP (2017)
HDI: 0.477 (Low), rank 171 (2017)
Poverty rate: 70.3% (2016)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Malawi is a unitary state under a presidential democratic political system with a single tier of decentralised governance. The National Assembly members and the president, who is both the head of state and government, are elected every five years by direct universal suffrage. Following a national referendum, Malawi adopted a multi-party political system in 1993 that, together with the adoption of the 1995 Constitution, marked the beginning of the country's decentralization process. As a result of the referendum, multi-party general elections were celebrated in May 1995 and have continued to be held every five years (upcoming elections May 2019). Since the adoption of the new political system, local councils were to be elected every 5 years, although local elections were actually held in 2000 and 2014.

Local government is enshrined in Chapter XIV of the Constitution, which states that "Parliament shall, where possible, provide that issues of local policy and administration be decided on at the local level under the supervision of local government authorities" (Art. 146(3)). In 1998, Malawi reinforced the decentralization framework by adopting the National Decentralization Policy and enacting the Local Government Act (amended in 2010). The Act states the objectives of local government and sets out the effective framework for decentralization, establishing that local governance shall be articulated by the councils and providing for their composition, powers, functions and financing.

The National Government has the responsibility of supporting local governments with policy guidance, financial and technical assistance. Policy issues are channeled through the Ministry of Local Government and Rural Development (MLGRD). The Ministry is required to provide primary guidance and support to local governments and in this regard acts as a link between National Government and local governments. The National Cabinet has appointed a cabinet committee on local government and rural transformation to elaborate policy directives on local governance and local development.

The latest steps towards decentralization were the 2016 amendment to the Land Acquisition Act, the 2016 Land Act and the 2017 amendment to the Local Government Act, which was meant to contemplate the previous changes in land matters. The amendment to the Local Government Act entailed replacing the wording "Local Authority" with "Local Government Authority" wherever the Act regards the disposal of land, the designation of an area as a ratable area or the valuation of property. These instruments ushered in a new local governance regime with more democratic decision making powers and processes at the local level. Since 2012, the Malawi government has been developing a National Urban Policy that promotes investment at the local level as the basis for achieving sustainable urban development.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	Councils			
	Average municipal size: 531 429 inhabitants			
	35			35

OVERALL DESCRIPTION. As per the Local Government (Amendment) Act, 2010, Malawi has a single tier of local government made up of 35 councils. They comprise 4 city councils, two municipal councils, 28 district councils (predominately rural) and 1 town council, which was created as the result of a presidential decree in 2012 following Constitutional provisions. They are all in the same level with no subsidiary or hierarchical link. The Act amended the First Schedule by merging Town Councils with their respective District Councils in order to reduce expenditure on administration of Councils. The legislation does not distinguish between urban and rural councils and their responsibilities, although their capacity to fulfil their functions is indeed influenced by their urban or rural characteristics and based on them, councils are allowed to request exemptions from functions specified in the legislation.

MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION. Malawi's local government level is further divided into 462 local government councillors. Councillors represent one ward each, and are elected for five-year terms. Every local government area has a council consisting of: (a) one member elected from each ward within the local government area; (b) Traditional Authorities from the local government area as non-voting members, ex-officio;(c) Members of Parliament from the constituencies that fall within the local government area as voting members, ex officio (Amendment of 2010); and (d) five persons as non-voting members to be appointed by the elected members to cater for the interests of such special interest groups as the council may determine.

The Malawi Local Government Association (MALGA) is the body coordinating decentralized cooperation and training of local authorities. The MALGA is recognized by the government.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The Constitution assigns local governments responsibilities over the promotion of infrastructural, educational and economic development, local development plans, the promotion of local democratic institutions, civil registry functions and delivery of local services as mandated by Acts of Parliament, which decides what issues are to be regulated at the local level.

Joint responsibilities between the councils and the national government include welfare services, hospitals, housing and town planning, rural and urban roads, environmental protection and the promotion of economic activities (agriculture, trade and industry and tourism). There currently exists duplication of functions across the levels of governments where local governments have limited capacity to efficiently fulfil their mandates.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	LOCAL LEVEL
1. General public services	Administrative services (civil status register); Public buildings and facilities (town houses, etc.)
2. Public order and safety	Ambulance Services; Fire Services; Disasters (until they are declared national disasters); Establishment and management of police services; Regulation and control of municipal traffic
3. Economic affairs/transports	The construction, rehabilitation and maintenance of roads not under Central Government (district, township and city roads); Promotion of local business; Tourism; Forest management; Livestock control; Construction; Rehabilitation of small dams
4. Environmental protection	Burial Services; Refuse disposal; Sewerage management; Environmental reclamation; Environmental education Botanical Gardens; Nature sanctuaries; Zoos and parks other than Game Reserves and National Parks
5. Housing and community amenities	Office space for commercial purposes; Housing; Property valuation and land management; Provision and maintenance of water supplies
6. Health	Health centers, dispensaries, maternity clinics and health post; Control of communicable diseases; Health education; Environmental sanitation Primary health care (health centres); public health promotion and hygiene
7. Recreation, culture & religion	Sports stadiums; Community halls; Recreational parks; Public conveniences; Youth Affairs; Cultural Affairs
8. Education	Pre-school; Primary Schools; Distance Education Centers
9. Social protection	Community Development; Children and women welfare; District Information Services; Probation and welfare

SUBNATIONAL GOVERNMENT FINANCE

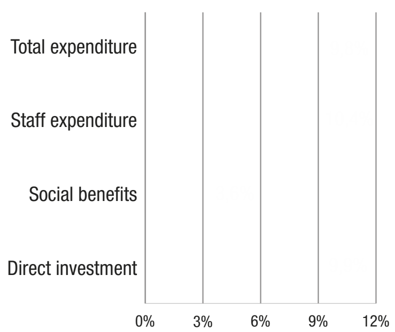
Scope of fiscal data: councils.	Ministry of Finance, Annual Economic Report 2016/2017	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. The Constitution establishes the National Local Government Finance Committee (Art. 149). The Controlling Officer of the committee is the Secretary for Local Government and Rural Development who is an employee of the Ministry of Local Government and Rural Development (MLGRD). The responsibility for local government finance lies within this ministry, which is given extensive powers in relation to financial management and performance of local governments by the Local Government Act.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016/2017	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure			
Inc. current expenditure	7	0.6%	100%
Staff expenditure	1	0.1%	15.6%
Intermediate consumption	5	0.4%	67.8%
Social expenditure			
Subsidies and current transfers	1	0.1%	15.9%
Financial charges			
Others			
Incl. capital expenditure			
Capital transfers			
Direct investment (or GFCF)			

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. In FY 2016/17, subnational current expenditure accounts for less than 4% of national current expenditure and less than 1% of the country's GDP. Although specific data are unavailable, current expenditure levels in Malawi are generally high, ranging from 70 to 100% of total expenditure budget. At the municipal level, capital expenditure is estimated to represent less than 10% of total expenditure. Although the Local Government Act mandates that 5% of general government discretionary spending should be directed through councils, a lack of capacity to manage resources at the council level often limits their overall spending.

DIRECT INVESTMENT. Although, exact levels of direct investment are currently unknown, generally low capital investment are made by council as budgets are spent largely on recurrent costs.

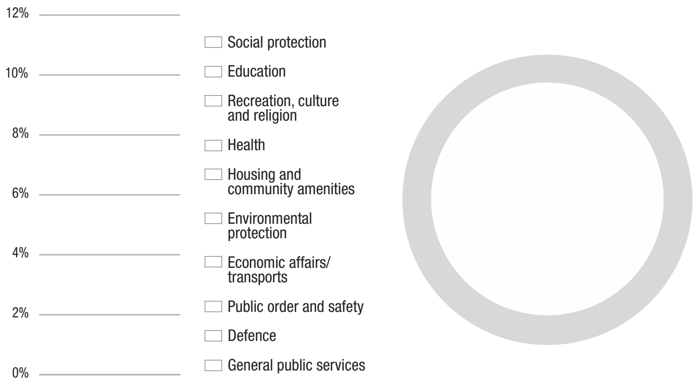
MALAWI

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

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.

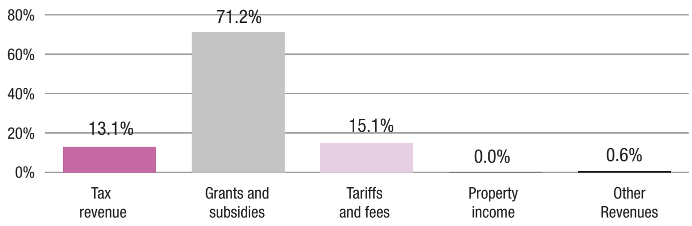
% GDP	% SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016/2017	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**10**	**0.8%**	**3.7%**
Tax revenue	1	0.1%	0.6%
Grants and subsidies	7	0.6%	
Tariffs and fees	2	0.1%	
Property income			
Other revenues	0	0%	

% SNG REVENUE



OVERALL DESCRIPTION. In FY 2016/2017, total SNG revenue represented around 4% of the total national government revenue and less than 1% of the GDP. According to the available data, 71.2% of local governments' revenues are derived from grants and transfers, while 13.1% comes from locally raised taxes (mainly property tax) and 15.1% from local tariffs and fees. Councils (especially districts) tend to be extremely dependent on transfers from the central government.

TAX REVENUE. Councils are responsible for raising and collecting local taxes and user fees and charges. Tax revenue includes property and ground taxes, fees and licenses, commercial undertakings and services charges. According to the World Bank Malawi Economic Monitor, property tax is the largest revenue contribution at the local level. Yet the reliance of local governments on tax revenues is very limited given the low performance in local tax collection. Modernizing payment systems to facilitate the collection process, to reduce leakage and to encourage tax-payers to settle property rates; implementing more sensitization and awareness campaigns for tax-payers; and providing Council revenue officials with training and modern taxation tools (such as GIS systems) are solutions listed in the latest World Bank Report that would help local governments, and city councils in particular, to raise their efficiency in raising tax revenue.

GRANTS AND SUBSIDIES. The two existing types of grant transfers from central government account for more than 70% of SNG revenue. The main grant consists in an unconditional grant based on a share of 5% of National Net Revenue (NNR). The second transfer is the result of a parliamentary decision that 9% and 15% of NNR are allocated for specific projects in health and education. A total of 29% of NNR should be devolved to local government. Following Constitutional mandates, the government is required to ensure that adequate resources are provided for the effective local delivery of devolved functions.

OTHER REVENUES. The central government collects various fees and charges on behalf of the local governments such as toll fees, gambling and casino fees, fuel and road levies. These funds are then distributed on the basis of a formula approved by the government. The National Decentralisation Policy and Local Government Act state the circumstances in which councils can charge or collect fees and levy rates. However, it is the MLGRD, in consultation with relevant sectors of government depending on the services provided, who offers guidance on how these can be determined.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. Under the Local Government Act 1998, the accounts of the councils are submitted to the national Local Government Finance Committee (LGFC), in charge of conducting audits. The Committee receives estimates of revenue and all projected budgets of all local government authorities; supervises and audits accounts of local government authorities; makes recommendations related to the distribution of funds allocated to local government authorities. The Committee may vary the amount payable on a discretionary basis and according to economic, geographic and demographic variables. Before the start of each FY, the Committee must prepare a consolidated budget and estimates for all local government authorities after consultation with the Treasury, to be presented by the Minister for Local Government to the National Assembly.

All local governments are required by Section 51 of the Local Government Act to prepare and submit detailed estimates of their revenue and expenditure for each financial year to the Local Government Finance Committee. The Committee may either approve the estimates as submitted or disallow such estimates in whole or in part or refer such estimates back to the Council for further consideration. Local Governments are prohibited from incurring any expenditure not included in the approved estimates except with exceptional approval of the Committee. Any reallocation of sums contained in the approved estimates can only be done with the approval of the Committee. Grants from National Government to local governments are distributed only in accordance with the formula recommended by the Finance Committee and as approved by the National Assembly. The Committee has therefore been assigned extensive veto powers over local governments in matters of finance.

DEBT. 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.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: UCLG
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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data: IMF Government Finance Statistics – Malawi // Ministry of Finance, Economic Planning and Development. Department of Economic Planning and Development. Annual Economic Report 2016/17 // UCLCA (2016) The State of Local Economic Development in Malawi // World Bank (2016) Malawi Economic Monitor Harnessing the Urban Economy.
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MALI

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOW INCOME

LOCAL CURRENCY: WEST AFRICAN CFA FRANC (XOF)

POPULATION AND GEOGRAPHY

Area: 1 240 190 km^2
Population: 18.542 million inhabitants (2017), an increase of 3.0% per year (2010-2015)
Density: 14.9 inhabitants / km^2
Urban population: 41.4% of national population
Urban population growth: 4.9% (2017 vs 2016)
Capital city: Bamako (13.2% of national population)

ECONOMIC DATA

GDP: 41 billion (current PPP international dollars), i.e. 2 214 dollars per inhabitant (2017)
Real GDP growth: 5.4% (2017 vs 2016)
Unemployment rate: 9.6% (2018)
Foreign direct investment, net inflows (FDI): 265.6 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 20.5% of GDP (2017)
HDI: 0.427 (low), rank 182 (2017)
Poverty rate: 47.2 (2015)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Mali is a secular and multi-party Republic. This republican form is enshrined in the Constitution promulgated on 25 February 1992. The President of the Republic is the Head of State. He/She is elected by direct universal suffrage for a five-year term, renewable once. The National Assembly is the single chamber of Parliament. A new Constitution is currently being discussed as part of the institutional reforms adopted under the Algiers Peace Agreement signed in 2015. However, the constitutional review has been suspended until a broad consensus on the issue can be reached.

The commitment to decentralization, expressed in the aftermath of independence, was enshrined in the 1992 Constitution, with the principle of the free administration of local and regional authorities. From that time on, decentralization was seen as a means of safeguarding national unity and territorial integrity. The institutional framework is then anchored in legislation and periodically updated. A High Council of Local and Regional Authorities made up of national councillors representing local and regional authorities was officially established in 2002. It is consulted by the government on all matters concerning local and regional development policy, environmental protection and improving the quality of life of citizens within local and regional authorities.

Following the adoption of the Algiers Peace Agreement, the main texts on decentralization, territorial administration and elections were reviewed: Law determining the conditions for the free administration of territorial authorities, law establishing the Local Government Code, law establishing the general status of officials of territorial authorities, law establishing the specific status of the Bamako district. The related laws were adopted on 14 September 2017. However, the content of Act n°2017-051 of 2 October 2017 on the Local Government and n°2017-052 of 2 October 2017 determining the conditions for the free administration of local and regional authorities has raised certain reservations that are being addressed in the context of ongoing consultations between Malian stakeholders.

TERRITORIAL ORGANISATION

2016	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	Municipalities *(Communes)*	Districts *(Cercles)*	10 Regions + District of Bamako	
	Average municipal size: 26 375 inhabitants			
	703	49	11	763

OVERALL DESCRIPTION. Mali has three levels of decentralized local authorities: Communes (703), Cercles (49), Regions (10) and the District of Bamako. All these territories are set up as local governments.

COMMUNES. The municipalities (*communes*) are managed by a municipal council elected by direct universal suffrage. The mayor and deputies, who form the municipal office, are elected by the municipal councillors. The 703 municipalities, including 666 rural municipalities, are composed of villages / fractions (in rural areas) or neighbourhoods (in urban areas). The District of Bamako itself is composed of 6 municipalities.

CERCLES. The *cercle* is a territorial authority grouping several municipalities, endowed with a legal personality and benefiting from financial autonomy. It provides a framework for aligning the development strategies and actions of the municipalities that make it up. The council of the *cercle* is composed of members elected by the municipal councillors for a 5-year term.

REGIONS. The regions are managed by a regional council. Regional councillors are elected by the municipal councillors.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

According to the 2017 Local Government Code, sub-national governments have general and exclusive responsibilities. The general responsibilities are the same for all local authorities. They follow a classic pattern in West Africa with overall responsibility for creating and managing public services as well as development programmes, land management, agricultural management and environmental protection. The specific responsibilities differ according to the type of local authority concerned.

Progress has been made in decentralizing responsibilities in some sectors, such as health and education, but the transfer of resources corresponding to the transfer of responsibilities has been slow, hindering the ability of local authorities to meet their growing expenditure responsibilities. In addition, sub-national governments are not sufficiently involved in programme budgeting processes, which affects the ability to effectively achieve sustainable results at the local level.

The Peace and Reconciliation Agreement signed in 2015 and the relevant law stipulate that any transfer of competences to a local authority must be accompanied by a transfer of the corresponding resources and a budget linked to the competences to be transferred and exercised.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONS	CERCLES	COMMUNES
1. General public services	Creation and management of local public services	Creation and management of local public services	Creation and management of local public services
2. Public order and safety	Regulations on administrative police	Regulations on administrative police	Regulations on administrative police
3. Economic affairs /transports	Livestock and fisheries	Livestock and fisheries	
4. Environmental protection	Environmental protection	Environmental protection	Environmental protection; Sanitation; Waste management
5. Housing and community amenities	Land management and acquisition of property assets	Land management and acquisition of property assets	Land management and acquisition of property assets
6. Health	Health; public hygiene; Sanitation	Health	Health
7. Recreation, culture & religion			
8. Education	Technical and vocational education; Special education; Vocational training and apprenticeship	General secondary education; Vocational training and apprenticeship	Pre-school; Basic education; Non-formal education; Vocational training and apprenticeship
9. Social protection			

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: communes, cercles and regions. Detailed data are not available.	SNA 1993	Availability of fiscal data: **Low**	Quality/reliability of fiscal data : **Low**

GENERAL INTRODUCTION. Under Act No. 2012-007 of 07 February 2012, on the Local Government Code, the budget is the act by which all the charges and resources of local authorities are provided for and authorised. The financial year shall begin on 1 January and end on 31 December of the same year.

Finance ministry officials hold resources and control their use. The presidents of the decentralised entities (Circles, Regions) or mayors are the authorising officers.

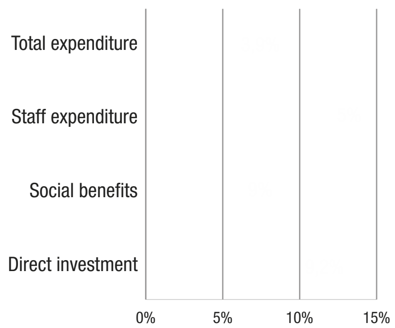
A compulsory amount of ordinary revenue from the budget is allocated to capital expenditure. The local government may establish a supplementary budget during the financial year when the accounts for the previous financial year are known. It shall be drawn up and voted on the same conditions as the original budget and shall include the authorising officer's administrative account and the payer's revenue and expenditure account.

A reform of local taxation is currently being discussed with the aim of improving the financial resources of local authorities. It is structured around the following lines of action: mobilizing the resources of local authorities; capacity building; improving the financial management of local authorities; and improving local financial governance. This reform is part of the broader framework of Mali's Public Financial Management Reform Plan (PREM) 2017-2021, adopted by the Government in September 2016.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure			
Inc. current expenditure			
Staff expenditure			
Intermediate consumption			
Social expenditure			
Subsidies and current transfers			
Financial charges			
Others			
Incl. capital expenditure			
Capital transfers			
Direct investment (or GFCF)			

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



MALI

UNITARY COUNTRY

EXPENDITURE. Sub-national governments' expenditures are financed from their own revenues, unconditional and earmarked transfers for investment purposes through the National Investment Agency for Local Authorities (ANICT) or for specific sectors (health, education, water, etc.). Current expenditure accounts for the bulk of sub-national government expenditure.

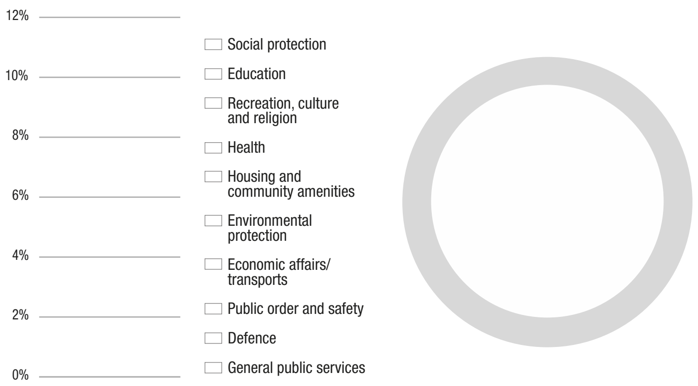
DIRECT INVESTMENT. Through bilateral cooperation programmes on decentralization and state reform in Mali, co-financed in particular by the European Union, several regional councils have been able to carry out economic promotion investment projects (livestock markets, slaughterhouses, market gardening irrigation).

The National Investment Agency for Local Authorities (ANICT), created in 2007, is the major body through which transfers of resources for investment to Malian local authorities are made. However, its operating mode does not yet ensure stable revenues for the municipalities and constrains their investment capacity.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

The main categories of expenditure of Malian local authorities are economic affairs/transport, mainly livestock and fisheries, education, general and administrative public services and health. In other sectors, local authorities report a lack of intergovernmental transfers and therefore of resources at their disposal to act effectively.

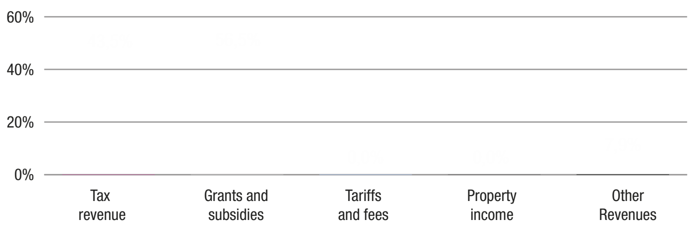
% GDP	% SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue			
Tax revenue			
Grants and subsidies			
Tariffs and fees			
Property income			
Other revenues			

% SNG REVENUE



OVERALL DESCRIPTION. The level of overall resources of Mali's local authorities is among the lowest in the WAEMU countries. Thanks to the increase in intergovernmental transfers, they have increased slightly since the beginning of the decade but remain limited. In 2013, transfers to local authorities accounted for about 75% of total local resources.

All taxes and duties due to local authorities are managed by Treasury officials on behalf of the municipalities and within the framework of their respective budgets, which are separate from the State budget. In addition, the General Directorate of Taxes collects certain taxes on behalf of the municipalities and pays them their share according to a previously established distribution key. Local authorities also benefit from resources transferred from the National Support Fund for Local Authorities (FNACT), which is managed by the National Investment Agency for Local Authorities (ANICT), which is responsible for financial project management under the supervision of the Ministry of Local Authorities. FNACT is funded by contributions from the national budget and international donors.

TAX REVENUE. In 2014, 93% of the tax revenue collected came from the patent and 4.5% from the road tax.

The sharing of responsibility for the collection of taxes on behalf of local and regional authorities between different finance departments leads to some confusion and partly explains the low level of local tax revenues. Local taxation is deficient both in terms of revenue and accountability of local authorities. The tax bases are unclear and their yield is very low.

GRANTS AND SUBSIDIES. The allocation of subsidies is the responsibility of the National Investment Agency for Local Authorities. To this end, since 2007, the Agency has been managing the National Support Fund for Local Authorities. There are five types of grants:

- The Investment Grant (DIN) and the Inter-Community Grant (DIC), the purpose of which is to finance capital investments. The DIN allocation criteria include the level of wealth, the number of inhabitants, the distance from the community to the major supply centres and a communal poverty index determined by the Sustainable Human Development Observatory. In addition, criteria relating to the tax effort calculated on the basis of the recovery rate of the Regional and Local Development Tax (RLDT) and to good local governance are also included;
- The Technical Support Grant (DAT) and the Support Grant for the Operation of Territorial Authorities (DAFCT) contribute to the financing of current expenditure;
- Finally, the Guarantee Grant for Territorial Authorities Borrowings (DGECT) is intended to facilitate bank loans to local authorities for the implementation of projects with a high return on investment.

The transfer system has limited predictability and is largely dependent on external partners (Bilateral and Multilateral Support Programmes).

The Malian government has undertaken to sign bilateral performance contracts with local authorities, with the aim of facilitating the transfer of appropriate resources. As part of national development policies and strategies, the government committed itself to transferring 30% of tax revenues to local and regional authorities by the end of 2018; this percentage reached 17% in 2016. The amounts transferred to local authorities have increased significantly over the past three years, from CFAF 170.9 billion (approximately CFAF 788 million (approximately $45 million PPP or $45 PPP per capita) in 2015 to CFAF 326.2 billion (approximately $1.5 billion PPP or $80 PPP per capita) in 2018. Nevertheless, it should be noted that these amounts (relatively large compared to the transfers made in the other countries of the sub-region) include a significant part relating to the payment of the wage bill of teachers transferred to local authorities.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. The financial management of local authorities is based on the principles of public accounting. The only account that a local authority can hold is at the level of the public collector or accountant. Unless authorised by the national authorising officer, the Minister in charge of the Economy and Finance, local authorities may not hold accounts in the books of financial institutions.

In accordance with the regulations, a public debate is planned on four aspects before the adoption of the budget: The status of implementation of the Social, Economic and Cultural Development Plan (PDSEC), the administrative account for the previous year, the operating status of the local government's bodies and services and the draft budget. Once this has been completed, the budget is voted by the council of the local authority in balance of expenditure and revenue, before 31 October of the year preceding its execution. It is then submitted to the regulatory authority for approval and further implementation.

DEBT. The 2017 Local Government Code remains relatively silent on the possibilities of borrowing by local authorities. Borrowings must be used exclusively to finance investments. They must be authorised by government authorities, but the procedures for such authorisation are not specified.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: UNCDF
Last update: 02/ 2019
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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data: IMF // Ministry of Finance Document de Programmation Pluriannuelle des Dépenses et Projet Annuel de Performance (DPPD-PAP) portant sur la période 2019-2021.
Other sources of information: The World Bank (2018) Mali Fiscal Decentralization for Bettter Service Delivery // République du Mali (2018) Revue des Dépenses Publiques et de la Responsabilité Financière de l'Etat - Rapport sur la Performance de la Gestion des Finances Publiques sur la période 2013-2015 selon le cadre méthodologique PEFA 2016 // Cities Alliance and UCLGA (2018) Assessing the institutional environment of local governments in Africa // RIAFCO, UNCDF, FMDV (2018) Studies on financial resource sustainability and diversification for Local Government Financing Institutions in Africa // IMF (2015) Mali, Fiscalité locale et décentralisation.

MAURITANIA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: OUGUIYA (MRO)

POPULATION AND GEOGRAPHY

Area: 1 030 700 km²
Population: 4.420 million inhabitants (2017), an increase of 3.0 % per year (2010-2015)
Density: 4 inhabitants / km²
Urban population: 52.8% of national population (2017)
Urban population growth: 4.4% (2017 vs 2016)
Capital city: Nouakchott: 27% of national population (2017)

ECONOMIC DATA

GDP: 17.5 billion (current PPP international dollars), i.e. 3 949 dollars per inhabitant (2017)
Real GDP growth: 3.5% (2017 vs 2016)
Unemployment rate: 9.9% (2017)
Foreign direct investment, net inflows (FDI): 588 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 58.5% of GDP (2017)
HDI: 0.52 (low) rank 159 (2017)
Poverty rate: 6% (2014)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

According to the 1991 Constitution, Mauritania is a unitary semi-presidential regime. The President of the Republic has important prerogatives, including the appointment of the Prime Minister, members of the High Islamic Council, the President of the Supreme Court and the Court of Audit. As Chief of the Executive, the president has the possibility to amend the Constitution by referendum. Since the constitutional referendum of 5 August 2017, the President may be re-elected indefinitely. In addition, the Parliament has become unicameral with a National Assembly composed of 157 elected members and the abolition of the Senate. Several bodies within a Fatwa Supreme Council were also merged.

The principle of decentralization was first established by law in 1986 with the acknowledgement of municipalities as self-governments. Prior to this, subnational administrative authorities (regions and departments) had been created by the national regionalization policy (1968). The decentralization framework was unclear according to several White Papers on Decentralization (the last one in 2013). Since 2007, the Ministry of Interior and Decentralization is in charge of supervising decentralization reforms through the Directorate of Local Governments. In 2010, a national declaration laid down the principles for a decentralization reform which led to an amendment of the Constitution (new Article 98 Title X) in 2017 and to an organic law (No. 2018-010) transforming regions into a new category of decentralized self-government with political and financial autonomy. In practice, governance remains centralized and local councils might be placed under the authority and control of national ministries.

Institutional consultation mechanisms exist at the subnational levels, in the form of regional and municipal committees. There are few of them. At the regional level, the main bodies are the Regional Poverty Reduction Committees (CRLPs), Regional Development Committees (CRDs) and thematic committees such as Regional Health Committees (CRSs). However, until 2018, there was no legal or financial framework enabling regional committees to operate fully. At the municipal level, the main mechanism, with clear allocation of responsibilities, is the Citizen Consultation Committee (CCC). The committee participates in the programming of the Municipal Development Plans. It is composed of representatives of the City Council, moral and traditional authorities, cooperatives and associations as well as social, economic and financial stakeholders and representatives of deconcentrated technical bodies. They exist in half of the municipalities. They are consultation mechanism and should not be considered as an institutional space for citizen participation.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	Municipalities *(Baladiya)*		Regions *(Wilayas)*	
	Average municipal size: 16 121 inhabitants			
	218		15	233

OVERALL DESCRIPTION. Since the independence in 1960, the Constitution (1961) acknowledges the territorial organization of the country in communes. In 2018, regions were set up as into decentralized local authorities. The country is now organized in a two-tier system composed of two levels of self-government and a deconcentrated territorial administration, the departments. There are 218 municipalities (*baladiya*),15 regions (*wilayas*) and 52 departments (*moughataa*). Local elections are held every 5 years (the last ones were in September 2018). There are significant disparities in terms of population size and territorial boundaries. Likewise, municipalities are unevenly distributed among the regions.

MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION. Municipalities are led by a municipal council with 9 to 21 seats depending on the population of each municipality. Municipal councilors are elected by direct universal suffrage by men and women over 21 years of age, using a mixed system of proportional representation and two-round majority voting. The council elects the mayor and his/her deputies. Municipalities in the same geographical area are encouraged to form inter-municipal structures, the modalities of which are to be set by national decrees. Until 2018, the Urban Community of Nouakchott (CUN) was the only existing model of an inter-municipal structure (Act No. 2001-051) with nine municipalities (Act No. 2001-070); the CUN then became the Region of Nouakchott.

REGIONS. In 2018 (Act 2018-010), the 15 regions (*wilayas*), previously deconcentrated entities of the State, were grouped into 6 administrative regions and set up as decentralized local authorities, each with a regional council composed of members elected by direct universal suffrage for five years. They elect the governor (*wali*), as the head of the council, and his/her deputies. The Region of Nouakchott is divided into 3 wilayas (north, south and west). Each region is divided into departments, which are in turn divided into districts. The departments are placed under the authority of a prefect (*hakem*), while the arrondissements are managed by a head of district, both of whom are representatives of the national government.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The powers of the municipalities are set out in Article 2 of Ordinance No. 87-289 of 20 October 1987 establishing the municipalities. No further amendments were made to the general assignment of municipalities' responsibilities, except in the specific case of the distribution of tasks between the Urban Community (now the Region) of Nouakchott and its member municipalities. Despite the legislation, the division of responsibilities between local governments and territorial administrations was unclear due to the decoupling of activities and frequent changes in supervising ministries. Line ministries often assume de facto responsibility for the functions assigned to municipalities. The Poverty Reduction Strategy Paper (PRSP) adopted by the Government (2011-2015) assigned additional responsibilities to regional administrations to fight poverty. The most recent reform (Act No. 2018-10) seeks to clarify the situation by assigning to the regions a broad and important set of competences, divided into two categories: own competences (described in the Article 4) and transferred competences (described in Article 5). These are partially identified in the following nomenclature.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONS	MUNICIPAL LEVEL
1. General public services	Maintenance of Regional public facilities	Administrative services (marriages, births, etc.);Maintenance of municipal public facilities and social infrastructure
2. Public order and safety	Civil protection; Fire and bush fire fighting	Municipal police; Municipal road and traffic signs
3. Economic affairs/transports	Regional road networks (maintenance and construction); Agriculture and rural development; Support for local businesses; Regional tourism; Energy provision	Local roads (maintenance and construction); Urban public transportation; Local tourism
4. Environmental protection	Nature conservation; Soil and groundwater protection; Sanitation (transferred since 2018)	Parks and green spaces; Waste management; Street cleansing; Construction and renovation
5. Housing and community amenities	Water management (transferred since 2018)	Maintenance of community amenities, particularlydrinking water supply and street lighting; Urbanism and territorial planning
6. Health	Health facilities (hospitals, dispensaries)	Construction, maintenance and equipment of dispensaries, maternal and childcare centers
7. Recreation, culture & religion	Museums and heritage sites; Libraries; Sports facilities; Youth policies	Communal sports and cultural facilities including libraries and local museums
8. Education	Secondary and higher education (including literacy and vocational training); Construction, equipment and maintenance of establishments; Recruitment and management of support staff	Construction and maintenance of school buildings for pre-primary and primary education
9. Social protection	Social welfare and assistance to elderly people and people with disabilities Social infrastructure (transferred since 2018)	Social protection and assistance to the poor

SUBNATIONAL GOVERNMENT FINANCE

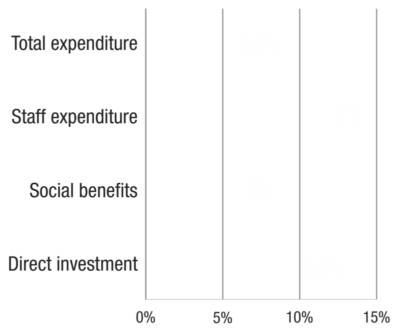
Scope of fiscal data: municipalities. Data is not consolidated at national level and national accounts use different nomenclatures. There is a probability of double counting.	Direction générale des collectivités territoriales	Availability of fiscal data: **Low**	Quality/reliability of fiscal data : **Low**

GENERAL INTRODUCTION. There is a general lack of data on subnational finance in Mauritania. Municipal finances are under the supervision of the Ministry of Finance, and its Local Finance Department. However, audits of financial accounts have been sporadic, according to a recent (2018) assessment of institutional environment of local governments in Africa by Cities Alliance and United Cities and Local Governments Africa. Legal frameworks provide little information on compulsory expenditures, but clearly define the sources of revenue and leeway of subnational governments in the General Tax Code (adopted in 1982) and National Acts on decentralisation. In April 2019, the National Assembly adopted a draft law to renew the General Tax Code.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure			
Inc. current expenditure			
Staff expenditure			
Intermediate consumption			
Social expenditure			
Subsidies and current transfers			
Financial charges			
Others			
Incl. capital expenditure			
Capital transfers			
Direct investment (or GFCF)			

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



MAURITANIA

UNITARY COUNTRY

EXPENDITURE. There are no consolidated data available on subnational government expenditure in Mauritania. According to the Memento of the elected head of the regional council (2018), regions are required to allocate their budget to staff expenditure (including salaries, allowances and social security), operating costs of services, maintenance of real estate and assets, contributions to local development projects, mandatory insurance rates, repayment and interest on debts and contributions to solidarity and equalization funds.

DIRECT INVESTMENT. According to the 2018 Assessment of the Institutional Environment of Local Governments in Africa by Cities Alliance and UCLG Africa, municipal investments represented 4% of local governments spending in 2013. Municipalities and Regions must include direct investment in their annual budgets to justify 30% of the resources mobilized through the Regional Development Fund.

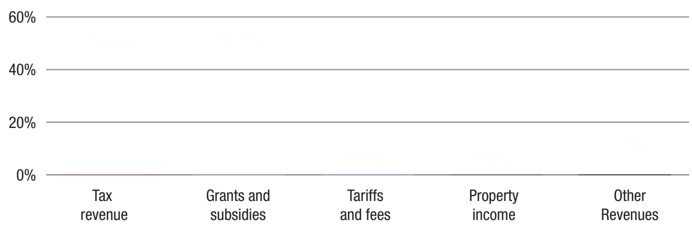
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

% GDP	% SNG EXPENDITURE

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue			
Tax revenue			
Grants and subsidies			
Tariffs and fees			
Property income			
Other revenues			

% SNG REVENUE



OVERALL DESCRIPTION. Municipal governments have financial autonomy (Act 90-004) but this is rather dysfunctional. According to Article 68 of Act 87-289 and the available data, subnational governments revenue come from four sources. These include tax revenues, composed of taxes collected directly by local governments and those transferred to them through a tax-sharing system; and tariffs and fees including sales of goods and services, administrative fees as well as revenue from municipal assets. Transfers, both conditional and unconditional, constitute the third and main source of income. The two unconditional grants, provided by the Regional Development Fund and the Inter-Municipality Solidarity Fund include an equalization modality. Lastly, regions and municipalities may receive donations from international partners, including the private sector and NGOs. A 2016 study on municipal finance reports that in 2014, the revenue of municipalities represented MRO 9 036 million (21 dollars PPP per inhabitant) representing 0.6% of GDP. (PPP conversion factor, population and GDP estimated by the World Bank for 2014).

According to a study on municipal finance conducted by the Ministry of Interior and the National Integrated Programme for Decentralization, Local Development and Youth Employment (PNIDDLE), in 2014 the share of municipal revenue in total public revenue was low (2.1% of total public revenue) including grants and subsidies from international partners.

TAX REVENUE. Municipal and regional governments have the power to levy taxes and determine compensatory tariffs for general services. The tax collection rate in Mauritania is low due to the weak institutional and technical capacities of municipal governments and the lack of incentives from national governments. In 2014, total local government tax revenue represented approximately MRO 3 433 million, (8 dollars PPP/inhabitants) with property taxes accounting for the largest share. It accounts for 38% of total local government revenue. Some taxes are collected by the tax administration and transferred back to municipalities. These include the "municipal tax" (6% of local government tax revenue in 2014) which is a tax on business activities developed on the territory of the municipality. The tax rate is set annually by the municipal council (new article 465 of the General Tax Code). Article 470 of the General Tax code allows local governments to collect tax on land rights on the public domain they manage. In addition, the legal framework grants municipalities the authority to levy additional cents from national taxes levied on their territory, provided that it respects the same tax base.

Other taxes are directly issued and collected by the municipalities (2001 Finance Act). These are land taxes (including taxes on built land and tax on agricultural land); property taxes (including a property tax specific to settlers living in tents) and patents (including commercial activities and interurban transportation). In 2014, these municipal taxes represented approximately MRO 1 597 million, (4 dollars PPP/inhabitants) with property taxes accounting for the largest share. The Urban Community of Nouakchott accounted for 52% of total local tax revenues.

GRANTS AND SUBSIDIES. In Mauritania, two categories of intergovernmental transfers should be distinguished: conditional and unconditional transfers.

Conditional transfers refer to specific development programs supported by international donors such as the World bank, the European Union, the French Development Agency or the German Society for International Cooperation. Funds are channeled through national funding to subnational governments by the central governments, which also contribute from its own budget. These include financing municipalities through programmes such as the Integrated National Programme for Decentralization, Local Development and Youth Employment (PNIDDLE), the Promotion of Regional Initiatives for Equitable Growth (VAINCRE) supporting municipalities in the Assaba, Guidimakha and Gorgol regions; or funding to regions, for example through the Regional Governance and Local Economic Development Support Programme (PAGOURDEL) for 8 regions (Trarza, Brakna, Gorgol, Assaba, Guidimakha, Tagant, Hodh El Gharbi and Adrar) for a total current amount of USD 10 million over the 2017-2021 period.

Unconditional transfers. These are mobilized through two national funds. First, the Regional Development Fund (FRD), created by decree (Act 2011-59). According to the legal framework until 2016, 98% of the funds were directly allocated to the municipalities for operating (40%) and for equipment/investment (60%) expenses. Since 2016, and following the recommendation of the Association of mayors of Mauritania, this ratio has been reversed. The allocation follows ad hoc criteria: 20% of the funds are equally allocated between all regions; 50% are allocated according to demographic factors, benefiting larger municipalities; 30% according to the poverty rate, for the benefit of the poorest municipalities. FRD funds remained stable from 2013 to 2016 at MRO 3 430 million per year (approximately 33 million dollars PPP (based on the 2014 conversion factor)).

Second, the Inter-Municipal Solidarity Fund (FIS), established by Article 70 of Act 8-.289. It is financed by the mandatory contribution of local governments themselves, from 1-3% of their annual budget. In practice, the contribution to the Fund is often budgeted but not paid. Information on the management of the Fund and eligibility criteria is very limited. Several reform proposals were presented since 2006 due to the unpredictability of the financing and limited monitoring by national government.

OTHER REVENUES. Administrative fees and charges include market place selling fees, visitor fees, exploitation fees, etc. while property income consist of property leasing and sales and income from municipal companies and public utilities. By law, the amounts of fees and charges is determined annually by decision of the Municipal Council within the maximum limit of 1 500 000 Ouguiya. In 2014, revenue from charges and fees represented approximately MRO 293 million, (1 dollars PPP/inhabitants) with property taxes accounting for the largest share. The Urban Community of Nouakchott accounted for 52% of total local tax revenues.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. Budget rules are set by the Ministry of the Interior and the Ministry of Finance which have authority and control over regional and municipal budgets. Until 2018, the ministries formally delegated this power to the Wali except in the case of the municipalities of the former Urban Community of Nouakchott.

DEBT. Current legislation allows regions and municipalities access to loans with sovereign guarantees. This has generally not been used by municipalities due to a lack of financial capacities and clarity in the institutional framework. This is seen as one of the opportunities offered by the 2018 reforms on regionalisation, although the legal framework is still expected to evolve.

Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data: Ministère de l'Intérieur et de la Décentralisation, Direction Générale des Collectivités territoriales. Capacités institutionnelles et performance, dashboard and statistiques // Subventions du Fonds Régional de Développement (2016 and 2018).
Other sources of information: UCLG Africa and Cities Alliance (2018) Assessing the tInstitutional Environment of Local Governments in Africa // Cheikh Sidya « Modifications des règles de fonctionnement du fonds régional de développement » in Le360afrique.com, accessed on 18/04/2019 // Ahmed Mahmoud Boilil (2016) Etude de la fiscalité et des finances des communes en Mauritanie, Manuel de la Fiscalité local en Mauritane // Ahmed Mahmoud Boilil (2016) Etude de la fiscalité et des finances des communes en Mauritanie, Rapport final, Direction Générale des Collectivités territoriales // Étude sur la réforme du FIS. (2016) // Centre mauritanien d'Analyse Politique (2010) Analyse de l'intercommunalité à travers les rapports croisés CUN et les communes.

MAURITIUS

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: MAURITIAN RUPEE (MUR)

POPULATION AND GEOGRAPHY

Area: 2 040 km^2
Population: 1.264 million inhabitants (2017), an increase of 0.2% per year (2010-2015)
Density: 620 inhabitants / km^2
Urban population: 40.8% of national population
Urban population growth: 0% (2017 vs 2016)
Capital city: Port Louis (12% of national population)

ECONOMIC DATA

GDP: 28.2 billion (current PPP international dollars), i.e. 22 308 dollars per inhabitant (2017)
Real GDP growth: 3.8% (2017 vs 2016)
Unemployment rate: 6.8% (2017)
Foreign direct investment, net inflows (FDI): 293 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 17.4% of GDP (2017)
HDI: 0.790 (high) rank 65 (2017)
Poverty rate: 0.5% (2012)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Mauritius is a unitary republic with a unicameral parliamentary system of government. The National Assembly is composed of 70 members directly elected for a five-year term by universal suffrage. The President is the head of state and is indirectly elected by the National Assembly for a five-year term.

Mauritius, a Small Island Developing State, has a centralized system of government. Decentralization is not enshrined in the 1968 Constitution, with the exception of the guaranteed special status of the Island of Rodrigues, which has its own Regional Assembly (chapter VIA). The legal framework for local governments is provided by the 2011 Local Government Act, and by the 2001 Rodrigues Regional Assembly Act: Local authorities must be established at city, municipal, district and village levels.

The local authorities in Mauritius fall under the responsibility of the Ministry of Local Government and Outer Islands (MLGOI). The minister is responsible for overseeing the local governments and formulating policies and legislative framework to ensure the smooth running of local council matters. Overall responsibility for Rodrigues administration falls within the competence of the prime minister's office.

Regarding intergovernmental relations, local government may establish joint committees between two or more authorities in their common interest. In Rodrigues, the chief commissioner is required to inform the prime minister concerning the activities of the regional assembly. The executive council must submit to the prime minister policy statements on matters relating to the island of Rodrigues and may refer specific matters to the prime minister for the consideration of cabinet.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	130 village councils (128 rural, 2 urban)	5 municipal councils (4 town councils, 1 city council) 7 district councils	The island of Rodrigues	
	Average municipal size: 9 692 inhabitants			
	130	12	1	143

OVERALL DESCRIPTION. Local governments in Mauritius are divided into a three tiered system, of which, the Island of Rodrigues can be considered the highest level. There is no other level of subnational government in the Rodrigues island. Since 2002, the country is sub-divided into nine districts, the intermediary tier of government, which can be categorized as urban and rural areas. The urban areas form a conurbation composed of the capital Port Louis and the Plains Wilhems district. The district of Port Louis has a city council and the district of Plains Wilhems is structured into four town councils and two villages. The remaining seven district councils are rural areas, sub-divided into 128 village councils. The villages represent the first level of self-government. City, town and village councillors are elected by universal suffrage for a six-year term. District councils do not have directly elected representatives, but are composed of indirectly elected representatives from the village councils within their jurisdictions. The Island of Rodrigues has its own Regional Assembly.

ISLAND OF RODRIGUES. The Rodrigues Regional Assembly consists of 18 members who are directly elected for five years, 12 of whom are local regional members (two from each of the six local regions) elected by the first-past-the-post system, and six elected by proportional representation. The executive power of the assembly is vested in the executive council headed by a chief commissioner, who is indirectly elected by assembly members for a five-year term.

VILLAGE COUNCILS. The village council is the basic unit of local government and consists of nine village councillors. Village councils are headed by a part-time president, who is indirectly elected every two years by the village councillors.

CITY AND TOWN COUNCILS. There are five municipal councils: the city council of Port-Louis and the town councils of Beau Bassin-Rose Hill, Curepipe, Quatre Bornes and Vacoas-Phoenix. Each of them is headed by a Chief Executive who is responsible to the Permanent Secretary of the MLGOI. There is also a Mayor indirectly elected every two years by its peers in each city and town council.

DISTRICT COUNCILS. The seven district councils consist of representatives of village councils. They are indirectly elected every two years by secret ballot from among the councillors of each village council in the district. The District Council Chairperson is also indirectly elected every two years.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The 2011 Act provides municipalities and districts with the same competences and powers. These include, among others, education (nursery and pre-primary schools), health protection, construction and maintenance of roads (cleaning and lighting), environment (waste management and public spaces), cemeteries, organization of sports and cultural activities, and economic promotion. Municipalities and districts carry out these responsibilities through six departments namely: Administration Department, Finance Department, Land Use and Planning Department, Public Infrastructure Department, Public Health Department and Welfare Department. Each Department has a Technical Head under the supervision of the chief executive or district chairperson. Municipal and district councils may appoint standing committees with no delegated powers in the areas of public health, public infrastructure and welfare. Village councils' functions significantly overlap with those of municipal and district councils in specific fields such as environment protection and culture and recreation. However, villages are not responsible for the construction and maintenance of roads. Village councils may, subject to the approval of the Minister of Local Government and Outer Islands, carry out any other functions assigned to municipal and district councils. The regional assembly of Rodrigues has extensive responsibilities in the fields of general public services, economic affairs and transportation, environment protection and culture and recreation.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGION (ISLAND OF RODRIGUES)	INTERMEDIATE LEVEL (CITY, TOWNS AND DISTRICTS)	MUNICIPAL LEVEL (VILLAGES)
1. General public services	Public buildings and facilities (town houses etc.); Administrative and permit services (civil status register); Statistical office; Cemeteries and crematoria	Public buildings and facilities (town houses etc.); Administrative and permit services	Cemeteries and crematoria
2. Public order and safety	Civil protection; Criminal justice; Firefighting		
3. Economic affairs /transports	Tourism; Road networks and facilities (regional); Public transport (road); Telecommunications and IT; Commerce; Employment policies and services; Agriculture	Road networks and facilities (local); Parking; Public transport (road); Promotion of local economic development	
4. Environmental protection	Waste management (collection, treatment and disposal of waste); Parks and green areas; Nature preservation	Waste management (collection, treatment and disposal of waste); Cemeteries and crematoria; Nature preservation; Parks and green areas; Air pollution; Street cleaning; Sewerage (waste water management)	Waste management (collection, treatment and disposal of waste); Street cleaning
5. Housing and community amenities	Regional planning	Public lighting; Housing (construction and renovation); Housing (management); Urban and land use planning	
6. Health	Health protection	Health protection	
7. Recreation, culture & religion	Religious affairs; Cultural activities (theatres, exhibition halls); libraries; cultural heritage and monuments; Museums; Sports and recreation	Museums and libraries; Cultural activities (theatres, exhibition halls); Sports and recreation	Museums and libraries; Cultural activities (theatres, exhibition halls); Sports and recreation
8. Education	Vocational education and training	Pre-primary education (kindergarten and nursery); Vocational education and training	Pre-primary education (kindergarten and nursery); Vocational education and training
9. Social protection	Support services for families; Social security (administration)		

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: regional government (Rodrigues Regional Assembly) and local governments (city, towns and districts).	IMF GFS	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Low**

GENERAL INTRODUCTION. Local government expenditure and revenues in Mauritius represent a small share of national GDP. The financial administration of sub-national governments, local governments and the Rodrigues Autonomous Assembly is under the oversight of the national government. In accordance with the 2011 Act, local government budget estimates must be approved by the Minister of Local Government and Outer Islands (MLGOI) and submitted to the Ministry of Finance and Economic Development.

Municipalities, districts and villages have the authority to manage and allocate funds, incur expenses and borrow with the prior approval of the MLGOI. In addition, local governments must submit a monitoring report of actual revenues and expenditures to the MLGOI, in accordance with Article 141 of the 2011 Act. The MLGOI is also responsible for the allocation of "grants as aid" and grants for capital investment projects.

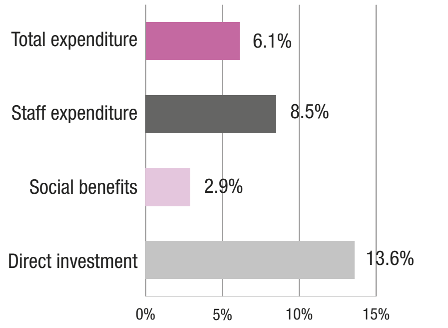
MAURITIUS

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**320**	**1.5%**	**100%**
Inc. current expenditure	272	1.3%	85.0%
Staff expenditure	158	0.8%	49.4%
Intermediate consumption	67	0.3%	20.8%
Social expenditure	33	0.2%	10.4%
Subsidies and current transfers	14	0.0%	4.4%
Financial charges	0	0.0%	0.1%
Others	0	0.0%	0.0%
Incl. capital expenditure	48	0.2%	15.0%
Capital transfers			
Direct investment (or GFCF)	48	0.2%	15.0%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. In 2016, sub-national government expenditure accounted for 6.1% of government expenditure and 1.5% of GDP. 85% of SNG expenditure is devoted to covering current expenditures, almost half of which is employed to pay for staff expenditure. The second most important line of expenditure is intermediate consumption of goods and services, which accounts for almost 21% of subnational expenditure.

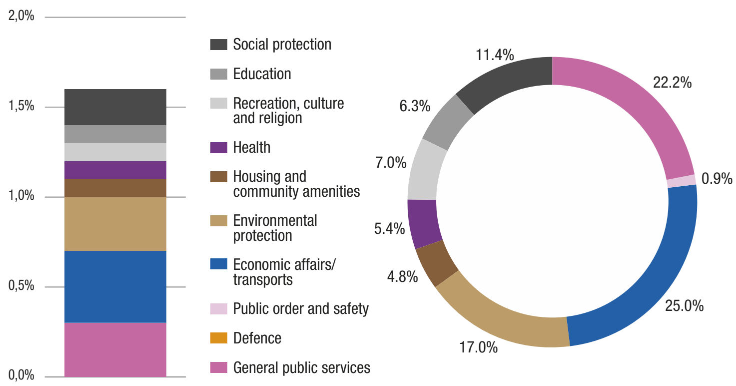
DIRECT INVESTMENT. 15% of public capital investments are made by sub-national governments. The Public Sector Investment Programme approved for the period 2016-2020 specifies the main areas of public capital investment, including those areas of investment for which local and regional authorities are responsible, namely water and waste water, land transport infrastructure, the energy sector, social and community development, port development and airport development.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

In FY 2016, the majority of subnational governments' expenditures were dedicated to the following sectors: economic affairs and transportation (25%), general public services (22%), environmental protection (17%), social protection (11%) and recreation, culture and religion (7%). These sectors correspond to the responsibilities which are assigned to the municipal and district councils as well as the Rodrigues Regional Assembly.

% GDP

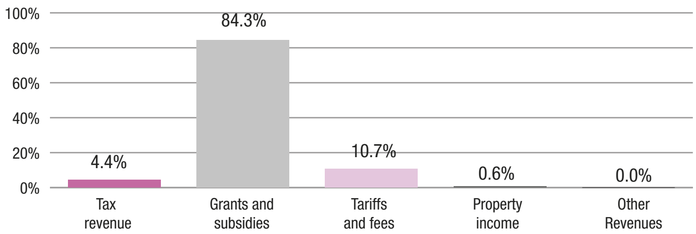
% SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**326**	**1.5%**	**6.9%**
Tax revenue	14	0.1%	0.4%
Grants and subsidies	275	1.3%	
Tariffs and fees	35	0.2%	
Property income	2	0.0%	
Other revenues	0	0.0%	

% SNG REVENUE



OVERALL DESCRIPTION. Municipal and district councils are entitled to raise revenues in specific areas such as building and land use permits, trading licenses, markets, cemeteries, scavenging, traffic fees, advertisements, and fines. In addition, city and municipal councils also have the capacity to raise revenue through a general property tax. Nonetheless, subnational governments have a limited financial autonomy: they depend mainly on intergovernmental transfers which represent 84.3% of total subnational government revenue.

Total sub-national revenues represented 6.9% of total government revenues in 2016, and 1.5% of GDP. These revenues have remained relatively stable as a percentage of GDP since 2013, while increasing by 13% as a percentage of general government revenues.

The Rodrigues Regional Assembly, with its specific status, is responsible, on its own, for a significant share of total sub-national revenues (40.4% in 2016).

TAX REVENUE. As specified in the 2011 Act, the only tax revenue of local authorities is the property tax since the abolition of the rental tax in 2012, which has led to a significant decrease in tax revenue. This source of revenue represents a very small share of subnational governments' revenue (4.4%) since it is constrained by narrow national tax bases. Municipal councils determine the tax rate based on the annual net value of the immovable property and its specific use (residential, commercial or industrial).

The Rodrigues Regional Assembly also collects tax revenue on goods and services which is not the case for municipal and district councils.

GRANTS AND SUBSIDIES. The annual 'grant as aid' system allocates for all local governments a monthly amount for current expenditures. This annual grant is voted as part of the budget of the MLGOI at the beginning of the financial year. Nearly 90% of the grants are current grants, with only over 10% being capital grants. Capital grants are mainly received by the Rodrigues Regional Assembly, which represents 12% of total SNG grants.

OTHER REVENUES. Administrative fees and charges include market place selling fees, visitor fees, exploitation fees among others, while property incomes consist of property leasing and sales and income from municipal companies and public utilities.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. Each local authority has an internal control unit headed by a professionally qualified internal auditor who is responsible for ensuring that independent evaluations are carried out on a regular basis. According to Section 19 of the Finance and Audit Act, the annual accounts of the city, municipalities and districts must be presented to the national Director of Audit each financial year.

DEBT. Local governments and the Island of Rodrigues may borrow, with previous approval of the central government, based on their financial capability. Article 89 of the 2011 Local Government Code provides that a municipal city, town or district council may take on debts secured against its revenues or other property and by issuing bonds with the approval of the Minister of Finance. The Code stipulates that municipal councils may borrow up to MUR 10 million (approximately US 614 000 PPP-adjusted).

SNGWOFI
World Observatory on Subnational Government Finance and Investment
Lead responsible: UCLG
Last update: 02/ 2019
www.sng-wofi.org

Socio-economic indicators: World Bank // UNDP // UN DESA // ILO.
Fiscal data: IMF Government Finance Statistics // Ministry of Finance and Economic Development.
Other sources of information: Commonwealth Local Government Forum (2017) Country Profile Mauritius // Ministry of Finance and Economic Development (2018) Public Sector Investment Programme 2016/17 – 2020/21.

MOROCCO

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: MOROCCAN DIRHAM (MAD)

POPULATION AND GEOGRAPHY

Area: 446 550 km²
Population: 35.740 million inhabitants (2017), an increase of 1.43% per year (2010-2015)
Density: 80 inhabitants / km²
Urban population: 61.9% of national population (2017)
Urban population growth: 2.2% (2017 vs 2016)
Capital city: Rabat (5.2% of national population)

ECONOMIC DATA

GDP: 297.9 billion (current PPP international dollars), i.e. 8 335 dollars per inhabitant (2017)
Real GDP growth: 4.1% (2017 vs 2016)
Unemployment rate: 9.3% (2013)
Foreign direct investment, net inflows (FDI): 2 680 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 28.4% of GDP (2017)
HDI: 0.667 (medium), rank 123 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The 2011 constitution establishes the Kingdom of Morocco as a constitutional, democratic, parliamentary and social monarchy. The King is the Head of state. The Head of Government is the Prime Minister, appointed by the King based on the results of the elections to the House of Representatives. The Parliament includes two chambers: The House of Representatives whose members are elected by direct universal suffrage for a 5-year mandate and the Chamber of Councillors whose members are elected indirectly by local and national electoral colleges for a 6-year mandate. Three-fifths of the members of the Chamber of Councillors represent subnational governments. The number of councillors by region is determined according to its population. One-third of members is elected at the level of each region by the Regional Council from among its members. The remaining two-thirds are elected by an electoral college by the members of the communal, prefectural and provincial councils in each region.

According to article 1 of the Constitution, "the territorial organisation of the Kingdom is decentralised, based on advanced regionalisation". Title IX (articles 135 to 146) is entirely dedicated to "regions and local authorities" and article 136 recognises local self-government: "the territorial organisation of the Kingdom is based on the principles of free administration, cooperation and solidarity". The constitution establishes a three-tier subnational system including the regions at the higher level, prefectures (urban areas) or provinces (rural areas) at the intermediate level and municipalities (communes) at the lower level. Regions, as self-governing entities, are new in the Moroccan multi-level governance system. The 2011 Constitution introduced direct elections for regional councils, which were formerly appointed by central authorities.
The Moroccan decentralisation reform is based on the concept of "advanced regionalisation" (*regionalisation avancée*), developed by a regionalisation consultative commission (*Commission Consultative de la Régionalisation*) assigned in 2010 by the King with drafting the reform. The reform is the cornerstone of a new socioeconomic model of development and puts regions at the centre of implementing territorial development policies. The newly elected regions now have exclusive, shared and transferred competences as well as human and financial resources. This regionalisation process, which is currently being implemented, will also lead to a redefinition of the relationship between the central and regional governments.

Regional and local elections, held in September 2015, were an important step in the implementation of the decentralisation process enshrined in the constitution. Three organic laws were adopted in June 2015 to define more precisely the territorial organisation and division of powers: the organic law no. 111-14 regarding regions, the organic law no.112-14 concerning prefectures and provinces and the organic law no. 113-14 on municipalities. These laws are being implemented through the adoption of various administrative legal texts (around 70 in 2016 and 2017).
In addition to decentralised institutions at subnational level, the State still has a deconcentrated administration at each territorial level, headed by a *wali* at regional level, a Governor in the prefecture or province and a *pacha* (urban municipality) and head of circle (rural municipality). Walis and governors are appointed by the King.

TERRITORIAL ORGANISATION

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS

OVERALL DESCRIPTION. The Kingdom of Morocco is divided into regions, intermediate government including prefectures and provinces, and municipalities (communes). All these entities have a deliberative body called a council (regional, provincial/prefectural and municipal) whose members are elected through direct and universal suffrage for a term of six years. They are headed by a president elected by the councillors.

REGIONS. The current number of regions results from a new division of the territory, which reduced their number. Regions are quite diverse in terms of geographic and demographic size and wealth. In 2016, 58% of national wealth is concentrated in the three regions of Casablanca-Settat, Rabat-Salé-Kénitra and Tanger-Tétouan-Al Hoceima. Disparities in terms of regional GDP are large and increasing. Regional GDP per capital varies from 1 to 5.

PREFECTURES AND PROVINCES make up the second level of territorial decentralisation in Morocco. Prefectures are found in urban areas, while provinces comprise more rural districts.

MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION. Municipalities are very diverse. While the average size of municipalities is large (around 23 000 inhabitants), the municipalities in the bottom 20% have an average population of 2 800 inhabitants (3% of the total population) while the biggest 20% have an average size of 67 500 persons (67.5% of the total population). Morocco also has a network of around 25 000 villages and rural localities, which do not have - however - a legal personality. Six cities with more than 500 000 inhabitants (Rabat, Sale, Casablanca, Fez, Marrakech and Tangier) are managed by a municipal council and are subdivided into districts. They may not have legal personality but they do have administrative and financial autonomy as well as borough councils. Casablanca, the largest city has 16 borough councils while the other 5 cities have between four and six borough councils. Following the 2015 reform, the former region of 'Greater Casablanca' (4.3 million inhabitants, 18 municipalities) was merged with five other surrounding provinces to become a new region called 'Casablanca-Settat' (almost 7 million inhabitants, 168 municipalities). However, there is no governance body to manage this large area, except at a lower scale, with the former Greater Casablanca which is an inter-municipal cooperation structure created by the municipalities (Al Beida). There are no specific metropolitan governance arrangements for metropolitan areas. However, inter-municipal cooperation is encouraged. Cooperation is based on the organic law on municipalities, which established inter-municipal cooperation institutions. Cooperation is also based on the role that provinces and prefectures have to play to enhance efficiency, solidarity and cooperation between the municipalities.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The assignment of responsibilities is based on the principles of subsidiarity (Article 140 of the 2011 Constitution, solidarity (among municipalities and regions) and cooperation (at the national and international levels) as well as accountability, evaluation and control. In principle, all local authorities are responsible, in their respective area, for planning, programming and promoting the economic, social and cultural development of their constituency. According to 2015 organic laws, SNGs have three types of responsibilities: exclusive, shared and transferred. Exclusive competences refer to responsibilities exercised exclusively by each level of subnational government. Shared responsibilities are those exercised under contract schemes between SNGs and the central government. Transferred competences relate to those responsibilities that are transferred by the State, based on the principle of subsidiarity. Under Article 140 of the 2011 Constitution, the central government decides which competences can be transferred to local government. Any transfer of competences must be accompanied by a transfer of the subsequent resources required to carry them out.

The regions are mainly considered "areas of social and economic development". They are in charge of designing regional economic, social and land use strategies and plans. In particular, regions have to develop their Regional Development Plans (RDP) and create Regional Agencies for Projects Implementation (AREPs). The prefectures and provinces are responsible for promoting social development, particularly in rural areas. They are also in charge of enhancing efficiency, solidarity and cooperation between the municipalities located in their respective territory. Municipalities are in charge of delivering local services to citizens and promoting local development. Several large cities have created local development companies (*Société de Développement Locale* - SDL) as a new mode of management of local public services (e.g., Casa Transport set up in 2008 to operate the tramway).

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONS	PREFECTURES/PROVINCES	MUNICIPALITIES
1. General public services	Internal administration	Internal administration	Internal administration
2. Public order and safety			Ambulance and emergency services
3. Economic affairs /transports	Regional economic development; Rural development (agricultural centres); Promotion of tourism; Developing a regional transport plan; Developing a regional development plan; Non-farming activity and maintaining unclassified roads; Promotion of energy efficiency.	Construction and maintenance of prefectural and provincial roads and maintenance of rural tracks; Development of mountainous and oasis areas; Rural economic development; Public transport; Building and maintaining small- and medium-sized hydropower structures.	Local economic development and employment and support to economic activities and enterprises; Markets and fairs; Slaughterhouses and transport of animals; Local roads; Public transport; Local tourism.
4. Environmental protection	Management of natural resources, Management of regional protected parks and forests a Combating pollution and desertification		Protection of environment; Contribution to costal management; Parks and green areas.
5. Housing and community amenities	Electrification and drinking water supply to remote villages; Promotion of social housing; Development of a regional strategy for water and energy.	Detecting the population's housing needs; Rural access to water and electricity.	Urban and regional planning and the development of a local plan; Electricity distribution; Public lightning; Maintenance of cemeteries and burial grounds; Waste collection; Cleaning of public place.
6. Health		Rural healthcare; Detecting the population's needs related to health; Prevention and hygiene.	Local clinics and healthcare centres.
7. Recreation, culture & religion	Promotion of sports and recreation; Preservation of archaeological and heritage sites; Promotion of festivals and events; Maintenance of monuments, management of cultural institutions	Detecting the population's cultural and sport needs.	Preservation of local culture and cultural activities; Management of social-cultural and sport facilities; Camping areas and recreational spaces;
8. Education	Vocational training, continuing education and employment;	Detecting the population's education needs; School transport in rural areas	Primary and basic education (building schools)
9. Social protection		Social development; Reducing poverty	

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: regions, prefectures, provinces, and municipalities.	SNA Other	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data: **Medium**

MOROCCO

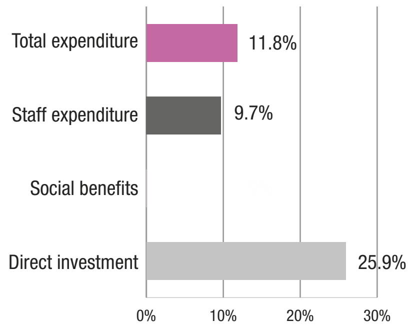
UNITARY COUNTRY

GENERAL INTRODUCTION. According to Article 141 of the Constitution, SNGs are financed through financial resources transferred by the central government and by their own revenues. The same article states that any transfer of responsibilities from the State to the local authorities must be accompanied by a transfer of the corresponding resources. An important fiscal reform was launched in 2007 with the enactment of Act no. 47-06 on SNG taxation, supplemented by Law 39-07, which distinguishes between the regional, provincial and prefectural, and communal taxes. A new local finance law was adopted in 2009 to modernise the local finance system. This legal package was supplemented by fiscal provisions in the 2015 Organic law 111-14 on regional governments.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**273**	**3.4%**	**100%**
Inc. current expenditure	175	2.2%	64.2%
Staff expenditure	88	1.1%	32.0%
Intermediate consumption	N.A.		
Social expenditure	N.A.		
Subsidies and current transfers	N.A.		
Financial charges	9	0.1%	3.1%
Others	N.A.		
Incl. capital expenditure	98	1.2%	35.8%
Capital transfers	0	0.0%	-
Direct investment (or GFCF)	97	1.2%	35.4%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. Despite a wide range of competencies, SNGs are still limited in their role of public providers of services and infrastructure. SNGs expenditure remains low, at only 11.8% of public expenditure and 3.4% of GDP in 2016 (vs 29% of public expenditure and 9.2% of GDP for OECD unitary countries in 2016). It is expected that this ratio will evolve with the ongoing decentralisation process.

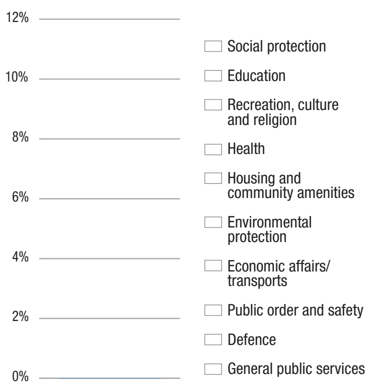
DIRECT INVESTMENT. Staff expenditure accounts for close to one-third of SNG spending, on par with averages in other OECD unitary countries (31.3% in 2016). However, the share of SNGs in public staff spending is low compared to the OECD unitary countries (9.7% vs 43%). This is indicative of central government's considerable role in staffing at central and deconcentrated levels. The bulk of SNG spending – 73.8% - was carried out by municipal governments while the prefectures and provinces accounted for 18.9% and 7.3%, respectively. Municipal governments are the largest employers, carrying out 81.1% of total SNG staff expenditure. They are followed by the provinces/prefectures (17.9%) and the regions (1%). The rise in regions' activities should increase this budget item in the future.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Morocco made a strategic decision to increase its public investment in order to drive private investment as part of its growth model to reduce social and spatial inequalities and improve access to remote areas. Direct public investment amounted to around 4.7% of GDP in 2016. Despite the decentralisation process, which has translated into new funds for infrastructure, the role of SNGs in public investment remains limited. In 2016, SNGs accounted for 25.9% of public investment and 1.2% of GDP, a level which is well below the OECD average (56.9% of public investment and 1.7% of GDP) as well as the average for OECD unitary countries (respectively 50.7% and 1.7%). However, investment represents the first item of SNG expenditure, more than staff spending and well above the ratio observed in the OECD (35.8% in Morocco vs 10.7% in the OECD on average, and 13.8% in OECD unitary countries).

The main investors are the municipalities: they account for 53% of total SNG investment. They are followed by the prefectures/provinces (32%) and the regions (15%). Investment represented in 2016 a significant share of regional expenditure (74%) and provincial/prefectural expenditure (60%), while it accounted for 26% of municipal expenditure. It confirms that the regional and intermediate levels have mainly an investment function while municipalities are involved in both the provision of local infrastructure and public services.

% GDP

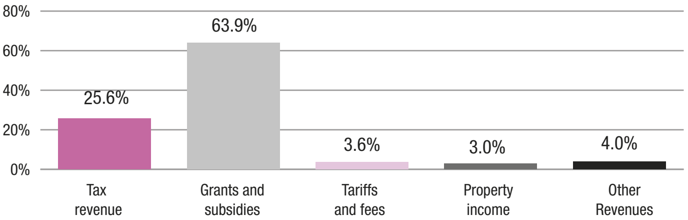


% SNG EXPENDITURE

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**292**	**3.7%**	**14.7%**
Tax revenue	75	0.9%	4.3%
Grants and subsidies	186	2.3%	
Tariffs and fees	10	0.1%	
Property income	9	0.1%	
Other revenues	12	0.1%	

% SNG REVENUE



OVERALL DESCRIPTION. Municipalities accounted for the largest share of SNG revenues (71%), the prefectures/provinces and the regions amounting to respectively 16% and 13%. SNG revenues comprise three types of resources: revenues transferred by the central government (grants and subsidies composed mainly of shares of national taxes), local tax revenue managed by central government and other own revenues managed by SNGs. In 2016, grants and subsidies represented the bulk of SNG revenues (to be compared to 49% in OECD unitary countries) while tax revenue accounted for one-quarter (38.7%). These ratios shows that SNGs depend heavily on central government funding and that SNGs remain relatively limited in their revenue collection process. This dependence is however higher for the prefectures/provinces and the regions, which are almost exclusively funded through grants (94% and 80% of their revenues, respectively).

TAX REVENUE. SNG taxes are managed either by the central government on behalf of SNGs (75% of SNG taxes) or directly by SNGs (25%). SNGs cannot set the rates or manage the tax base of local taxes, which are managed by the central government. However, they have this power when it comes to other local taxes.
Three taxes are collected by the General Tax Administration: the residence tax also called "urban tax" (*taxe d'habitation*), the tax on municipal services (*taxe sur les services communaux*) and the professional tax (taxe professionnelle). 95% of the receipts of the tax on municipal services go to municipalities and 5% to the regions. Municipalities directly levy and collect two other taxes related to property: the tax on undeveloped urban land and the tax on the construction of buildings and related infrastructure. These five taxes form the recurrent taxes on immovable property. They accounted for 0.8% of GDP (vs OECD average of 1.1%), 82% of SNG tax revenues and 21% of SNG total revenue. Other taxes managed by SNGs include municipal taxes (e.g., on beverage, tourist, bottled water, public transport, extraction activities in quarries); prefectural/provincial taxes (driver's license, vehicle inspections, sale of forest products); and regional taxes (hunting permits, mining, port services).

GRANTS AND SUBSIDIES. There are two types of intergovernmental transfers: one made up of shares of national taxes, which are redistributed to SNGs and the other category, which is made up subsidies (*Fonds de concours et subventions*). The first category is largely predominant (86% of total grants).
All SNGs receive a share of VAT: 1% for the regions and 30% for the prefectures/provinces and the municipalities. The VAT is the main source of revenue of SNGs, representing 80% of total transfers and 50% of all SNG revenues. The VAT is however a minor source of revenue for the regions, which have benefited from, since the organic law 111-14, a more diversified basket of taxes. The law provided for the progressive allocation of the receipts to the regions of at least 5% of the personal income tax, 5% of the corporate tax (CIT) and 20% of revenue from tax on insurance contracts. Overall, these three taxes amounted to 36% of regional total revenue in 2016. Annual distribution to individual SNGs is formula-based to reduce both vertical and horizontal imbalances. For the municipalities, there are three quantitative criteria: A lump sum part (minimum transfer to all municipalities); a part based on tax mobilisation capacity (redistributive criteria); and a third part based on tax effort (incentive criteria). The share of the VAT transferred to the prefectures and provinces is based on a series of criteria including the annual amount of staff wages and salaries and the size of the population and area. Other grants from the State budget are significantly more important for the regions than for the other SNGs, representing 50% of their total grants. In fact, the constitution provides for the creation of two regional funds, established in 2016: a fund for "social upgrading" (*fonds de mise à niveau sociale*) to alleviate inequalities in human development, infrastructure and equipment, and a fund for "interregional solidarity" (*fonds de solidarité interregionale*) to reduce disparities between the regions.

OTHER REVENUES. SNGs collect charges and user fees for services, which accounted for 3.6% of total SNG revenue in 2016. This is significantly less than in the OECD on average (14.9%). They also earn revenue from municipal assets, mainly those generated from real estate and interests generated from Treasury funds. Property income accounted for 3% of SNG revenue in 2016.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**130**	**1.6%**	**2.0%**	
Financial debt*	130	1.6%	2.0%	100%

* Currency and deposits, loans and bonds

FISCAL RULES. The 2009 local finance law and decree no. 2-09-441 of 2010 lay down the fundamental principles, the rules applicable to the execution of revenue and expenditure operations and treasury operations, the accounting rules, budget regulation, accountability and control. In particular, local budgets must be balanced.

DEBT. Local governments are able to contract loans but only from the Municipal Equipment Fund (*Fonds d'équipement communal*, FEC), which is a public bank supervised by the central government and specialised in subnational financing. Borrowing must be approved by the Minister of the Interior and is reserved for financing investment projects ("Golden Rule"). Additional prudential rules include having a debt ratio below 40%; generating savings and future surpluses that can cover the entire debt service; participating in the financing of the project with a minimum contribution of 20% of its cost; and possessing the human, material and organisational resources to implement the project. In 2016, loans were taken out to finance projects in the following sectors: roads (45%), sanitation (19%), electricity (18%), urban planning (15%). The breakdown of loan disbursements was as follows: 49% to the municipalities, 11% to the prefectures and provinces, and 40% to the regions. SNG debt remains limited, by international standards.

SNGWOFI
World Observatory on Subnational Government Finance and Investment
Lead responsible: OECD
Last update: 02/ 2019
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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO // Haut Commissariat au Plan (2017) Annuaire statistique du Maroc.
Fiscal data: OECD Revenue Statistics // MEF, Trésorerie Générale du Royaume du Maroc (Décembre 2016): Bulletin Mensuel de Statistiques des Finances Publiques and Bulletin mensuel de statistiques des finances locales // MEF- Direction des Études et des Prévisions Financières (Juin 2017): Tableau de Bord des Finances Publiques.
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MOZAMBIQUE

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOW INCOME

LOCAL CURRENCY: MOZAMBICAN METICAL (MZN)

POPULATION AND GEOGRAPHY

Area:799 380 km²
Population: 29.669 million inhabitants (2017), an increase of 2.9% per year (2010-2015)
Density: 38 inhabitants / km²
Urban population: 35.5% of national population
Urban population growth: 4.4% (2017 vs 2016)
Capital city: Maputo (3.7% of national population)

ECONOMIC DATA

GDP: 37.0 billion (current PPP international dollars), i.e. 1 247 dollars per inhabitant (2017)
Real GDP growth: 3.7% (2017 vs 2016)
Unemployment rate: 25% (2017)
Foreign direct investment, net inflows (FDI): 2 319 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 24.6% of GDP (2017)
HDI: 0.437 (low), rank 180 (2017)
Poverty rate: 62.9% (2014)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Mozambique is a democratic republic with a unicameral parliament (the Assembly of the Republic). The head of state and government is the president, directly elected through universal suffrage. The president may serve a maximum of two consecutive five-year terms. He appoints the prime minister and a council of ministers. The Assembly of the Republic has 250 members, elected via universal suffrage to serve a five-year term.

Mozambique is a unitary country with two levels of subnational governments. Decentralisation was initially contemplated in a dedicated chapter of Mozambique's First Constitution of 1975, enacted by the Liberation Front (FRELIMO). It foresaw the creation of local governments, which, alongside the executive organs designated by legislation, would include representative bodies of elected citizens. These representative bodies would "organize the participation of citizens in the resolution of the problems of their communities and in the promotion of local development". Then, democratic rule of law based on political pluralism and the separation of powers was included in the 1990 Constitution, which also created new municipalities, and provided for municipal elections and a transformation of relations between levels of government (Art. 185). Local government was further acknowledged by amendment, in 1996. Mozambique's current Constitution, adopted in 2004, was amended in 2007 and 2018 to recognize the political autonomy of Provinces in relation to the administrative bodies of national government acting in their territory. The 2003 Local Organs of the State Act, which is part of the legislative framework, specifies the roles and functions of the deconcentrated government bodies at the various territorial levels and their relations with local governments. It assigns to deconcentrated government bodies functions that sometimes overlap with those of decentralized government bodies, creating in some cases some confusion about the decentralized or deconcentrated nature of particular intermediate levels of government.

The new constitutional provisions adopted in 2018 are intended to strengthen the decentralization process in relation to the architecture of the deconcentrated public administration.

The Ministry of State Administration and Public Service (MAEFP) is responsible for overseeing the implementation of laws governing local government. In addition, together with the MAEFP, the Ministry of Economy and Finance is responsible for overseeing financial and fiscal procedures of local governments.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	Municipalities *(Municípios)*		Provinces *(Províncias)*	
	Average municipal size: 559 622 inhabitants			
	53		11	64

OVERALL DESCRIPTION. Mozambique is a unitary country divided into 11 provinces and 53 municipalities. The provinces are further subdivided into 154 districts which correspond to deconcentrated administrative entities. Municipal units are classified either as cities or towns and their boundaries do not cover the whole territory. For administrative and electoral purposes, in provinces, the deconcentrated districts are further divided into administrative posts, localities and villages (*povoações*). Likewise, all municipalities are divided into urban districts (in the specific case of Maputo, the capital city), municipal administrative posts and neighborhoods (*bairros*).

MUNICIPALITIES are established by the Constitution. In 2018, the Constitution was amended to introduce modifications to the electoral process. Starting in the 2019 general elections, the mayor will be elected indirectly from among the municipal councilors. Citizens will not be required to cast different votes for the municipal council and the municipal assembly: they will cast one vote for the assembly and the head of the list with the most votes will become the head of the council.

Municipalities have -in principle- a considerable degree of political autonomy and discretion to deliver urban public services. Act 2/97 established the legal framework for the creation of local government units, which are set to include municipalities and villages. Article 2 sets out that municipalities correspond to the territorial circumscription of cities and towns, while villages correspond to the territorial circumscription of administrative posts. Act 2/97 supplemented by Acts 4/97, 5/97 and 6/97, also created the local governments of Maputo City together with the other ten provincial capital cities and the ten largest municipalities. In 2013, 22 additional cities and ten towns together with 16 new districts were established. There are still 108 towns without an assigned legal status. Although they cannot be strictly considered as intermunicipal cooperation mechanisms, municipal councils nevertheless provide a platform for multi-stakeholder collaboration at the level of municipal territories.

DISTRICTS AND PROVINCES. Districts are referred to as local organs of the state (Act nº 8/2003) to differentiate them from the municipalities. Currently, there are 154 districts with 154 consultative councils. These councils are composed of members of the district government (the district administrator, the directors, and the chiefs of administrative posts), together with the presidents of municipal councils, community authorities, and representatives of economic, social and cultural organizations in the district.

The Provincial level include 10 provinces and the capital city of Maputo. Provinces have elected Provincial Assemblies (Act no 5/2007), but the Assemblies have little or no real authority over the functioning (or financing) of state organs within their province. Following the constitutional amendments of 2018, the National Electoral Commission established that in the next two general elections, provincial governors - in 2019 - and district administrators - in 2024 - will be elected by the winning party in the legislative elections (and no longer appointed by the President, but still subject to his final approval).

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Municipalities exercise their responsibilities under the supervision of the Local Organs of the State (Act 8/2003: the “Provincial Government” or “District Government”). Their primary objective is to guarantee the fulfillment of economic, social and cultural tasks and programs of local and national interest, (Act No. 2/97, article 8). General functions of municipalities include (i) maintenance of peace, order, and good government (ii) social welfare and economic well-being (iii) social and economic development in line with national policies (iv) regulation and improvement of agriculture, trade, commerce and industry (v) furtherance and enhancement of the health, education, and the social, cultural and recreational life of the people, and (vi) relief of poverty and distress. In addition, autonomous bodies are in place to address certain collective needs (e.g. the FIPAG for public water supply); they are managed in an entrepreneurial manner and enjoy administrative and financial autonomy.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	PROVINCES	MUNICIPALITIES
1. General public services	Administration and operation of general services	Cemeteries and crematoria
2. Public order and safety	Fire protection and civil protection (shared with national government)	Traffic lights
3. Economic affairs/transports	Trade and industry (shared between all levels of governments); Tourism (shared with municipalities); Consumer protection; Road network, ports and airports (shared with all levels of government); Electricity and gas services	Local economic development; Local trade and industry (shared with all levels of governments); Tourism (shared with provinces); Public transport, urban roads, ports and airports (capital cities, shared with all levels of government)
4. Environmental protection	Climate protection and nature protection (shared with national government)	Maintenance of parks and open spaces; Sanitation; Waste management
5. Housing and community amenities	Regional and town planning	Housing management and construction; Water supply; Street lighting
6. Health	Primary care and maintenance of hospitals (shared with national government)	
7. Recreation, culture & religion	Promotion of cultural activities (theatre and concerts); Maintenance of museum and libraries	Sports and leisure facilities; Religious facilities
8. Education	Vocational, technical and adult education (shared with national government)	
9. Social protection		Relief of poverty and distress

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: provinces and municipalities.	SNA 1993	Availability of fiscal data: **Low**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. The Mozambican public sector revenue system is highly centralized. The Government’s objectives for fiscal decentralization are derived from the Policy Paper on Local Government Reform of 1997 and Act nº 8/2003 which aims at enhancing the efficient management of both locally generated and centrally disbursed financial resources. Act Nº1/08 which repealed the original Act Nº.11/97, redefined the financial and budgetary regimes of the municipalities.

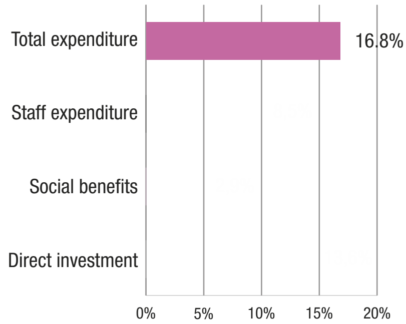
MOZAMBIQUE

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	65	5.4 %	100 %
Inc. current expenditure			
Staff expenditure			
Intermediate consumption			
Social expenditure			
Subsidies and current transfers			
Financial charges			
Others			
Incl. capital expenditure			
Capital transfers			
Direct investment (or GFCF)			

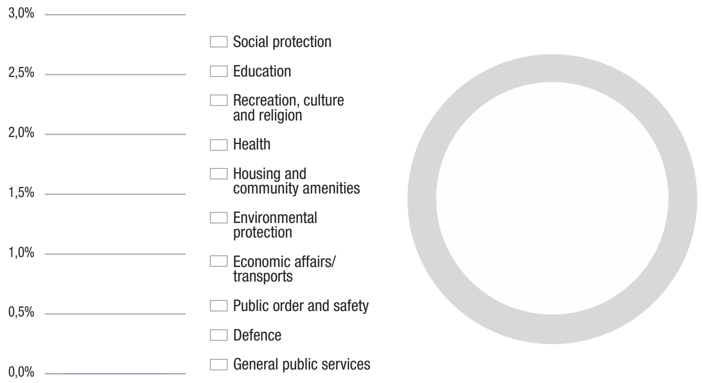
% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. About one-third of public sector spending in Mozambique takes place at the subnational level. 16.6% are carried out at the deconcentrated level by districts and 16.8% directly by sub-national governments: about 15.2% at the provincial level and 1.6% at the municipal level. More than 4/5 of SNG's expenditures are current expenditures, less than 1/5 are capital expenditures.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

% GDP	% SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue			
Tax revenue			
Grants and subsidies			
Tariffs and fees			
Property income			
Other revenues			

% SNG REVENUE

OVERALL DESCRIPTION. As established in Act 8/2003, the financing of a large majority of expenditures at the provincial and district levels is based on (1) budgetary transfers coming from central funds to finance current and capital expenditures, (2) shares of central fiscal revenues assigned to provincial and district levels, and (3) donations from private NGOs and from bilateral or multilateral international cooperation. The 2008 fiscal reform restructured the conditional grants which fund most local expenditures by reducing conditionality (i.e. with the introduction of "block grants"). It also reduced the transfers from the central government to municipalities (through the Municipal Compensation Fund) from 3 to 1.5% of total public revenue. In return, it has conceded to municipalities both fiscal (concession of land use rights, ability to raise property and vehicle tax) and non-fiscal (economic and market activities and user fees) revenue sources. In 2016, the total revenues of municipalities were about 5 PPP dollars per inhabitant, of which 80% was composed of tax revenues (both shared and own-revenue) and less than 10% of grants and subsidies.

TAX REVENUE. According to the fiscal reform of 2008 (Chapter IV, Act 1/ 2008 on Municipal Finances and Decree 63/2008 (Municipal Tax Code)), local taxes include the tax on immovable property transactions (SISA), property tax, vehicle tax and municipal personal tax (IPA). However, municipalities have limited capacity to collect tax-revenue as budgeted. In 2016, property taxes accounted for 6% of SNG revenue which corresponds to 0.03% of the GDP. By law, municipalities, and now provinces, receive a share of national taxes. These include the tourism tax, which is collected by local businesses, vehicle taxes and some income taxes for people working locally. According to the Commonwealth Local Government Forum, the amount of the tourism tax and the vehicle tax transferred to municipalities represents 30% and 75% respectively of the corresponding tax revenues of the general government.

GRANTS AND SUBSIDIES. In Mozambique, the " function-follow financing " principle is enshrined in the legislative framework of municipal finance (Chapter III, Law 1/2008). Direct transfers from central government to municipalities come from (i) the Municipal Compensation Fund (FCA); (ii) Sectoral funds and (iii) the Local Initiative Investment Fund (FIIL). The transfers from FCA and FIIL are established in the annual budget of national government, and take the form of recurrent and capital grants from the central government based on a formula. The formula is published in the annual budget and takes into account (i) the surface area of the local government, (ii) the population, (iii) the level of development and (iv) the success in collecting taxes. Provincial capital cities also receive the Urban Poverty Reduction Fund (FRPU). In addition, in some cases, municipalities receive funds through development cooperation.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. The State Financial Management System (SISTAFE, in Portuguese) was established by the state budget law of 2002 as an integrated set of budgetary principles and rules. These principles include: the annuity of budgetary laws; the unity and public nature of the general State budget; the annual balance of the budget; and the principle of "non-compensation" (i.e. all income and expenditure must be liquid assets). All levels of government must comply with these principles.

DEBT. Municipalities may borrow with the approval of the Ministry of Economy and Finance, although borrowing is indeed considered as an “extraordinary” scenario (Article 18 Act 1/2008) which only applies in three cases: a) for reproductive investments and investments of social or cultural character; b) coverage of extraordinary expenses necessary to compensate for losses incurred in the event of a public disaster, and c) coverage of the needs of local authorities for financial recovery, following the execution of a previously concluded financial rebalancing agreement.

Short-term loans (Article 19) from national financial institutions are authorized to deal with occasional cash-flow difficulties. However, recourse to bank credit must meet two criteria: (a) the amount must in no case exceed the equivalent of three-twelfths of the amount that each of the transfers from the FCA shall bear, and (b) shall be written off at the end of the respective fiscal year. Loans can also be contracted by autonomous institutions (for example public companies) and local public companies can resort to credit under the terms of special regulations to be established by government decree.

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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data: MEF (2018) Relatório de Execução do Orçamento do Estado, 2017 // MEF/TA (2017) Conta Geral do Estado, Ano 2016.
Other sources of information: Cities Alliance and UCLGA (2018) Assessing the institutionnal environment of local governments in Africa // MAP Consultoria (for MEF) (2017) O Sistema de Transferências Fiscais Intergovernamentais em Moçambique // CLGF (2017) Mozambique Country Profile // USAID/ARD (2010) Comparative Assessment of Decentralization in Africa: Mozambique Country Assessment Report // Y-A Fauré and C. Udelsmann Rodrigues (2011) Descentralização e desenvolvimento local em Agola e Moçambique: Processos, terrenos e atores.

NAMIBIA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: NAMIBIAN DOLLAR/ RAND (NAD/ZAR)

POPULATION AND GEOGRAPHY

Area:824 290 km^2 (2017)
Population: 2 534 million inhabitants (2017), an increase of 2.2% per year (2010-2015)
Density: 3 inhabitants / km^2 (2017)
Urban population: 48.6% of national population (2017)
Urban population growth: 4.1% (2017 vs 2016)
Capital city: Windhoek (16.0% of national population)

ECONOMIC DATA

GDP: 26.5 billion (current PPP international dollars), i.e. 10 475 dollars per inhabitant (2017)
Real GDP growth: -0.8% (2017 vs 2016)
Unemployment rate: 23.3% (2017)
Foreign direct investment, net inflows (FDI): 417 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 22.3% of GDP (2017)
HDI: 0.647 (Medium), rank 129 (2017)
Poverty rate: 22.6 (2016)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Namibia is a democratic republic with a multi-party system. It is a unitary country divided into three spheres of government comprising of central, regional and local governments. The President of Namibia is elected to a five-year term and is both the head of state and the head of government. Namibia has a bicameral Parliament with the National Assembly as lower house, and the National Council as the upper house, whose members are chosen by regional councils.

Namibia's decentralization process began with its independence in 1990, starting from deconcentration and then evolving into delegation and later on devolution. Chapter 12 of the 1990 Constitution creates provisions for regional and local government. Article 102 of the chapter divides Namibia into regional and local units and creates provisions for regional and local authorities, establishing that every local government organ be governed by a Council elected every six years. The main legislative tools governing local government include the 1992 Local Authorities Act (amended in 2000), the 1992 Regional Councils Act (amended in 2000); the 2000 Decentralization Enabling Act and the 2000 Trust Fund of Regional Development and Equity Provision Act .

The Regional Councils Act and the Local Authorities Act approved in 1992 are the two key guiding documents for the powers, functions and duties of local government. Following the Acts' approval, Namibia's official Decentralization Policy was launched in 1998. The policy provided guidance on how decentralization was to be undertaken by identifying the functions to be decentralized and outlining resource strategies to do so. The Decentralization Enabling Act was subsequently enacted in 2000 and functions as the presiding legislative tool on decentralization. The Trust Fund of Regional Development and Equity Provision provides for financial and technical assistance for the development of regional and local authorities and supports the implementation of decentralization programs in Namibia.

In 2010, the President of the Republic of Namibia was empowered to appoint Regional Governors to oversee the exercise of any executive function of Government in each region. Regional Governors serve as links to improve communication and coordination between the central government and the regional council, local authorities and traditional authorities. Central government ministries are also encouraged to establish a greater regional presence through decentralised service delivery outlets. As per a Statement given by the Namibian Prime Misnister in 2016, Namibia currenly has a deconcentrated administration as no central government functions have yet been devolved to regional councils.

TERRITORIAL ORGANISATION

2017 MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
57 local councils (3 "Part I" municipal (city) councils, 10 "Part II" municipal councils, 26 town and 18 village councils)	Regional councils		
Average municipal size: 48 727 inhabitants			
57	14		71

OVERALL DESCRIPTION. Namibia has 57 unitary local authorities and is administratively divided in 14 regions governed by 14 regional councils. Local government is subdivided into four categories: 3 'Part I' municipal councils (Windhoek, Walvis Bay and Swakopmund), 10 'Part II' municipal councils, 26 town and 18 village councils. This subdivision entails differences in local authorities' capacities to determine elected officials' remuneration – only Part I municipalities may do so without ministerial approval.

The Constitution provides for changes in the administrative division of Namibia provided that such changes are in accordance with the recommendations of the Delimitation Commission (Art. 103). The current administrative division in 14 regions is the result of the work of the Fourth Delimitation Commission, tabled in 2013. The 14 regional councils are further subdivided into 121 electoral constituencies.

MUNICIPALITIES. The Local Authorities Act also creates provisions for the establishment of councils as governing bodies of local authorities. Municipalities are governed by municipality councils of between 7 and 15 members depending on the subcategory of local government. Members of local authority councils are elected from party lists during the general elections and hold office from the date of election to the day before the subsequent election, which entails 5-year terms according to Namibian electoral provisions. In the case of municipal and town councils, a mayor and deputy mayor are elected from the council. The mayor and deputy mayor serve as the chairperson and vice chairperson of the council respectively. The mayor together with the council formulates development policies, monitors the implementation of policies and accounts to members of the municipality. In the case of the village councils, a chairperson and vice-chairperson are also elected from the councils. Similar to regional councils, municipal and town councils comprise of management committees. Members of the committee hold office for a period of one year.

INTERMEDIARY LEVEL. The Constitution grants the regional councils the power to a) elect members to the national council; b) exercise executive powers within its respective region; c) raise revenue and; d) exercise powers to perform any other function and make by-laws. The Regional Councils Act further creates provisions for the creation of a council in each region. The members of the council serve the council for a period of six years. Each regional council comprises of a management committee vested with executive powers. The regional council elects from amongst its members the members of the committee.

The committee is led by a chairperson who is elected by members of the regional council at the time they elect the management committee. The chairperson serves as the political head of the region, a position referred to as the governor of the regional council. The chairperson and the members of the committee hold office for three years and both positions are eligible for re-election.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The 1992 Regional Councils Act states that regional councils may provide basic services while the 1992 Local Authorities Act outlines the functions decentralized to local authorities, which vary according to grading (part I or part II municipalities, towns or villages). The 1998 Government of Namibia's Decentralisation Policy identifies 28 functions to be decentralised to regional councils and local authorities. To date, the main functions that have been handed over to regional and local authorities include water and sanitation, waste management, environmental protection, electricity, economic promotion and tourism, although more functions are earmarked for decentralisation in line with the Decentralisation Policy.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONS AND CITIES	MUNICIPAL LEVEL
1. General public services		Public buildings and facilities (construction and maintenance); Vehicle testing and licensing
2. Public order and safety		Traffic Control Police
3. Economic affairs/transports	Road networks and facilities (regional); Energy (electricity, gas, etc.); Maintenance of regional infrastructure; Small miners' development	Urban roads networks and facilities (local); Support to local enterprises and entrepreneurship; Tourism; Commerce; Energy (electricity, gas, etc.)
4. Environmental protection	Forest development and management; Conservation	Environment conservation
5. Housing and community amenities	Resettlement, rehabilitation and housing; Urban and land use planning; Urbanism; Rural water supply; Management and control of communal lands; Land valuation and acquisition; Surveying and mapping of lands	Public Lighting; Housing (subsidies, construction and renovation and management); Urban and land use planning; Community development
6. Health	Primary healthcare	
7. Recreation, culture & religion	Libraries	Sports and recreation; Libraries; Museums; Cultural activities (theatres, exhibition halls, zoos, botanical gardens, etc.); Religious affairs
8. Education	Primary education; Secondary education; Special education (adult education)	Childhood development; Pre-primary and primary education
9. Social protection		

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: regional and local councils.	SNA 1993	Availability of fiscal data: **Low**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. According to the Commonwealth Local Government Forum, the Ministry of Urban and Rural Development undertook a review of local government in 2012 with the aim of improving local government efficiency. The reform focused on the various structures of local governance, financial management, establishing organized representation of local governance and intergovernmental relations. To date, this review process has not yet materialized into any legislative reforms that might have an impact on local government fiscal decentralization.

According to the latest reports of the Auditor General, effectiveness of the institutions is still significantly weakened due to the lack of adequate skilled staff and poor management of resources, fragile financial systems and delay in the delegation of functions.

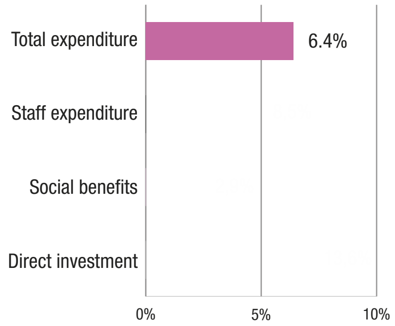
NAMIBIA

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2015	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**286**	**2.8%**	**100%**
Inc. current expenditure			
Staff expenditure	77	0.8%	26.7%
Intermediate consumption			
Social expenditure			
Subsidies and current transfers			
Financial charges			
Others			
Incl. capital expenditure			
Capital transfers			
Direct investment (or GFCF)			

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



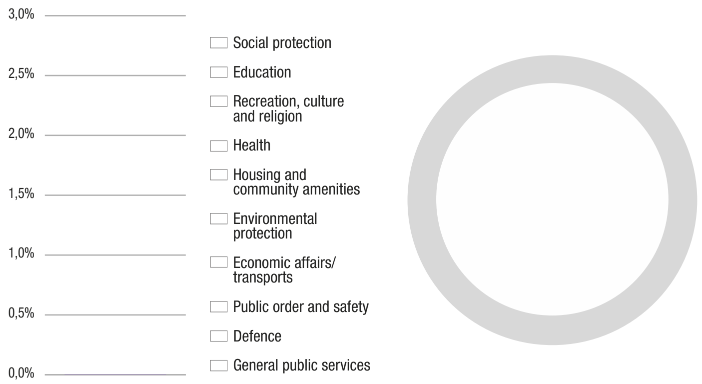
EXPENDITURE. There are low levels of expenditure by local governments in Namibia, although there is a significant amount of devolved functions to local government, which began in 2000 due to the promulgation of the Decentralization Enabling Act. Almost 27% of local government total expenditure is devoted to the compensation of its employees. For the balance of total local expenditure, considered as "services", the level of aggregation of available data does not allow to discern how much of this expenditure is spent on capital expenditure and how much on the provision of services and other current expenditure.

DIRECT INVESTMENT. Overall, infrastructure investments are low. They focus on water and sanitation services and the maintenance of existing infrastructure, mainly roads.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

According to the fiscal data available,13% of local government total expenditure is spent on water services and 6% on roads. In FY 2014-2015, total spending in these two sectors amounted to 54 dollars PPP per capita. The remainder of the breakdown of expenditure of local government by economic classification is unknown.

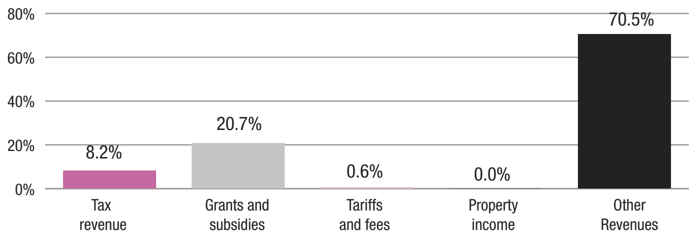
% GDP | % SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**287**	**2.8%**	**7.6%**
Tax revenue	23	0.2%	
Grants and subsidies	59	0.6%	
Tariffs and fees	2	0%	
Property income	0	0%	
Other revenues	202	2.0%	

% SNG REVENUE



OVERALL DESCRIPTION. Tax revenue makes up around 8% of the country's subnational revenue, while grants and subsidies make up around 21% of the local government's total revenue. In general, Part I municipalities have better financial systems in place than the rest of local government subcategories and benefit from considerable autonomy with regard to the determination of property tax and the contraction of loans under the provisions of the Local Authorities Act. According to available data, 70 per cent of local revenues are recorded as "Other revenues", with no clear indication of which revenue sources are included in this category.

TAX REVENUE. Regions and local councils are able to levy taxes on their residents, although the extent to which this occurs and the revenue which is raised are unknown. The majority of locally raised revenues are from property tax and very little come from fees and levies. The tax rates vary between regional councils and local councils, and taxes are overseen by Ministry of Local Government. Property taxes are also levied by local governments. Each local authority must transfer five percent of its income to its regional council. However, local authorities in many cases are not paying the 5% levy on their property tax income to the regional councils and this affects the implementation of small capital projects in the regions.

GRANTS AND SUBSIDIES. Part II municipalities have weaker and often fragmented financial management and are subject to control exercised by the Ministry of Urban and Rural Development. Most of the town councils are not able to balance their budgets without substantial transfers from the central government or donors, and thus their financial autonomy, in general, is limited. The three Part I municipalities are significantly less reliant on transfers than Part II municipalities, since they have a stronger revenue base from which to extract their own-source revenue.

The transfers from central government are either for specific capital projects for infrastructure or for general operational expenditure. National government offers some grants for infrastructure upon application from councils. All capital support grants are project-specific, while operational grants are general. In parallel, national government provides subsidies to village councils, regional councils and newly established town councils that do not have sufficient revenue base. However, the Auditor-General has highlighted that there is currently no clear-cut formula in place to determine a subsidy, leading to the under-funding of some regions and the over-funding of others, therefore curtailing regions'capacities to fulfil the prescription of providing similar services in all settlement areas.

OTHER REVENUES. Local government is able to levy fees and tariffs for services provided, as for example fees for refuse removal or other services. However, payments for such services may not be collected effectively due to poor management of customer data.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. Subnational accounts are subject to audits carried out by the Auditor-General, who is appointed for periods of five years (renewable by the President) in accordance with the Constitution (Art. 127) and who derives his duties and power from the 1991 State Finance Act. Key Responsibilities of the Office of the Auditor-General include the audit of the financial statements of municipalities, regional councils, town councils and villages. The Auditor-General is required to report the results of all audits to the National Assembly. It makes recommendations aimed at improving financial management, controls and use of resources. All individual reports are accessible on line.

DEBT. The Local Authorities Act grants local councils the power to borrow through loans, issue of debentures, bills of exchange or other negotiable instruments. Article 33 of the Regional Councils Act also grants regional councils the same borrowing powers. Part I Municipalities can easily obtain loans under the provisions of the Local Authorities Act. However, the amount of outstanding loans is unknown.

Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data: Auditor General - Audit report on the service delivery of regional councils in the National Assembly // Namibia Ministry of Finance (2017) Budget Statement: 2017/18 // Namibia Statistics Agency. Annual National Accounts 2016.
Other sources of information: Commonwealth Local Government Forum. The Local Government System in Namibia. Country Profile 2017/18 // UCLGA and Cities Alliance (2018) Assessing the Institutional Environment of Local Governments in Africa.

NIGER

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOW INCOME

LOCAL CURRENCY: WEST AFRICAN CFA FRANC (XOF)

POPULATION AND GEOGRAPHY

Area: 1 267 000 km^2
Population: 21.477 million inhabitants, an increase of 3.8% per year (2010-2015)
Density: 17 inhabitants / km^2 (2017)
Urban population: 16.3% of national population
Urban population growth: 5.3% (2017 vs 2016)
Capital city: Niamey (5.6% of national population)

ECONOMIC DATA

GDP: 21.8 billion (current PPP international dollars), i.e. 1 017 dollars per inhabitant (2017)
Real GDP growth: 4.9% (2017 vs 2016)
Unemployment rate: 0.4% (2017)
Foreign direct investment, net inflows (FDI): 334 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 33.7 % of GDP (2017)
HDI: 0.354 (low), rank 187 (2017)
Poverty rate: 44.5 (2014)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Niger is a unitary country that has a multi-party political system characterized by a semi-presidential regime. The President of the Republic is elected by universal suffrage in two ballots. He appoints the Prime Minister who, in turn, forms the Government. The National Assembly (Parliament) consists of 171 members elected by universal suffrage in a single round of voting.

With the establishment of the Fifth Republic in 1999, Niger adopted a complete municipalization of the national territory based on the territorial spaces of the customary entities. Niger has two levels of decentralized local authorities, communes and regions, whose free administration is recognized by Art. 164 of the Constitution. The first local elections were held in 2004 and then in 2011, coupled with regional elections. Local elections scheduled to take place in 2016 have been postponed several times until 2019.

Within the framework of the National Policy for the Modernisation of the State adopted in July 2013 and implemented from 2015, it is planned that an institutional mechanism for the technical and financial support and accompaniment of Territorial Authorities be set up with provisions concerning resident technical advisors, the monitoring of instructions concerning the transfer of competences and the reorganisation of the system of expenditure and collection of resources at local level. To date, only the operationalization of the National Agency for the Financing of Local Authorities (ANFICT) has been initiated.

The most recent official document relevant to decentralization is the General Policy Statement presented on 14 June 2016 (following the March presidential elections). It makes little mention of decentralization.

TERRITORIAL ORGANISATION

2016	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	255 municipalities *(communes)* 214 rural municipalities 37 urban municipalities 4 cities		*7* regions	
	Average municipal size: 84 224 inhabitants			
	255		7	262

OVERALL DESCRIPTION. Niger has 255 municipalities and 7 regions.

MUNICIPALITIES. The municipality is the basic territorial authority. Of the 255 municipalities, 214 are considered as rural municipalities, 37 as urban municipalities, and 4 as municipalities with a special status, or "Cities", namely Niamey, Maradi, Tahaoua and Zinder. The latter are organized into municipal districts. For the exercise of its missions and competences, each municipality has its own budget, staff and assets.

REGIONS. There are 7 regions - territorial authorities which also constitute administrative divisions of the State. For the exercise of its missions and competences, each region - territorial authority has its own budget, staff and assets. The regions - administrative divisions of the state are administered by a governor appointed by presidential decree. In addition, the administrative map of Niger also includes 63 departments as an intermediate sub-regional level of deconcentrated authority.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The responsibilities of local authorities are based on Ordinance No. 201-54 of 17 September 2010 on the General Code of Local Authorities. The region is a local authority with an essentially economic, social and cultural vocation. It is responsible for the specific tasks and powers conferred on it by law and which do not, by their nature and importance, fall within the competence of the State or the municipality. The municipality is the basic territorial authority. It is responsible for communal interests and provides local public services that meet the needs of the population and which, by their nature and importance, do not fall within the competence of the State or the region.

The main texts transferring powers and resources from the State to local authorities are Directive No. 104/2014/CAB/PM of 11 August 2014, on the transfer of powers and resources from the State to local authorities and two Decrees of 26 January 2016 transferring powers and resources from the State in the fields of education, health, water and the environment to municipalities and regional authorities respectively.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONS	MUNICIPAL LEVEL
1. General public services		
2. Public order and safety		
3. Economic affairs/transports		
4. Environmental protection	Fisheries management and fish stocking of ponds and reservoirs; Development of forest, wildlife, fisheries and beekeeping production; Development and management plans for restored sites; Creation of regional and departmental protected areas	Sustainable management of resources in the peripheral areas of parks and reserves; Management of village hunting areas; Creation of communal protected areas; Land restoration operations; Securing the perimeters of restored land and reforestation
5. Housing and community amenities		Urban safety; Municipal solid waste management; Wastewater management
6. Health	Construction, maintenance and management of regional hospitals, mother and child centres and other specialized regional centres; Management of the personnel provided	Construction, maintenance and management of health facilities Integrated health centres and district hospitals
7. Recreation, culture & religion		Management of urban and suburban landscaping and green spaces
8. Education	Elaboration and implementation of the regional school map; Construction and maintenance of school infrastructure; Management of auxiliary and contract staff	Construction and maintenance of kindergartens, primary schools, literacy and non-formal education centres; Equipment for school infrastructures, literacy centres, non-formal education centres; Acquisition and management of school supplies, equipment and edutainment; Elaboration of the school map; Recruitment and management of contract teachers
9. Social protection		

SUBNATIONAL GOVERNMENT FINANCE

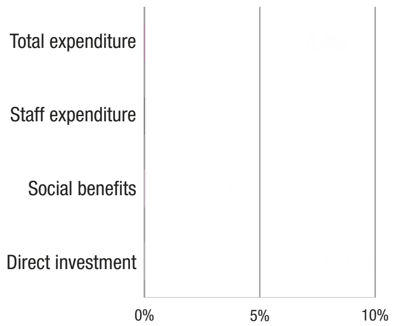
Scope of fiscal data: detailed data are not available.	SNA 2008	Availability of fiscal data: **Low**	Quality/reliability of fiscal data : **Low**

GENERAL INTRODUCTION. Local and regional authorities have their own budgets, but they have limited capacity to mobilize internal resources to carry out their responsibilities and provide services. The law requires municipalities to spend at least 45% of their ordinary income from their operating budget on investment expenditure. A National Agency for the Financing of Local Authorities (ANFICT) was created in 2007 but did not really start its activities until 2014 with the first allocations from the State. Its role remains very limited.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure			
Inc. current expenditure			
Staff expenditure			
Intermediate consumption			
Social expenditure			
Subsidies and current transfers			
Financial charges			
Others			
Incl. capital expenditure			
Capital transfers			
Direct investment (or GFCF)			

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. In 2015, local government expenditure was estimated at around 2 to 3% of national public expenditure.

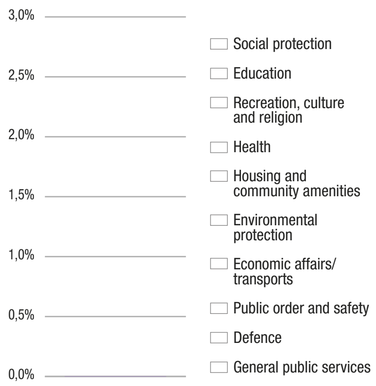
DIRECT INVESTMENT. No data available.

NIGER

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

% GDP	% SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue			
Tax revenue			
Grants and subsidies			
Tariffs and fees			
Property income			
Other revenues			

% SNG REVENUE

OVERALL DESCRIPTION. The tax resources of local authorities include direct taxes specific to local authorities, retroceded taxes, local indirect taxes and compensatory taxes. Local councils have the power to create these compensatory taxes for certain services provided by the region or municipality. Local councils can also add tax surcharges to central government taxes and surcharges.

Potential revenues from local taxes are generally low, as is the amount of tax revenue transferred to local authorities. In total, the latter amounted to 22 billion CFA francs in 2015 (about 100 million PPP dollars, or $5/inhabitant), including 19 billion CFA francs (about 85 million PPP dollars), for the urban community of Niamey alone (or $70/inhabitant of the capital).

In addition, the State grants and subsidies mobilized through ANFICT remain extremely limited. They amounted to 5.6 billion CFA francs in 2015, i.e. about 25 million PPP dollars, which represents 0.1% of GDP, or just over 1$ per inhabitant.

GRANTS AND SUBSIDIES. Local authorities receive operating and investment grants:

- Any local authority whose resources do not allow it to cover its compulsory charges and which does not have an alternative resource is eligible for the balancing subsidy (SE). The deficit is calculated by considering on the one hand the level of resources potentially mobilizable by each local authority and on the other hand the level of mandatory charges.
- Sectoral operating allocation (DSF).
- The flat-rate operating allocation (DFF), which covers special operating expenses, in particular the maintenance of equipment not supported by the DSF essential non-staff personnel taken into account in the SE and special operations for the population (miscellaneous relief).
- Subsidies for local authorities' investments are mobilized, through ANFICT, through a Decentralization Support Fund (FAD) and an Equalization Fund (FP). In addition to being structurally very limited, ANFICT's allocations face other difficulties: very low disbursements (27% of the FAD and 25% of the FP were actually disbursed in 2015), a provisional and unclear calculation formula and a very uncertain predictability.

OTHER REVENUES.

Mining royalties. According to the law, the share of mining revenues consisting of surface royalties, fixed fees, proceeds from the artisanal exploitation tax and the proceeds from the sale of artisanal mining cards allocated by the State to local authorities is allocated to finance the following: 85% to the financing of investments by local authorities; 10% to operating costs; 5% for technical support.

Oil royalty. The distribution of the oil royalty is similar to that of mining royalties.

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. The budget of each local authority is prepared, adopted and managed in accordance with the budgetary principles and public accounting rules applicable to the State. The budget for the year shall be established and voted in real balance before 31 October of the preceding year in a single document setting out all resources and expenses. The budget also includes off-budget accounts and possibly additional budgets. It is subject to legality control by the regulatory authority (State representative). Local authorities send their financial and administrative accounts to the Court of Auditors for scrutiny at the end of each financial year. The Inspectorate General of Territorial Administration (IGAT) is responsible for carrying out inspection and control missions in the municipalities, at the end of which, in the event of irregularities, mayors may be dismissed from their functions.

DEBT. Local and regional authorities may contract loans under the conditions laid down by decree of the Council of Ministers, but they make very limited use of them, with few results. They do not have access to financial markets.

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Lead responsible: UNCDF
Last update: 02/ 2019
www.sng-wofi.org

Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal information: IMF // Government of Niger Rapport d'exécution du Budget national 2017.
Other sources of information: Cities Alliance and UCLGA (2018) Assessing the institutional environment of local governments in Africa // RIAFCO, UNCDF, FMDV (2018) Studies on financial resource sustainability and diversification for Local Government Financing Institutions in Africa // UCLGA (2016) African Review of Local Finance.

NIGERIA

FEDERAL COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: NIGERIAN NAIRA (NGN)

POPULATION AND GEOGRAPHY

Area: 923 770 km^2
Population: 190.886 million inhabitants (2017), an increase of 2.7 % per year (2010-2015)
Density: 207 inhabitants / km^2
Urban population: 49.5% of national population
Urban population growth: 4.3% (2017 vs 2016)
Capital city: Abuja (1.5% of national population)

ECONOMIC DATA

GDP: 1 121.4 billion (current PPP international dollars), i.e. 5 875 dollars per inhabitant (2017)
Real GDP growth: 0.8% (2017 vs 2016)
Unemployment rate: 6.0% (2017)
Foreign direct investment, net inflows (FDI): 3 497 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 14.7% of GDP (2017)
HDI: 0.532 (low), rank 157 (2017)
Poverty rate: 53.5% (2009)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Nigeria is a federal republic with a bicameral national assembly and assemblies for each of the states of the country. The head of state and government is the president, elected for a maximum of two four-year terms. The country has three tiers of government: federal, state and local government. The 36 states are bound through a federal agreement. Elections to each state assembly take place every four years. Although democratically elected local government is protected by the 1999 Constitution, and development areas and autonomous communities are created by individual state legislation, elected local government in Nigeria is lacking in around half the states.

Local governments are uniform in structure and have the same functions, similar sources of revenue and share common relationships with the federal state governments. State and local government relations are headed by a commissioner which is responsible for administering the state-level Acts governing local governments. States are responsible for the legislation governing local elections. Councillors and chairpersons of local government councils are elected directly, using a first-past-the-post-system, for two-year terms. The local government is divided into wards which are responsible for electing a single member to its council. Councils vary from 10 to 13 councillors, and are made up of an executive chairman, vice-chairman, and councillors. In some cases, elected councillors and the chairs of local governments have been suspended by the state governor or state assemblies. In these cases, the governors appoint caretaker committees as replacements.

The structure of federalism began with the establishment of different constitutions. The MacPherson Constitution of 1951 was the first to introduce decentralization and regional autonomy. The Lyttleton Constitution of 1954 gave rise to a true structure of Federalism, which was incorporated by the Independence Constitution of 1960. In 1976, local governments were created as a third level of government and recognised as legal entities by the 1979 Constitution. The 1992 Clifford Constitution endorsed the division of Northern and Southern provinces. The current Constitution of 1999 gave far reaching responsibilities to the local government, which included increasing local authority over economic planning and development. The most recent attempt at local government reform was made in 2017 with the Fourth Alteration Bill No. 6, which aimed at strengthening local government administration by guaranteeing its democratic existence, funding, and tenure of local councils.

TERRITORIAL ORGANISATION

2016	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	768 local government authorities v + 6 area councils		36 states + the Federal Capital Territory (FCT)	
	Average municipal size: 246 623 inhabitants			
	774		**37**	**811**

OVERALL DESCRIPTION. Nigeria has a subnational government system, made of 36 States and one Federal Capital Territory (the Abuja FCT) at the regional level, and 774 Local Governments (768 local government authorities and six area councils) at the local level.

REGIONAL LEVEL. The Federal Capital Territory (FCT) is situated in the centre of the country. The FCT is not a state and is under the direct control of the federal government. It is administered by the Federal Capital Territory Administration, headed by a minister appointed by the President.

Lagos State is in the South West Nigeria, and is the commercial capital of Nigeria. The state has 20 LGAs, and is divided into the metropolitan city – which covers 16 local governments – and the non-metropolitan city – which has four local governments. Lagos State is the economic centre of Nigeria.

MUNICIPALITIES. All local governments are single-tier and there is no difference between urban, rural, or municipal councils. Local government authorities (LGAs) are further divided into wards across all states. There are an estimated number of 12 001 wards in Nigeria. The six area councils (Abaji, Abuja, Bwari, Gwagwalada, Kuje, Kwali) form the lowest level councils within the Abuja FCT. There are no legal frameworks in place for community participation at local government level. Community involvement remains low and mainly achieved through civil society organizations programmes.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The 1999 Constitution outlines the basic principles of the sharing of roles and responsibilities. Exclusive functions are those reserved for the Federal Government. Concurrent functions are shared jointly by the Federal government and the State governments. However, in case there is a conflict, the powers of Federal government prevail over those of the states. Residual functions are assigned to the states.

The Constitution makes the creation and control of local governments a residual matter for state governments. There remains a level of uncertainty over the role and status of local governments as the third-tier of government. Article 7 expresses that state governments have the power to enact legislation providing for "the establishment, structure, composition, finance and functions" of local government councils.

Local government is entitled to provide basic services such as primary education, health services and the development of agriculture (Fourth Schedule of the Constitution). However, the states are, in practice, primarily responsible for these services. Local government core responsibilities include pre-school, primary and adult education; public health; town planning; roads and transport; and waste disposal. Joint service responsibilities of local governments with the states are: primary and adult education, town and regional planning, roads and transport, water and sanitation, environmental protection, sport and leisure facilities, and religious facilities.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	STATE LEVEL	MUNICIPAL LEVEL
1. General public services	Internal administration; Local government affairs; Public buildings and facilities	Administrative services (marriage, birth, etc.); Public buildings and facilities
2. Public order and safety	State police; Regional Firefighting services	
3. Economic affairs/transports	Regional and urban roads; Public transports; Regional economic development ; Regional tourism	Local roads; Urban transports
4. Environmental protection	Nature preservation; Soil and groundwater protection; Consumer protection	Parks and green areas; Waste management; Street cleaning; Sewerage; Cemeteries; Slaughterhouses; Nature preservation
5. Housing and community amenities	Housing Construction and renovation; Management; Urban and land use planning; Water and sanitation	Urban and land use planning; Urbanism; Water and sanitation
6. Health	Hospitals	Primary healthcare (medical centres); Preventive healthcare
7. Recreation, culture & religion	Regional museums; Cultural heritage; Sports; Libraries; Religious affairs	Local museums; Sports; Libraries; Religious affairs
8. Education	Primary, secondary and higher education; Vocational and technical education; Higher and Adult education	Pre-primary and primary education; Adult education
9. Social protection	Housing subsidies and benefits	

SUBNATIONAL, STATE AND LOCAL GOVERNMENT FINANCE

Scope of fiscal data: Abuja Federal Capital Territory and 36 state governments at the state level, and 774 local governments at the local level.	SNA 2008	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Low**

GENERAL INTRODUCTION. State and local governments have autonomy for public spending, economic planning and sector policies. However, in practice, states rely largely on the policy dictates of the federal government. The effectiveness of state governments is diminished by the lack of commensurate revenue decentralization and low fiscal and budget management capacity at the state level. Fiscal federalism is enshrined in the 1999 Constitution. Since 1999, state and local governments have increased their share of Nigeria's expenditure and revenues and currently enjoy wider policy and fiscal spaces.

The Revenue Mobilization, Allocation and Fiscal Commission (RMAFC) is responsible for reviewing the country's intergovernmental fiscal relations. States and local governments receive substantial amount of resources as constitutionally guaranteed transfers from the Federation Account. Each state has its own tax authority, responsible for administering and collecting state taxes.

Fiscal decentralization and intergovernmental relations are an important part of the Constitution. However, statutory allocations from the Federation Account, corruption, tax evasion at the local level, subnational government capacity to generate finance internally and effectively for development purposes, and lack of financial autonomy remain key challenges.

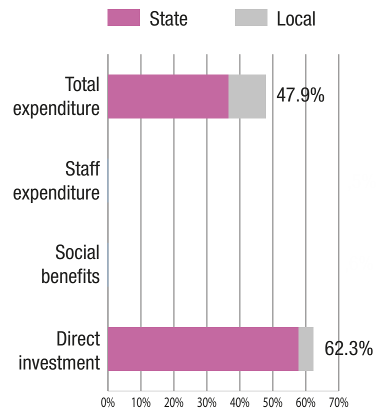
NIGERIA

FEDERAL COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.			% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT EXPENDITURE		
	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total expenditure	**254**	193	61	**4.3%**	3.3%	1.0%	**100%**	100%	100%
Inc. current expenditure	**194**	137	56	**3.3%**	2.3%	1.0%	**76.3%**	71.2%	92.7%
Staff expenditure									
Intermediate consumption									
Social expenditure									
Subsidies and current transfers									
Financial charges									
Others									
Incl. capital expenditure	**60**	56	4	**1.0%**	0.9%	0.1%	**23.7%**	28.8%	7.3%
Capital transfers									
Direct investment (or GFCF)	**60**	56	4	**1.0%**	0.9%	0.1%	**23.7%**	28.8%	7.3%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. Abuja Federal Capital Territory and the 36 state governments have a large discretionary power over the use of their revenues, and are responsible for a relatively high share of public expenditures. However, most of their expenditures relate to current expenditures (on average 45% of state governments expenditures are spent on staff expenditure). Local government account for 13% of total government revenue.

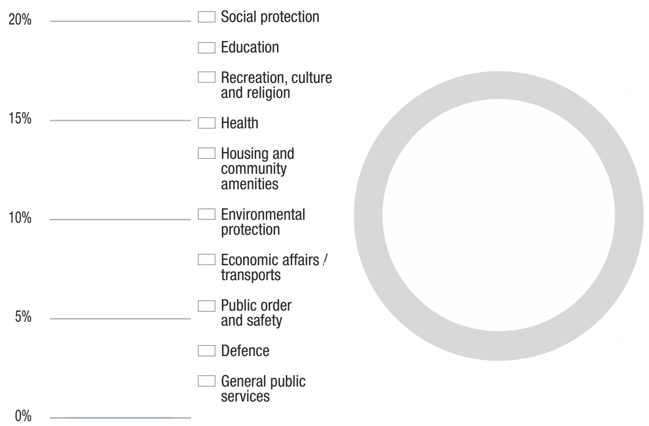
DIRECT INVESTMENT. Capital expenditure at subnational level is low (23.7%). Direct investment is low at state government level and almost none existent at local government level. There is a need for Nigeria to enact more investor friendly policies that would encourage and provide a conducive and enabling environment for gross fixed capital formation. Although Nigeria's economy is one of the largest on the continent, public infrastructure and services remain a critical challenge.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

	% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT		
	SNG	State	Local	SNG	State	Local
Total expenditure						
1. General public services						
2. Defence						
3. Security and public order						
4. Economic affairs / transports						
5. Environmental protection						
6. Housing and community amenities						
7. Health						
8. Recreation, culture and religion						
9. Education						
10. Social protection						

SNG EXPENDITURE AS A % GDP

% OF TOTAL SNG EXPENDITURE

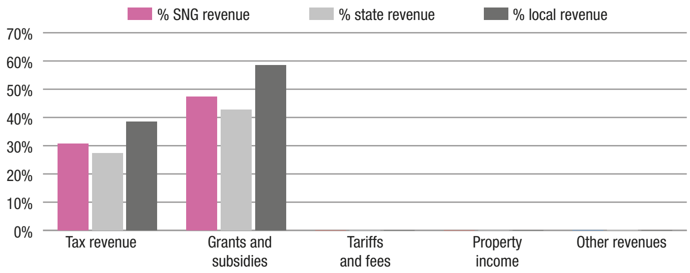


There is no official data on governments' functional classification of expenditures at state or local government levels. However, at federal level the highest level of spending is in the areas of general public services, public order and safety and education. At state and local government level, based on the subnational responsibilities listed above and previous year data, expenditure is highest in the area of general public services and administration; economic affairs including agriculture, road maintenance and transport; education; and health.

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	% GDP			% GENERAL GOVERNMENT (SAME REVENUE CATEGORY)		
	SNG	State	Local	SNG	State	Local
Total revenue	3.4%	2.4%	1.0%	38.3%	26.9%	11.5%
Tax revenue	1.1%	0.7%	0.4%			
Grants and subsidies	1.6%	1.0%	0.6%			
Tariffs and fees						
Property income						
Other revenues	0.0%	0.0%				

% SUBNATIONAL, STATE AND LOCAL GOVERNMENT REVENUE



OVERALL DESCRIPTION. All centrally-collected revenues are accrued to the Federation Account for distribution to the three tiers of government (Section 192 of the Constitution). Over the years, oil and gas revenues in Nigeria have provided about 75% of the income received by the Federation Account. The Federal Government is entitled to 52.7% of the Federation Account and transfers the balance to the states through the Federal Account Allocation Committee, of which 26.7% is held by the states and 20.6% is allocated to local governments. The amount received by a state is determined by the National Revenue Mobilisation, Allocation and Fiscal Commission according to specific criteria, namely the "equality of states", population, landmass, social development and the value of internally generated revenues. Furthermore, nine oil-producing states receive an additional 13% of the country's oil revenues.

SNG revenues in FY 16 accounted for 38% of all general government revenues. Federal and state governments are responsible for raising and collecting taxes. At SNG level, "internally generated revenues" (as referred to in the national accounts) mostly consist of: (a) rates, including property rates, education rates and street lighting; (b) taxes such as community, flat rates and poll tax; (c) fines and fees, including court fines and fees, motor park fees, forest fees, public advertisement fees, market fees, regulated premises fees, registration of births and deaths and licensing fees and (d) miscellaneous sources such as rent on council estates, royalties, interest on investment and proceeds from commercial activities. In 2016, SNG internally generated revenues amounted to 768 billion Naira - i.e. 8,182 million PPP dollars or 44 PPP dollars per inhabitant, of which 42 dollars at the state level and 2 at the local government level, representing 30% of total state revenues and 2.8% of local government revenues respectively.

TAX REVENUE. The Taxes and Levies Act 21 of 1998 provides that state and local governments are statutorily responsible for the collection of 80% of total taxes and levies. However, in value terms, state and local governments only collect a fraction of that total tax revenue, and the Federal government has control over setting tax bases and tax rates. The majority of high-earning tax items, such as value-added tax, company income tax, import and excise duties, mining rents and royalties, and petroleum profit tax, are generally exclusively collected by the federal government.

In FY2016, the share of VAT revenues for the three tiers of government was 35% for local governments, 50% for state governments and 15% for the federal government.

SNG mainly collects the following taxes/levies: a) Personal Income Tax (Pay-as-you-earn -PAYE- income tax automatically deducted at source from salaries); b) Capital Gains Tax (Individuals only); C) Road Taxes; d) Stamp Duties (instruments executed by individuals); and e) Pools Betting and Lotteries, Gaming, and casino Taxes. The Joint Tax Board (JTB) was created to help promote and improve tax administration across Nigeria, particularly harmonising the Personal Income Tax Act. Personal Income Tax is collected by the state governments via the State Board of Internal Revenue (SBIR) and account for at least 50% of all internally generated revenue at the state level.

GRANTS AND SUBSIDIES. The Nigerian government transfers a significant proportion of resources to sub-national governments. Federal allocations are meant to supplement the revenue states generate from taxes on personal income, property and other sources. Nonetheless, in almost all states, the federal allocation provides more than 80% of total revenue. In certain states, internally generated revenue (IGR) falls short of even covering personnel costs.

Section 162 of the 1999 Constitution provides for the funding of local governments through the Federation Account, managed by the State Joint Local Government Account. In practice, state governments have taken over most local government functions in order to justify the spending of the funds earmarked for councils in the Joint Revenue Account, and channelled funds from the Federation Account are often credited to state governments and do not reach the local level.

OTHER REVENUES. State and local governments can perceive other sources of revenues to compensate for their lack of autonomy over transferred revenues. These revenues are mainly fees and charges on public services. For state governments, these revenues include: stamp duties, gambling taxes, road taxes, business registration fees, street naming registration fees. Regarding local governments, other revenues include: motor park levies, domestic animal license fees, cattle tax, radio and television license fees, marriage and death registration fees, among others.

NIGERIA

FEDERAL COUNTRY

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.			% GDP			% GENERAL GOVERNMENT DEBT			% SNG DEBT		
	SNG	State	Local	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total outstanding debt	**171**	169	1	**2.9%**	2.9%	0.0%	**21.2%**	21.1%	0.1%	**100%**	100%	100%
Financial debt*												

* Currency and deposits, loans and bonds

FISCAL RULES. Local authorities must submit their annual accounts to an auditor general and prepare financial statements by the end of the financial year. However, budget transparency remains weak in Nigeria. In recent years, less than half of the 36 states have made their budget available to the public, and only 13 states have provided full budget details. In 2015, due to the collapse in global oil prices, most states rapidly became insolvent. The federal government authorised a bailout fund for 27 indebted states.

DEBT. The Debt Management Office (DMO) created in 2000 is in charge of coordinating and centralizing debt activities at all levels, including debt service forecasts and debt payment. It is also responsible for advising the federal government on debt negotiation and new borrowings. In 2007, the DMO introduced a fiscal responsibility plan for subnational government. The plan has led to improvements in the public financial management in various states, including in the increase in the Internally Generated Revenue (IGR) collected and in the frequency of the preparation of financial statement. In 2016, the Minister of State for Budget and National Planning announced that states would continue with their fiscal responsibility plan which would serve as a platform to access a $750 million World Bank loan and grant, aiming at improving public service delivery.

In FY2016, the total debt of the states and the FCT accounted for 2.9% of the GDP and represented 21.1% of total public debt. Debt remains highly concentrated in a few States: Lagos, Kaduna and Edo States. The government is engaged in strengthening the capacities of the sub-national debt managers through special capacity building programmes. Subnational government debt management training was provided in five states, namely: Kebbi, Lagos, Jigawa, Plateau and Taraba.

Regarding bonds, only the Lagos State Government accessed the domestic bond market in FY2016. The federal government authorises states and local governments to trade bonds that are free of federal income tax on the interest paid. Insufficient bank financing has led subnational governments to seek funds from the bond market to supplement their revenues in order to finance development projects. Since 1978, several states and local governments have had access to the bond market.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: UCLG
Last update: 02/ 2019

www.sng-wofi.org

Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data: BudgIT civic organization (2017) State of State 2017 Report // Budget Office of the Federation // Revenue Mobilization Allocation and Fiscal Commission // Central Bank of Nigeria (2017) Statistical Bulletin: Public Finance Statistics.
Other sources of information: Akpan H. Ekpo (2015) Issues in sub-national borrowing in Nigeria // The World Bank (2018) Nigeria Public Sector Governance Reform and Development Project // Amah, E. I. (2018) Devolution of Power to Local Government: Appraising Local Government Autonomy under Nigerian Federation. Beijing Law Review, 9, 275-293 // UCLG Africa and Cities Alliance (2018) Assessing the Institutional Environment of Local Governments in Africa // Adejare, A. (2017) The Impact of Personal Income Tax on Government Expenditure in Oyo State // Commonwealth Local Government Forum (2017) The Local Government System in Kenya. Country Profile 2017/18 // Adams, P. (2016) State (s) of crisis: Sub-national government in Nigeria. Africa Research Institute // Social Development Integrated Centre // Oluwafemi I. Ajayi (2013) The Nigerian Bonds Market. Central Bank of Nigeria.

RWANDA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOW INCOME

LOCAL CURRENCY: RWANDAN FRANC (RWF)

POPULATION AND GEOGRAPHY

Area: 26 340 km²
Population: 12.208 million inhabitants (2017), an increase of 2.5% per year (2010-2017)
Density: 463 inhabitants / km²
Urban population: 30.7% of national population
Urban population growth: 2.8% (2017 vs 2016)
Capital city: Kigali (10.3% of national population)

ECONOMIC DATA

GDP: 24.9 billion (current PPP international dollars), i.e. 2 036 dollars per inhabitant (2017)
Real GDP growth: 6.1% (2017 vs 2016)
Unemployment rate: 16.7% (2017)
Foreign direct investment, net inflows (FDI): 293.4 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 22.9% of GDP (2017)
HDI: 0.516 (low), rank 162 (2018)
Poverty rate: 55.5% (2016)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Rwanda is a democratic republic headed by the President who is both the head of the state and government, as well as the commander in chief of the country's defense forces. The President is elected directly by universal adult suffrage to serve for a seven-year term and can be elected for a maximum of two terms. The country has a bicameral parliamentary system made up of the Senate and the Chamber of Deputies.

Local government is enshrined in Chapter 1 of the Constitution (2003), which states in Article 6 that "Public powers are decentralized at local administrative entities in accordance with provisions of law". The main governing legislation is the Organic Law No. 29 of 2005, which determines the administrative entities for local government and establishes their number, boundaries and structure. Districts are the legal decentralized entities and responsible for the overall coordination of economic development, planning, financing and implementation of service delivery. They are subdivided in three other local sub-tiers: sectors (imerenge), cells (utugari) and villages (imudungu). At the village level, local government law stipulates that all village residents are members of their village council. Cell council members are directly elected by universal suffrage of the cell residents for 5 years. Representatives are then indirectly elected from the cell council members to the sector council, which then in turn indirectly elects a representative to the district council. Following the last 2016 local elections approximately 40% of all councillors were women.

The Government of Rwanda adopted a phased approach to implementing the decentralization policy. Phase I (2001-2004) focused on institutionalizing decentralized governance by articulating the policies and the legal frameworks, putting in place the necessary administrative structures, systems and mechanisms. The second phase (2005-2009) focused on enhancing public service delivery through the decentralization of public services from the Central Government to the districts (local level). The main outcome of this phase was the development of a suitable statutory framework that facilitates greater citizen participation in decision-making, greater resource allocation to Local Governments, better connection with other reforms and better coordination of stakeholder interventions in the decentralization program. The current Phase III (since 2011) focuses on fiscal decentralization to promote local development and strengthen the capacity of decentralized local governance units - District, Sector, Cell and Village, to implement the Rwanda Decentralization Strategic Framework (RDSF).

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	Districts *(akarere)*			
	Average municipal size: 350 532 inhabitants			
	30			30

OVERALL DESCRIPTION. The Republic of Rwanda is divided into five provinces (including Kigali City) which serve as a coordinating organ of the central government to ensure the efficiency and effectiveness in government's planning, execution and supervision of the decentralized services. As deconcentrated bodies, the provinces are not identified as local governments. The central government retains a strong degree of authority over the provinces and the decision-making remains within the same level of government.

At the decentralized level, the country is made up of 30 districts. The Southern Province has the largest number of districts (8), the Eastern and Western Provinces have 7 each, and the Northern Province has 5 districts. The City of Kigali consists of 3 districts and exercises overall supervision, guidance, coordination and monitoring for implementation of national policies, spatial and development planning, and economic development in the constituent Districts. Districts are entitled to their own budgets and plans but are required by law to ensure that all their decisions are in conformity with the decisions of the Council of the City of Kigali.

Below the 30 districts, there are 416 sectors, 2 148 cells and 14 837 villages. An important political feature of districts is their elected councils and mayors, and the preparation of their own budgets. The districts have been originally created as the centre for the decentralized delivery of services. The sector is the next level of administration where people participate through their elected representatives. Finally, the cell is the smallest politico-administrative unit of the country. Its main responsibility is community mobilization.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The laws defining SNG responsibilities and distribution of competences include Act No. 87/2013 of 30/09/2013 on the organization and functioning of decentralized administrative entities and Act No. 62/2013 of 27/08/2013 establishing the Local Administrative Entities Development Agency's mandate

As far as sector services are concerned, the distinction of responsibilities regarding financial and human management has not yet been clearly defined. In fact, the complexity associated with the sectors especially health and education have compelled the sectors to process through a gradual decentralization. This includes joint planning and institutional reforms in sector ministries through the revision of policies and creation of agencies to support Districts.

Law 62/2013 established the Local Administrative Entities Development Agency (LODA) as a Government Agency under the supervision of the Ministry of Local Government. The Agency's mission is to coordinate the local development interventions of the local government entities focusing on Local Economic Development, Social Protection, Capacity Building of local administrative entities, and monitoring and evaluation of implementation process and programs in local administrative entities.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPAL LEVEL
1. General public services	Development planning and management; Administrative services (marriage, birth, etc.); Voter registration Public buildings and facilities
2. Public order and safety	Community policing; Fire and rescue services (jointly with the Ministry of Internal Affairs)
3. Economic affairs/transports	Employment services and job information; Local roads, park spaces, urban transport, local tourism Electricity grid expansion and connections; Markets, abattoirs, storage space, warehouses
4. Environmental protection	Parks & green areas, Waste and water management, Sewage systems, Street cleaning, Tree planning, Construction of dams
5. Housing and community amenities	Construction/renovation of public housing; Spatial planning, land use and building regulation; Distribution of drinking water, public lighting
6. Health	Primary healthcare (medical centres) and secondary healthcare (district hospitals); preventive healthcare
7. Recreation, culture & religion	Sports, libraries, local museums
8. Education	Pre-primary, primary and secondary education
9. Social protection	Social protection; support to vulnerable groups (extremely poor and historically marginalized) Orphanages, centres for children in streets, welfare homes

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: districts.	SNA 1993	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

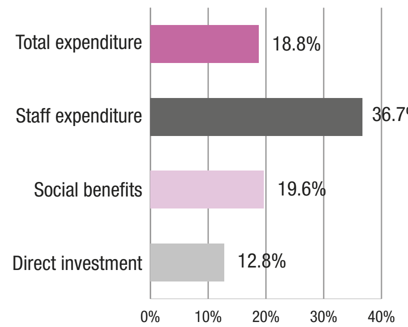
GENERAL INTRODUCTION. Rwanda has implemented progressive fiscal decentralization since 2000. As part of the Fiscal and Financial Decentralization Policy adopted in 2011, the main subnational government finance legislation includes Act No. 59/2011 on the source of revenue and property of decentralized entities and their management, Act No. 12/2013 of 12/09/2013 on state finances and property as amended to date, and the Presidential Order No. 25/01 of 9 July 2012 on the fees charged by denationalized entities.

Significant progress has been made in the implementation of the Decentralization Policy, in particular regarding the provision of grant funding. However, the evaluation of the third phase of implementation of the Decentralization Policy also indicated a number of challenges with fiscal and financial decentralization that should be addressed, including (a) Resources not matching devolved roles and responsibilities; (b) Earmarked transfer mechanisms and procedures that hinder the effective functioning of Local Governments; and (c) Financial management responsibilities that overload district staff, with no delegation at lower levels.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**107**	**5.6%**	**100%**
Inc. current expenditure	81	4.2%	75.0%
Staff expenditure	46	2.4%	42.6%
Intermediate consumption	14	0.7%	12.6%
Social expenditure	7	0.4%	6.4%
Subsidies and current transfers	0	0.0%	0.0%
Financial charges	0	0.0%	0.1%
Others	14	0.7%	13.4%
Incl. capital expenditure	27	1.4%	25.0%
Capital transfers			
Direct investment (or GFCF)	27	1.4%	25.0%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



RWANDA

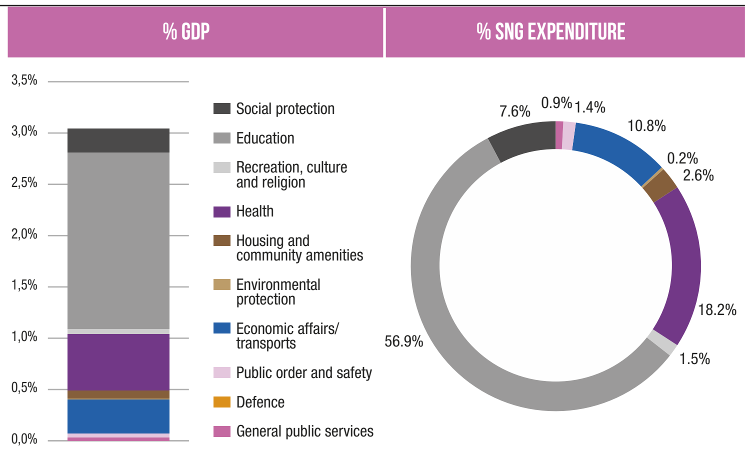
UNITARY COUNTRY

EXPENDITURE. Rwanda has a low level of total Local Government expenditure per capita compared to more developed countries ($6 817 for OECD countries on average). Compared to other countries in the region, It is ahead of Uganda (PPP$57.3), Kenya (PPP$89.7) and Tanzania (PPP$93.7), but far behind South Africa (PPP$1 728).
There has been no significant change in Local Government spending over the past 5 years. An increase in some categories (e.g., staff and other costs) were in line with the overall increase in Local Government budget allocations.

DIRECT INVESTMENT. Local governments play a minor role in direct investment due to the limited funds available. These funds are routed through LODA, which in fact manages all Local Government investments. Key areas of investment include education (class rooms), health (health facilities), general public services (sector and cell administrative buildings) as well as water and road sectors. The entire capital investment budget for local governments is funded from external resources (grants from foreign organizations and foreign governments). Although Act No 59/2011 on the source of revenue and property of decentralized entities mentions loans as one of the local government revenue sources for investment, there are no regulatory provisions for borrowing by local governments in Rwanda.

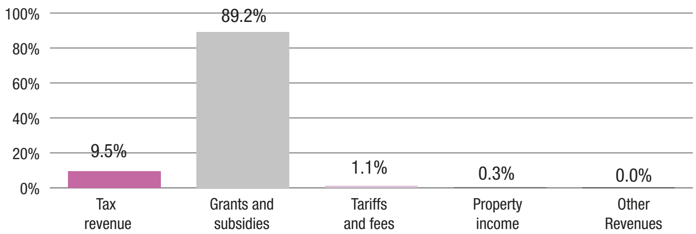
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

COFOG data are available for general government but not for local governments. However, the Ministry of Finance issues annual Earmarked Transfers Guidelines to Decentralized Entities (i.e. districts) by program. The programs broadly follow COFOG classification and allow reconstruction of LG expenditure by economic function, at least with respect to the earmarked transfers. The table above is likely to underestimate the expenditure for general public services because the recurrent block grant accounts for the bulk of the difference between the total expenditure and the amount of earmarked transfers. The results show that education and health are the two main expenditure categories (56.9% and 18.2%, respectively). Transport and social protection also receive sizeable financing (10.8% and 7.6%) whereas environment protection is the least funded category (0.2%).



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**108**	**5.6%**	**17.5%**
Tax revenue	10	0.5%	3.5%
Grants and subsidies	96	5.0%	
Tariffs and fees	1	0.1%	
Property income	0	0.0%	
Other revenues	0	0.0%	



OVERALL DESCRIPTION. Fiscal decentralization is one of the main priorities of the Government of Rwanda. However, local entities remain highly dependent on central transfers, as local own revenues, and in particular the collection of local taxes, are not increasing as expected. To date, the government has neither the capacity nor the intention to increase the volume of transfers to local entities, so increasing the collection of own-source revenues is an essential step

The main source of funding is grants and subsidies from the central government, particularly earmarked grants. However, Local Governments have the ability to raise own-source revenues, in accordance with Act No 59/2011. These include a variety of local taxes and fees from the provision of administrative and other decentralized services, fines, loans, government subsidies, etc. The three main taxes are Fixed asset tax, Trading license tax; and Rental income tax.

TAX REVENUE. In 2016, total aggregated locally raised revenue amounted to RWF 39 441 186 720 (about $20.5 million PPP, or $1.7 PPP per inhabitant). They correspond to between 10 and 15% of the total income of the districts. However, adequate local revenue collection remains a challenge. Key issues include: local own revenues are much lower (about 20%) of revenue potential; the tax base is narrow, about 3% of properties are subject to Fixed Asset Tax; tax rates are low (property tax rate is 0.1%, one-tenth of the average international rates); collection efficiency is very low (percent is unknown due to lack of solid data, but empirical evidence suggests 30%).

As part of a national commitment to reform local taxation, in August 2018, Parliament passed a law determining the sources of revenue and property of decentralized entities, commonly known as Property Tax. It replaces the old law 59/2011 enacted in December 2011. The key change includes an increase in tax rate (to be set by the districts) for residential buildings after exempting those used by owners as their residence. The new law also introduces other measures to improve property taxes:

- **Efficient land use:** The law provides a standard plot size corresponding to each type of building to guide the land tax rate to pay. This tax will increase by 50% for each extra square meter beyond the set standard rate.
- **Promotion of commercial and industrial buildings:** The law will support urbanization policies in place by providing preferential tax rates on commercial buildings. It will also promote industrial and SME development by providing special tax rates for industrial buildings to make them competitive on both regional and international markets. In addition, SMEs will receive a 2-year tax trading license exemption upon establishment.
- **Rental Income tax:** Under the new law, the income threshold reserved for maintenance and upkeep of rented property (which is not taxed) has increased from 30% to 50%. For rented property financed through loans, actual interests will be subtracted while calculating taxable value.

However, the reform envisages centralized collection of local taxes by the Rwanda Revenue Authority (RRA), which may undermine the substantial role of districts in own-source revenue administration and collection.

GRANTS AND SUBSIDIES. Transfers to Local Governments are composed of:

- **Block Grants** – local administrative budget support funding mainly to bridge the fiscal gap in the recurrent budget of eligible entities. It helps to finance administrative expenses, including salaries, running costs, and supervision of activities to ensure service delivery. The grant is formula-based.
- **Earmarked Grant Transfers** – these are project-tied grants for each delegated function. The delegating line ministry regulates the transfer mechanisms, reporting requirements and the formula for allocation.
- **Capital Block Grants** – intended to assist districts in undertaking local development projects. Currently, this grant is not applied as it has been subsumed by the Common Development Fund/ Local investment projects financing.
- **Common Development Fund** – provided under article 12 of Law 62/2013 of 27/08/2013 to LODA for disbursement to districts to assist them in their development programs. The fund comprises at least 10% of the Central Government's domestic revenues and funds provided by development partners. Funds are allocated to Districts via transparent formulas.

Local government revenues are dominated by earmarked grants which make up about 70% of total revenues. Furthermore, capital grants represent less than 10% of total revenues, the rest being current grants and transfers. Capital grants are also earmarked and leave inadequate space for local governments to decide on their priorities.

There is no equalization mechanism as such but many earmarked transfers (which make the bulk of local government revenues) incorporate an equalization dimension, which most commonly takes into account such factors as population, territory and poverty levels. A typical example is the Common Fund allocation, calculated for each district based on Population size - 40%, Area - 20% and Poverty level - 40%.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**0**	**0.0%**	**0.2%**	**100%**
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES.

DEBT. District Councils have the authority to borrow to finance development projects, but they can only do so with the approval of the Ministry of Finance, who is also authorized to set borrowing limits. Just as is the case for normal government borrowing which requires a critical statistical review to determine the borrowing and/or fiscal space, all government guarantees are subjected to the same thorough framework to ensure there is sufficient economic space to issue guarantees. Public borrowing is made against targets set and approved by Parliament in the three-year Medium-Term Debt Strategy.

Currently, Rwanda's financial system is dominated by the banking sector. At present, the banking sector comprises 10 commercial banks, which control most of the financial assets, as well as four microfinance banks, one development bank, and one cooperative. Together, these 16 banks hold two-thirds of the financial assets in the country.

Capital-market development is a key component of Rwanda's Financial Sector Development Program. With the adoption in 2011 of the Capital Markets Authority Law, the Capital Markets Law, and the Law on Collective Investment Schemes, most of the necessary legal architecture is in place.

Currently, no debt and borrowing market exists for local governments. The depth and capitalization of the Rwandan markets are inadequate and there is no regulation on local government shares or bonds. The upside of this situation is that Rwandan Local Governments have no market loans or debts; their indebtedness consists of outstanding payments to providers of goods and services. The downside is that market capital is not available for long-term investments although considering the fiscal situation of local governments and their almost total dependence on central government earmarked transfers, the possibility of tapping into debt and borrowing markets seems rather limited.

SNGWOFI World Observatory on Subnational Government Finance and Investment

Lead responsible: UNCDF
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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data: IMF Government Finance Statistics Database // Rwanda Ministry of Finance and Economic Planning, 2016-2017 Budget Execution By Sectors // Rwanda Ministry of Finance and Economic Planning, 2016-2017 Earmarked Transfers Guidelines to Decentralized Entities // Rwanda Ministry of Finance and Economic Planning, The Annual Economic Report Fiscal Year 2016/2017 // Rwanda Ministry of Finance and Economic Planning, Budget Framework Paper 2018/2019-2020/2021 // Rwanda Ministry of Finance and Economic Planning, Updated Macro-Framework Public Dataset by End 2017 (as of 5th April 2018).
Other sources of information: Center for Financial Markets (Melken Institute) (2015). Capital Markets in Rwanda: Assessment and Aspirations // Commonwealth Local Government Forum. The Local Government System in Rwanda. Country Profile 2017-18 // Embassy of the Kingdom of the Netherlands (2016) Evaluation of the LODA Program to Finance Infrastructure at De-central Level // IMF (2017) Staff Report for the 2017 Article IV Consultation, Seventh Review Under the Policy Support Instrument, and Second Review Under the Standby Credit Facility— Debt Sustainability Analysis Update // International Growth Center (2016) An effective property tax regime for Rwanda //PEFA Assessment Report of Rwanda (2016) // Cities Alliance and UCLGA (2018) Assessing the institutional environment of local governments in Africa.

SENEGAL

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOW INCOME

LOCAL CURRENCY: WEST AFRICAN CFA FRANC (XOF)

POPULATION AND GEOGRAPHY

Area: 196 710 km^2 (2017)
Population: 15.851 million inhabitants (2017), an increase of 3.0% per year (2010-2015)
Density: 81 inhabitants / km^2 (2017)
Urban population: 46.7% of the national population (2017)
Urban population growth: 3.8% (2017 vs 2016)
Capital city: Dakar (18.4% of the national population)

ECONOMIC DATA

GDP: 54.7 billion (current PPP international dollars), i.e. 3 450 dollars per inhabitant (2017)
Real GDP growth: 7.2% (2017 vs 2016)
Unemployment rate: 6.8% (2015)
Foreign direct investment, net inflows (FDI): 532.3 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (% GDP): 24.0%
HDI: 0.505 (low), rank 167 (2017)
Poverty rate: 38% (2011)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Republic of Senegal is a unitary country with a multi-party presidential regime. The current constitution was adopted in 2001. Amendments were made in 2016, including the reduction of the presidential term from 7 to 5 years and the creation of the High Council of Local and Regional Authorities (HCCT), which replaced the senate. Legislative power is vested in the National Assembly, the sole chamber of the Senegalese Parliament, established by the 1960 Act No. 60-44. Deputies are elected for five-year terms using a mixed voting system in 53 electoral districts corresponding to the 45 departments of Senegal and 8 constituencies abroad. The last parliamentary elections were held on 30 July 2017. Local elections (regional, municipal, rural) were held in 1996, 2002, 2009 and 2014 and are scheduled to take place in December 2019.

Since its independence in 1960, Senegal has implemented a progressive decentralization policy that has taken place in 3 phases. In the first phase, the 1972 Law 72-25 established rural communities. The second phase started in 1996 with the enactment of the Local Government Code and Law 96-07, which regulated the transfer of powers to three tiers of local government (regions, municipalities and rural communities). The 2001 Constitution further reinforced local government by stipulating that "the territorial authorities are freely administered by elected assemblies"; and that "their organization, their composition and their functioning are determined by law." Local governments were reinforced in 2006 with the National Local Development Program, which incorporated a community-driven approach to development (CDD). Under the CDD the Government updated the legal, regulatory and organizational framework, set up an operational mechanism to finance participatory local development, and developed guidelines for local governments and communities.

With the approval of Law n° 2013-10 of 28 December 2013 on the General Local Government Code, the country entered Phase III of decentralization. Phase III aims to harmonize the decentralization and local governance efforts. The 2013 General Local Government Code, which replaces the 1996 Code, defines the legal, institutional and financial framework of Phase III. The second stage of Phase III of decentralization plans to strengthen the financing of local authorities and allow departments to raise local taxes, correct territorial distortions by reforming the grants system, transfer more responsibilities to local governments and improve coordination between water, electricity and telephone concession companies and local authorities.

TERRITORIAL ORGANISATION

2016	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	Communes *(Gox)* 5 cities *(Rewu Taax)* 121 urban municipalities 46 sub-district municipalities 385 rural municipalities		Departments	
	Average municipal size: 28 457 inhabitants			
	557		45	602

OVERALL DESCRIPTION. Under Phase III of decentralisation, according to the 2013 General Code, local government in Senegal comprises 45 departments and 557 municipalities (Art. 1). The 2013 Code which replaced the 1996 Code led to the suppression of regions as local government bodies, at the same time that it granted departments local government status. Municipalities are further classified into 126 urban municipalities, 46 sub-district municipalities and 385 rural municipalities.

As regards the deconcentrated state administration, the country is divided into regions, departments and districts, all headed by officers appointed by the President of the Republic (Governor for the region, Prefect for the department and Sub-Prefect for the district). The country is divided into 14 administrative regions, each subdivided into 3 or 4 departments, which are themselves subdivided into a variable number of districts.

MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION. Municipalities are self-administered by local councils elected by universal suffrage. The council of each local government shall elect an executive body, the composition of which must be in accordance with the provisions contained in the 2013 General Code. Local governments may undertake, in accordance with the modalities provisioned for in the existing decrees on the matter, cooperation actions between themselves, with the State or any other appropriate structure in order to promote and coordinate development actions in specific fields (Art. 16). Likewise, local governments may cooperate with the State so as to put forward initatives of public interest (Art. 17).

DEPARTEMENTS. Departments are administered by a directly elected departmental council, made up by councillors elected for 5-year terms (Art 20). The departmental council is the body responsible for decision-making and may propose the municipalities within its jurisdiction actions to favor the coordination of local investments and development measures. New departments may only be created by decree and if the territorial extension of existing departments is to be modified, it has to be done following a consultation called by the Minister of Local Governments. The consultation needs to have the approval of the departmental council.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The 2013 General Local Government code builds up on the 1996 Local Government Code and Law No. 96-07, which outlined the transfer of competences to regions, urban and rural municipalities. The 2013 Code clarifies the distribution of responsibilities between the central and local government units, now comprised of departments, urban and rural municipalities. Both departments and municipalities have clearly outlined competences in matters of environmental preservation and natural resources management, health and wellbeing, youth, sports and leisure, culture, education, planning and urbanism. The General Code establishes that the transfer of responsibilities must be accompanied by the necessary resources to carry out such responsibilities. In order to ensure community participation, it requires the local executive body to establish a community consultation framework on plans for local development projects, implementation agreements, and other local concerns.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	STATE LEVEL	MUNICIPAL LEVEL
1. General public services	Public buildings and equipment	Administrative services (marriages, births, etc.)
2. Public order and safety	Fire Fighting	Municipal police; Urban signalization
3. Economic affairs/transports	Agriculture and rural development; Support for local businesses; Departmental tourism	Urban roads; Public parks; Local tourism
4. Environmental protection	Environmental conservation; Soil and groundwater protection; Climate protection; Sanitation	Parks and green spaces
5. Housing and community amenities	Construction/renovation; Management	Construction/renovation; Street lighting; Urban planning
6. Health	Hospitals	Primary health care (health centers); Preventive health
7. Recreation, culture & religion	Departmental museums; Cultural heritage	Sports; Libraries; Local museums
8. Education	Secondary and higher education	Pre-primary and primary education
9. Social protection	Elderly people; People with disabilities (benefits and services); Social development	Social protection of children and young people; Family support services

SUBNATIONAL GOVERNMENT FINANCE

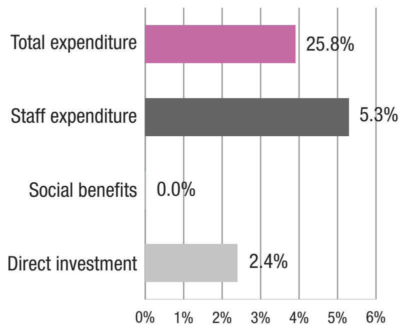
Scope of fiscal data: departments and municipalities.	SNA 2008	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. The provisions relating to the finances of local authorities are set out in Title 4 of Law No. 2013-10 of 28 December 2013 on the General Local Government Code. The execution of local government budgets in 2017 shows an improvement in the role played by local authorities in public finances compared to previous years: In 2017, local revenues increased by 29% compared to 2016, while expenses increased by 45%. This increase is partly due to a stabilization of Phase III of decentralization and a better understanding by local actors of local tax policy. However, this general improvement should not mask the disparities between local authorities. Indeed, nearly 49% of local revenues are collected by local authorities in the Dakar region, where 50% of local expenditures are also made. Pending the completion of studies on local tax reform under the second stage of Phase III of decentralization, the State increased its transfers to local authorities by 13% in 2016 compared to 2015. However, the figures decreased by 0.5% in 2017 compared to 2016. The reform of the General Tax Code (CGI), which provides for a local economic contribution (CEL), should have a positive impact on local authorities' budgets in the coming years.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2017	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**37**	**1.1%**	**100%**
Inc. current expenditure	27	0.8%	74.2%
Staff expenditure	9	0.3%	24.4%
Intermediate consumption	4	0.1%	11.2%
Social expenditure	0	0.0%	0.0%
Subsidies and current transfers	0	0.0%	0.0%
Financial charges	4	0.1%	12.1%
Others	10	0.3%	26.4%
Incl. capital expenditure	10	0.3%	25.8%
Capital transfers	1	0.0%	3.2%
Direct investment (or GFCF)	8	0.2%	22.7%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



SENEGAL

UNITARY COUNTRY

EXPENDITURE. In 2017, despite a 45% increase over the last year, the level of local government spending remains low compared to public spending: it represents just over 1% of GDP and less than 4% of Senegal's total public spending. 74% of local expenditures are operating expenditure, while slightly less than 24% are spent on investment. Compared to the previous fiscal year, only two lines of expenditure have experienced decreases, both related to the payment of financial charges. The largest decrease was in the repayment of debt charges, which decreased by almost 50% due to the repayment method, which is based on the constant amortization of loans with declining interests.

INVESTMENT. As a general rule, investments are of a social nature in local and regional authorities. However, variations are to be noted if it is a rural commune where investments go towards basic needs (water, tracks, electrification, health, education), or an urban commune where investments go towards urban infrastructures aimed at reducing deficits and requalifying the urban landscape (shopping centres, buildings for service use, car parks, hospitals, etc.). For large cities, the regulatory framework allows, under certain conditions, to experiment with innovative financing tools through financial markets and international cooperation in general.

In 2017, investments carried out at the local level increased by 57.2% with respect to 2016. This strong growth is mainly due to the investments in road infrastructure (which alone stand for 40.5% of local investment) and health. Investments in education, youth and sport have also increase significantly by 47.7% compared to the previous year. The increase is partly due to the financial support for infrastructure development provided by the African Development Bank and implemented by the municipalities under the National Local Development Programme (PNDL).

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

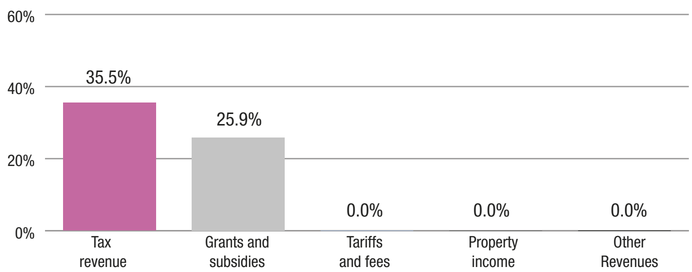
Disaggregated data by economic function is only available for local capital investments.

% GDP | % SNG EXPENDITURE

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2017	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**45**	**1.3%**	**5.6%**
Tax revenue	16	0.5%	3.1%
Grants and subsidies	12	0.3%	
Tariffs and fees			
Property income			
Other revenues			

% SNG REVENUE



OVERALL DESCRIPTION. Local authorities derive their financial resources from various sources, namely locally-raised revenues and transfers allocated to them by the State or other public bodies in the form of assistance funds. In FY 2017, local revenues increased by approximately 29% compared to FY 2016, but still represent only about 1.3% of GDP and 5.6% of total revenues at the general government level. According to the nomenclature used in the multi-year fiscal and economic programming document, operating revenues represented 70% of total local revenues, while the remaining 30% corresponded to investment revenues.

TAX REVENUE. In FY 2017, tax revenues amounted to 35.5% of local revenues, partly due to the good performance of taxes on the contribution of patents, built property and the domestic waste collection tax. CIT includes contributions from patents and commercial activity. The contribution of patent to local revenues by patents represents almost 28% of operating revenues and 65% of investment revenues, while the collection of tax on commercial activities increased by approximately 15% compared to FY 2016. The second largest sources of revenue for local governments in FY 2017 were personal income tax, which rose by 62% over the previous year, and built property tax, which increased five-fold.

GRANTS AND SUBSIDIES. The State of Senegal contributes funds to local authorities mainly through two instruments, the Local Government Endowment Fund (FDD) and the Capital Investment Fund (FECL). In FY 2017, local governments were allocated PPP $102 109 065 and 93 637 133 PPP, respectively through the FDD and FECL. Resources are also allocated to local authorities under (i) the transferred Consolidated Investment Budget (BCI), in particular in the fields of education and health, and (ii) rebates from the annual vehicle or motor vehicle tax and the property appreciation tax.
Two criteria are used for the allocation of the FDD: (1) a compensation criterion - at least 82% of the total amount of the fund is distributed among local authorities according to the cost of the charges resulting from transferred powers; (2) a criterion relating to support for regions to enable them to respond to requests from local authorities.

The FECL has resources from a VAT levy, the rate of which (around 2%) is set yearly by the Finance Act. It allocates two types of funds: an ordinary assistance fund, namely general-purpose equipment provisions allocated to local authorities, and a special assistance fund to enable local authorities to finance either the counterpart requested by decentralization support projects or to cover capital investments initiated by the State itself.

In the context of Phase III of decentralization, local authorities call for (i) an increase in VAT rates to 20% and 10% for the FDD and FECL respectively, due to the increase in the number of local authorities, the change in the status of rural communities and district municipalities and the transfer of new powers, and (ii) the refocusing of these two funds for the sole benefit of local authorities.

According to the Ministry of Local Governance, Development and Spatial Planning (MGLDAT), from 2019 onwards, transfers under the FDD and FECL should increase by about PPP $4.5 million per year.

OTHER REVENUES. Disaggregated data on tariffs and fees are not available. Tariffs and fees relate to water supply, electricity, transport and telecommunications. There is also an advertising tax and a fuel tax. The level of autonomy of local authorities is low. It is the State that determines the tax base and collects taxes before making the transfers in the form of rebates.

Regarding income from assets, the main categories of assets generating income are municipal taxes, operating revenues and public revenues. Local authorities have a medium level of autonomy in this respect; they manage these revenues autonomously, based on the principle of legality control.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**3**	**0,1%**	**1.0%**	**100%**
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. In Senegal, as in all WAEMU countries, the financial regime of local authorities is based on the principles of budgetary law defined in the directives on the transparency code, the finance laws and the general regulations on public accounting of WAEMU. The State exercises legality control over all their operations. Due to the principle of cash register unity, the authorization of the Minister of Finance is required for the opening of private accounts outside the public treasury by local authorities.

DEBT. In 2017, the total amount of outstanding debt of local authorities amounts to just over 50 million PPP dollars, which represents 0.1% of GDP and 1% of public debt.

For a local authority to be able to borrow, it is required that its own revenues cover its current expenses (operating expenses and outstanding debt). There is no restriction on the choice of lenders. Borrowings are made in XOF currency and those made in foreign currency are supervised by WAEMU. Both types of transactions are permitted. Local authorities also have non-institutional debts to the Municipal Development Agency.

At the national level, Dakar is the first and only city to have experienced the preparation of a bond issue in 2015. This bond issue was finally cancelled at the request of the State.

Since 2012, the government has set up new Guarantee Funds to support private investment, such as the Priority Investment Guarantee Fund (FONGIP) and the Sovereign Investment Support Fund (FONSIS).

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Lead responsible: UCLG
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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data: Ministry of Economy, Finance and Planning (2018) Document de Programmation budgétaire et économique pluriannuelle (DPBEP) 2019-2021 // General balance of consolidated accounts of local authorities.
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SIERRA LEONE

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOW INCOME

LOCAL CURRENCY: LEONE (SLL)

POPULATION AND GEOGRAPHY

Area: 71 740 km^2
Population: 7.557 million inhabitants (2017), an increase of 2.3 % per year (2010-2015)
Density: 105 inhabitants / km^2
Urban population: 41.6% of national population (2017)
Urban population growth: 3.1 % (2017 vs 2016)
Capital city: Freetown (15% of national population)

ECONOMIC DATA

GDP: 11.5 billion (current PPP international dollars), i.e. 3 949 dollars per inhabitant (2017)
Real GDP growth: 4.2% (2017 vs 2016)
Unemployment rate: 4.4% (2017)
Foreign direct investment, net inflows (FDI): 560 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 18.5% of GDP (2017)
HDI: 0.419 (low) rank 184 (2017)
Poverty rate: 52.2% (2011)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Sierra Leone is a unitary constitutional republic with a unicameral parliamentary system. According to the 1991 Constitution, the president is both the head of state and the head of government, who appoints a cabinet with the approval of the Members of Parliament (MPs). When appointed, MPs are not allowed to hold office concurrently. The president is elected through universal suffrage for a maximum of two consecutive five-year terms. Legislative power is vested in the Parliament. The parliament has 124 members serving for five-year mandates. Of these, 112 are elected under the first-past-the-post system, and the remaining 12 MPs are paramount chiefs, elected by an electoral college of chiefdom councillors.

The 1991 Constitution makes no provision for local governments, which were abolished between 1972-2004. In 2004, the country embarked on a countrywide decentralisation program, and the Local Government Act (LGA 2004) was approved, encouraged by international donors engaged in post-conflict governance, which re-created local councils. The regulation acknowledged the 'dual system' of local councils and chiefdom councils, and included transitional provisions (2004-2008) on decentralization and chiefdoms towards the amalgamation of subnational levels and devolution of functions. However, structural ambiguities have led to tensions between the two bodies and challenges to the process of decentralization. Since 2010, Sierra Leone's National Decentralisation Policy acknowledged that the constitution should be revised to reflect the goals of decentralisation and devolution. However, in 2011, the government reinstated the position of district officer as the national government principal representative to enhance the national government's relationship with traditional authorities (chiefdom councils, which increased from 149 to 190) and the co-ordination of non-devolved functions of other ministries at district level. In 2016, the Constitutional Review Committee recommended the inclusion of a Local Government Chapter.

Under the LGA 2004, a Decentralisation Secretariat in the Ministry of Local Government and Rural Development (MLGRD) has been granted responsibility for implementing decentralisation reforms. The Local Government Service Commission (LGSC) was also established as a separate body in charge of supporting local governments with human resources. A Local Government Finance Department was created within the Ministry of Finance to manage transfers and accountability. Lastly, an Inter-Ministerial Committee (IMC) on Decentralisation has been formally established as the highest national political body in this domain, chaired by the vice-president of Sierra Leone and including four representatives of local councils (usually mayors). It arbitrates between local councils and provincial administrations, ministries, departments and governmental agencies.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	15 district councils 7 city councils			
	Average municipal size: 343 636 inhabitants			
	22			22

OVERALL DESCRIPTION. Sierra Leone acknowledges a single tier of local self-government, the district. Since 2018, there are 22 local councils, including 15 district councils and 7 city councils. In terms of administrative organization, the country is divided into 3 provinces (the Northern, Southern, and Eastern Provinces) and a region known as the Western Area. Local councils' boundaries are delimited within provinces. The 190 chiefdoms are the lowest administrative level. According to the regulation, chiefdoms are subordinated to local councils. Local elections are held every 4 years (the last one was in March 2018). According to CGLF, however, the next local elections will not take place before 2024.

PROVINCES. The provinces are divided into districts, which are further divided into chiefdoms. The Western Area is governed by a rural council and a city council for Freetown, the country's capital.

MUNICIPALITIES. Before their de-activation in 1972, several acts established the typology of Sierra Leone's local councils, which included Urban District, District, Town, Township and City Council. Even with the de-activation of local governments, however, town councils remained de facto in place. In 2004, local councils were re-established. In 2006, through the Statutory Instrument, the status of the towns and Freetown was converted into city/municipal status. This innovation was included in the LGA through a 2017 amendment. Besides, several localities in Sierra Leone are designated as towns. Those refer, generally, to larger settlements within districts, and do not correspond to electoral wards.

Since 2008, mayors (city council) and chairpersons (district council) are elected head of the local council by universal direct suffrage. Deputy mayors are indirectly elected by local councilors, who in turn are elected by universal suffrage in each ward. Nationally, there are 446 wards, according to a 2017 amendment to the Wards (Boundary Delimitation) Regulations. All district and city councils include paramount chief councilors, selected by the paramount chiefs of the district. In addition, paramount chiefs are members of the ward committees of the local council in their chiefdom. In 2017, the Provinces (Administration Divisions) Order led to a de-amalgamation process and the increase from 145 to 190 chiefdom councils.

INTER-MUNICIPAL COOPERATION. The LGA 2004 also reactivated the Provincial Coordination Committees. This body is responsible for coordinating the activities of local councils in each province. The mayor and chairperson of each local council in the province are part of the committee with right to vote; local council chief administrators also participate, ensuring that local councils collaborate in the execution of joint programs in which they have an interest, and reviewing and coordinating the provision of public services in the province.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

As an enforcement of the LGA 2004, the Local Government (Assumption of Functions) Regulation (Statutory Instrument No. 13 of November 2004) aimed at guiding the devolution of 80 policy functions to local councils until 2008. According to the national government, in 2008, about half of these functions were devolved and the process has even been sped up since 2009. In 2010, the National Decentralization Policy set to December 2016 a deadline for full devolution of functional responsibilities and management of local human resources. Under this devolution framework, responsibility for many basic social services has been transferred to local councils. Chiefdom councils can collect revenue on behalf of the national government, but have no functional responsibility (2009 Chieftaincy Act). The recent Ebola epidemic (2014-2016), however, disrupted the process at all levels. Priorities shifted towards containment. Recently, some city councils have established a police force and outsourced specific basic services, in particular waste collection/disposal ones.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPAL LEVEL
1. General public services	Civil status register, civil marriage, registration of births and death; Cadasters and maintenance of customary law (in areas with a paramount chieftaincy system)
2. Public order and safety	Fire protection (shared with national government) and basic firefighting; Civil protection (exclusively the local government probation services)
3. Economic affairs/transports	Censing of canoes; Establishment and management of fish ponds; Agricultural extension services (crop and animal); Maintenance of roads and urban road infrastructure (shared with national government)
4. Environmental protection	Sanitation and solid waste management
5. Housing and community amenities	Water management
6. Health	Primary and secondary health (health service delivery, health promotion, drug control and prevention); Hospital (including procurement of drugs for both peripheral health units and district hospitals – shared with national government); Health protection (including education on environmental, fire prevention and public health issues, access to safe drinking water and food quality and safety)
7. Recreation, culture & religion	Maintenance and management of cultural (museums, libraries); Sport and leisure facilities
8. Education	Primary education (schooling) and secondary education (shared with national government)
9. Social protection	Childcare and family welfare services

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: local council.	SNA 1993	Availability of fiscal data: **Low**	Quality/reliability of fiscal data : **Low**

GENERAL INTRODUCTION. In Sierra Leone, the fiscal decentralization framework (LGA 2004) does not grant a specific share of national revenues to local governments, however it mandates that devolved functions (Statutory Instrument nº13) shall be adequately funded. According to the World Bank, the total amount of transfers to local government has increased in the period of devolution (2005-2009) but they remained underfunded. In addition, national governments also centralized local wages expenditures and most of sectoral infrastructure. These are identifiable in the national budget and financial accounts presented to the Parliament.

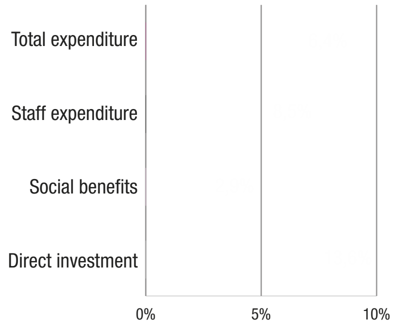
Local councils have financial autonomy to levy taxes and fees. However, power has been challenged by unclear assignment of responsibility with chiefdoms. Local council's financial accounts 2016 are not available (PEFA 2018).

SIERRA LEONE

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
Total expenditure				
Inc. current expenditure				
Staff expenditure				
Intermediate consumption				
Social expenditure				
Subsidies and current transfers				
Financial charges				
Others				
Incl. capital expenditure				
Capital transfers				
Direct investment (or GFCF)				



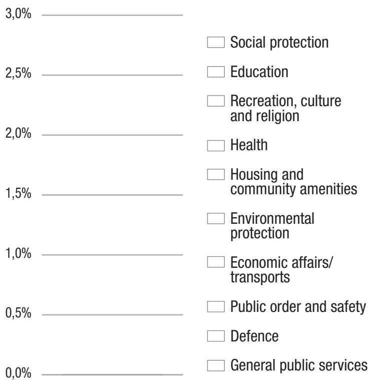
EXPENDITURE. A 2013 Urban Institute study analyzing the role of the local public sector in achieving sustainable development, based on local councils' and national government budgets, stress that 46.3% of total public expenditure in Sierra Leone are dedicated to support the delivery of "local" services. This percentage includes expenditures made at the local level by sectoral ministries. It is relatively significant compared to the situation in other African countries developing economies. According to CLGF, in 2014, local councils accounted for 1.5% of general governments expenditures. Mayors and chairpersons' salary are included in national budget.

DIRECT INVESTMENT. No investment responsibility is currently de facto devolved to local councils. See below – Grants and subsidies

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

According to the aforementioned 2013 study, the share of public expenditure on education is 14.6%. It includes primary and secondary education which are shared responsibilities of local councils and national government. But only about 9.3% of spending is done by Local Councils, mostly for recurrent operation and maintenance. Based on the 2016 national budget, "education" remains the larger sector of transferred funds to local governments for devolved functions. The second sector is health care services. The third sector is agriculture and food security services.

% GDP

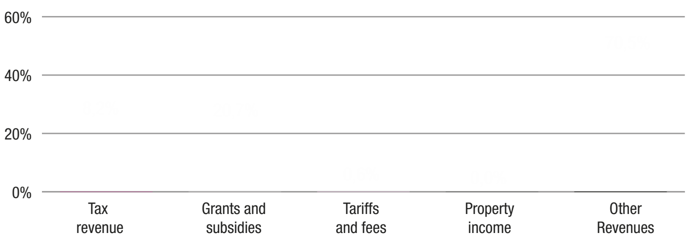


% SNG EXPENDITURE

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue			
Tax revenue			
Grants and subsidies	6.27	0.4%	
Tariffs and fees			
Property income			
Other revenues			

% SNG REVENUE



OVERALL DESCRIPTION. There are three main sources of revenue for local councils: own revenue collection, grants for devolved functions, and transfers for services delegated from Government ministries. According to the LGA 2004 (sub section 4 of section 45) local councils are granted authority to collect local taxes; property rates; licenses; fees and charges; a share of mining revenues; interests and dividends. Local councils are highly dependent on national government grants for devolved functions. There are also several challenges related to transparency issues and backlog in expenditure accounting.

Although information is lacking for 2016, profiles and assessment made until 2013 stress the lack of institution capacity to mobilize revenue at the local level, with wide disparities between district councils and city councils.

TAX REVENUE. There are three legislations that regulate tax collection. Following the de-activation of local councils in 1972, the Local Taxes Act of 1975 stated that they should be collected by "local authority", often Chiefdom councils, while the national government would determine tax precept. The LGA 2004 re-establishes that local councils have the autonomy to set local tax rates and the chiefdom councils are supposed to collect them, and remit them to local councils, hence the complexity of the relationship between the two entities. Moreover, the LGA 2004 does not repeal the Local Taxes Act. Chiefdoms actually gained more fiscal powers to collect revenues on behalf of national governments (2009 Chieftaincy Act, later enshrined in the Chiefdom and Traditional Administration Policy of 2011). This results in a blurry fiscal framework, particularly in district councils where the power of chiefdoms councilors is higher and they are better able to influence their share of tax collection.

Local taxes are from five primary sources: the local (poll) tax, market dues, property taxes, business licenses, and other fines and levies. Part of this funding comes through earmarked, and formula based, transfers from the central government. In 2017, local councils were required to implement the Property Cadaster system to facilitate the collection of Property Tax. This aims at gradually reducing their reliance on central government transfers.

GRANTS AND SUBSIDIES. According to the LGA 2004, annual transfers to local councils must be equitable and fair. In compliance with the requirements of the law, 26 transfer formulae for horizontal distribution make up a complex transfer system based on local council expenditure needs, availability of infrastructure and revenue raising ability.

There are three main categories of grants to local councils provided by the Government of Sierra Leone and identifiable in the national budget: Transfers to local councils (i.e., Administrative Grants and Grant for Devolved Functions), Local Government Development Grant, and Grants from the Decentralized Service Delivery. In 2016, the total transfer allocations to local councils amounted to SLL 98 463 million (or $ 46 393 865 PPP). This was 12 million less than in 2015. In 2017, the unaudited final accounts indicated a total of SLL 55 859 million (or $23 401 341 PPP).

The **Administrative grant** component has increased since 2015. It Include councilors' sitting fees and allowances, salary grants for core staff of local councils and support to Ward Committees.

Grants for Devolved Functions (Section 46 sub section 2 of the LGA 2004) are earmarked grants for each devolved function. It forms the bulk of total resources available to local councils for operation and maintenance as well as participation to development plans.

The **Local Government Development Grant** provides funds for councils to undertake development projects. Created in 2004, it is financed by national government and development partners and supports local council's participation in National Strategies such as the Agenda for Change, or the Sustainable Development Goals. Local council are competent to select which projects to fund in a given year. In 2016, SLL 4 892 million (or $ 2.3 million PPP) were budgeted.

OTHER REVENUES. The Local Government Act 2004 gives both the local councils and the chiefdom councils powers to collect fees and charges, which include services provided by the local council (including waste collection; transportation) and market fees. In addition, local councils can also raise revenue from economic activities such as fishery, timber, revenues from mining and extraction of sand (or other building materials) in their jurisdiction. Formally, local councils can receive interest and dividend income but this is not the case in practice.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. No information available.

DEBT. The two ministries responsible for Finance (in particular the Local Governments Finance Department) and Local Governments must provide authorization (policy guidelines) and guarantees for local councils to take on debts. This is a possible and allowed, but has never happened in practice. No data are available on debt.

SNGWOFI
World Observatory on Subnational Government Finance and Investment
Lead responsible: UCLG
Last update: 02/ 2019
www.sng-wofi.org

Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data:
Other sources of information: Cities Alliance and UCLGA (2018) Assessing the Institutional Environment of Local Governments in Africa // PEFA Assessment Report of Sierra Leone (2018) // CLGF (2017) Country Profile Sierra Leone // Andrew Nickson & Joel Cutting (2016) The role of decentralisation in post-conflict reconstruction in Sierra Leone, Third World Thematics, A TWQ Journal.

SOUTH AFRICA

QUASI-FEDERAL COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: SOUTH AFRICAN RAND (ZAR)

POPULATION AND GEOGRAPHY

Area: 1 219 090 km^2
Population: 56.717 million inhabitants (2017), an increase of 1.4 % per year (2010-2015)
Density: 47 inhabitants / km^2
Urban population: 65.8% of national population
Urban population growth: 2.0% (2017 vs 2016)
Capital city: Pretoria administrative capital (4.2% of national population), Cape Town (legislative capital - 6.8%) and Bloemfontein (judicial capital - 0.9%).

ECONOMIC DATA

GDP: 765.6 billion (current PPP international dollars), i.e. 13 498 dollars per inhabitant (2017)
Real GDP growth: 1.3% (2017 vs 2016)
Unemployment rate: 27.7% (2017)
Foreign direct investment, net inflows (FDI): 1 371 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 18.7% of GDP (2017)
HDI: 0.699 (medium), rank 113 (2017)
Poverty rate: 18.9% (2014)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

South Africa is a quasi-federal state that is divided into three spheres rather than tiers of government (Section 41 of the 1996 Constitution). This distinction forms the basis of the intergovernmental relations between national, provincial and local government. In 2009, the Ministry of Cooperative Governance and Traditional Affairs (COGTA) was established to coordinate the system of cooperative governance. The national legislature has 400 seats at the National Assembly and 90 seats at the National Council of Provinces (NCOP). The head of state and government is the president, who is indirectly elected by the National Assembly for a five-year period. The National Assembly seats are allocated using a proportional representation system with closed lists. NCOP members are indirectly elected by the provincial legislatures. Depending on the population of the province, the provincial legislatures generally vary in size from 30 to 80 members. Provincial elections are held using a list system of proportional representation. At municipal level, the Municipal Council manages and oversees the administration of the municipalities. The council further holds the executive to account and has the authority to establish committees that deal with different topics. The number of municipal councillors is determined by the number of voters registered in that municipality. For local and district municipalities there may be not less than 3 or more than 90 councillors and for metropolitan municipalities there may be no more than 270 councillors. Councillors are directly elected for a five-year term.

Local government is enshrined in Chapter seven of the Constitution. Section 151(3) further grants local government the right to govern and manage the affairs of its own community subject to national and provincial legislation. Prior to the 1996 Constitution, local government had no legal constitutional backing. National or provincial laws had the authority to establish or abolish municipalities. The main local government legislative sources are the Organised Local Government Act of 1997; Municipal Structures Act of 1998; Municipal Systems Act of 2000; Municipal Finance Management Act of 2003; and Municipal Property Rates Act of 2004.

The Municipal Structures Act of 1998 established districts as municipalities that would provide regional services. However, these were new institutions with little to no experience in service delivery comparing to local municipalities. Besides, the lack of clear regional role for district municipalities that defines them as separate from local ones creates conflict between the two municipality categories. The concurrency of functions which are shared between the different local authorities also tends to create ambiguity on which responsibilities are aligned to which local authority. The introduction of districts resulted in a shift with some functions that were previously provided by local municipalities now being provided by the districts (e.g. water and sanitation). The 1998 Act was amended in 2011 to consider professional qualifications and experience as a criterion for the appointment of senior management positions in local government.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	8 Metropolitan Municipalities 208 Local Municipalities 41 District Municipalities		Provinces	
	Average municipal size: 220 689 inhabitants			
	257		9	266

OVERALL DESCRIPTION. South Africa is divided into nine provinces and 257 local governments. The Department of Cooperative Governance and Traditional Affairs supports provinces and local government in fulfilling their constitutional and legal obligations.

PROVINCES. Section 125 of the Constitution vests the executive authority of the province in the Premier of the province. The Premier shares this authority with the Executive Council in fulfilling provincial responsibilities. The Premier is elected for a maximum of two terms at the first sitting after elections from members of the provincial legislature, which must be presided over by the Chief Justice. The Executive Council consists of between 5 to 10 members appointed by the Premier from members of the provincial legislature.

MUNICIPALITIES. The South African municipality structure is divided into three categories: Category A: Metropolitan municipalities; Category B: Local municipalities; Category C: District municipalities. The metropolitan municipalities are found in large metropolitan areas and big cities and function under a single structure. The non-metropolitan areas which are towns and rural areas are governed by a two-tier system consisting of district and local municipalities. Each district (Category C) is composed of several local (Category B) municipalities. This categorisation grants metropolitans' exclusive municipal executive and legislative authority within their areas while districts and local councils share jurisdiction. All three local government groupings are governed by councils. All municipalities are also divided into wards, with each ward electing a councillor to the municipal council. There is a total of 4 427 wards.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The Constitution delineates public functions into two categories: those that are concurrent (shared among different spheres) and those that are exclusive (performed by one sphere only). National government is exclusively responsible for national defence, national fiscal policy, foreign affairs, the criminal justice system, higher education and certain administrative functions. The federal, provincial and municipal governments share responsibilities for primary health care, health protection, housing, public transport, environmental protection, local economic development and tourism.

Provinces are mainly responsible for the provision of basic services such as education, health and social economic development, economic functions (agriculture and roads) and managing governance and provincial administration from legislature to treasury and human settlements. Provinces have exclusive legislative competence over provincial roads, ambulance services and provincial planning.

There are very few, if any, exclusive local government functions. However, the Constitution refers to 'giving priority to the basic needs of the community', i.e. water, electricity, sanitation and refuse. Metropolitan municipalities' functions include providing basic services and the maintenance of municipal transport, roads and community service parks among others. Metropolitan councils are vested with municipal, legislative and executive powers and thus may have decentralised powers and functions and a single metropolitan budget. Local municipalities similarly concurrently share the function of providing basic services. As stated above, there is often some ambiguity in the division of functions between district and local municipalities.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	PROVINCIAL LEVEL	MUNICIPAL LEVEL
1. General public services	Administration and operation of general services (non assigned to specific functions)	Administration and operation of general services (non assigned to specific functions)
2. Public order and safety	Civil protection	Police (discretionary service); Firefighting; Civil protection & emergency services
3. Economic affairs/transports	Road networks and facilities (regional); Public transport (road); Support to local enterprises and entrepreneurship; Tourism	Road networks and facilities (urban roads); Public transport (road); Airports; Support to local enterprises and entrepreneurship; Manufacturing and construction; Tourism; Commerce, Energy (electricity, gas, etc.)
4. Environmental protection	Environmental protection	Parks & green areas; Nature preservation; Noise and vibration abatement; Air pollution; Soil and groundwater protection; Climate protection; Waste management (collection, treatment and disposal of waste); Sewerage (waste water management); Street cleaning
5. Housing and community amenities	Housing (subsidies, construction/renovation and management); Regional planning	Housing (subsidies, construction/renovation and management); Urban and land use planning; Urbanism-Town planning
6. Health	Primary healthcare (medical centres); Hospital services (general and specialist); Preventative healthcare	Primary healthcare (medical centres); Preventative healthcare; Public health services
7. Recreation, culture & religion	Sports and recreation; Libraries; Museums; Cultural activities (theatres, exhibition halls, zoos, botanical gardens, etc.)	Sports and recreation; Libraries & ; Museums (discretionary service); Cultural activities (botanical gardens, parks and open space etc.)
8. Education	Pre-primary education; Primary education; Secondary education	Pre-primary education
9. Social protection		

SUBNATIONAL, STATE AND LOCAL GOVERNMENT FINANCE

Scope of fiscal data: municipalities and provinces. The country uses the SNA 2008 but financial data are based on IMF Government Finance Statistics.	SNA 2008	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. Fiscal arrangements are set out in chapter 13 of the Constitution, in the Intergovernmental Fiscal Relations Act of 1997 and several other Acts and annual legislations (Public Finance Management Act of 1999, Municipal Systems Act of 2000, Municipal Finance Management Act of 2003 and Municipal Fiscal Powers and Functions Act of 2007). The 1997 Act sets out the process for the division of nationally raised revenues between the three spheres of government and establishes coordination fora. It also requires that a Division of Revenue Bill is tabled annually, setting out the amounts to be transferred to each municipality. The 2000 Act ensures that municipalities have service tariffs and credit control policies in place for the provision of services. The 2003 Act enables the secure and sustainable management of the financial affairs of municipalities and other institutions within local government and establishes Treasury norms and standards for the local government sphere. Finally, the 2007 Act regulates the power municipalities have to impose surcharge on fees for services provided under section 229 of the Constitution.

SOUTH AFRICA

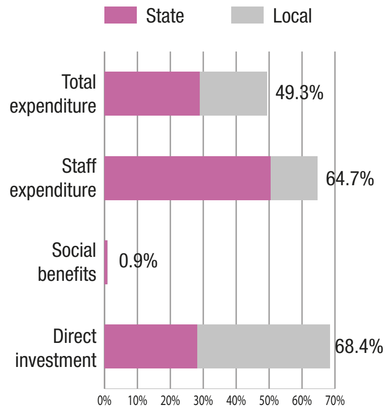
QUASI-FEDERAL COUNTRY

Subnational governments are 'entitled to an equitable share of revenue raised nationally' (Division of Revenue Act) and may also receive additional conditional transfers from national and provincial government.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.			% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT EXPENDITURE		
	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total expenditure	2 703	1 585	1 118	20.4%	12.0%	8.4%	100%	100%	100%
Inc. current expenditure	2 452	1 482	971	18.5%	11.2%	7.3%	90.7%	93.5%	86.8%
Staff expenditure	1 218	950	269	9.2%	7.2%	2.0%	45.1%	59.9%	24.0%
Intermediate consumption	926	346	580	7.0%	2.6%	4.4%	34.3%	21.8%	51.9%
Social expenditure	7	7	0	0.0%	0.0%	0.0%	0.2%	0.4%	0.0%
Subsidies and current transfers	42	42	0	0.3%	0.3%	0.0%	1.5%	2.6%	0.0%
Financial charges	28	0	28	0.2%	0.0%	0.2%	1.0%	0.0%	2.5%
Others	232	138	94	1.7%	1.0%	0.7%	8.6%	8.7%	8.4%
Incl. capital expenditure	250	103	147	1.9%	0.8%	1.1%	9.3%	6.5%	13.2%
Capital transfers									
Direct investment (or GFCF)	250	103	147	1.9%	0.8%	1.1%	9.3%	6.5%	13.2%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



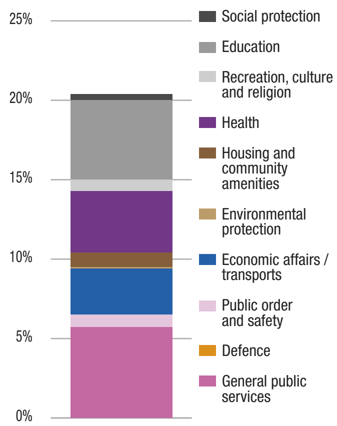
EXPENDITURE. Subnational government expenditure is above the OECD average. Compensation of employees account for 65% of SNG's expenditure. The relatively high proportion of staff costs and relatively low levels of capital investment are mainly due to the labour-intensive functions for which SNG are responsible. Sub-national governments (particularly the provinces) are responsible for labour-intensive functions such as health care, social development and education. The level of transfers from State Government to local government is unknown, as there is no consistent reporting available for the agency functions which local government performs on behalf of federal government.

DIRECT INVESTMENT. Generally, capital expenditure at subnational level is funded through conditional grants. At municipality level, grants transfers are often earmarked for direct investments in infrastructure, municipal systems improvement, integrated national electrification programme, rural roads asset management systems, water services infrastructure and regional bulk infrastructure.

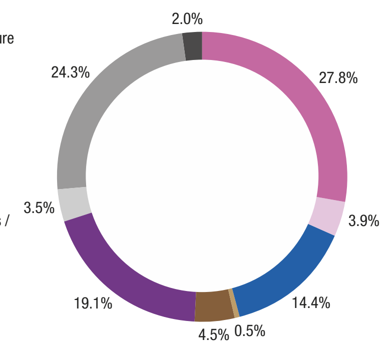
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

2016	% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT		
	SNG	State	Local	SNG	State	Local
Total expenditure	20.4%	12.0%	8.4%	100%	100%	100%
1. General public services	5.7%	0.6%	5.0%	27.8%	5.3%	59.7%
2. Defence	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
3. Security and public order	0.8%	0.1%	0.7%	3.9%	1.1%	7.9%
4. Economic affairs / transports	2.9%	1.3 %	1.7%	14.4%	10.6%	19.7%
5. Environmental protection	0.1%	0.1%	0.0%	0.5%	0.7%	0.2%
6. Housing and community amenities	0.9%	0.5%	0.4%	4.5%	4.4%	4.6%
7. Health	3.9%	3.7%	0.2%	19.1%	31.1%	2.1%
8. Recreation, culture and religion	0.7%	0.2%	0.5%	3.5%	1.8%	5.9%
9. Education	5.0%	5.0%	0.0%	24.3%	41.5%	0.0%
10. Social protection	0.4%	0.4%	0.0%	2.0%	3.5%	0.0%

SNG EXPENDITURE AS A % GDP



% OF TOTAL SNG EXPENDITURE

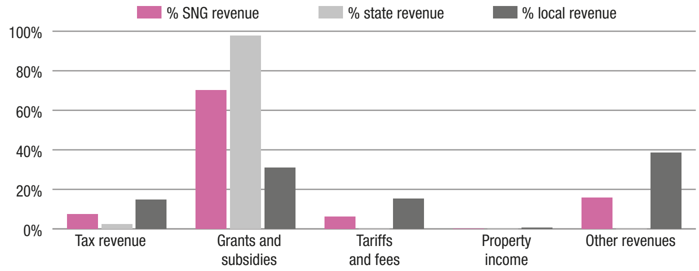


24% of subnational government expenditure is on education, with 14% on economic affairs (including transport) and 19% on health. Expenditure on health and education is mostly mobilised by provinces who are wholly, or at least predominately, responsible for these sectors. Local government may perform functions on behalf of provinces on an agency basis, although the extent to which this occurs is not readily available. The majority of expenditure for local government in South Africa is on general public services (60%).

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	% GDP			% GENERAL GOVERNMENT (SAME REVENUE CATEGORY)		
	SNG	State	Local	SNG	State	Local
Total revenue	**18.8%**	11.1%	7.7%	**50.2%**	29.6%	20.6%
Tax revenue	**1.4%**	0.3%	1.1%	**4.8%**	0.9%	4.0%
Grants and subsidies	**13.2%**	10.8%	2.4%			
Tariffs and fees	**1.2%**	0.0%	1.2%			
Property income	**0.0%**	0.0%	0.0%			
Other revenues	**3.0%**	0.0%	3.0%			

% SUBNATIONAL, STATE AND LOCAL GOVERNMENT REVENUE



OVERALL DESCRIPTION. The Constitution requires that subnational governments raise their own revenues from service fees, property rates, surcharges and other taxes, levies and duties. SNG accounts for 50% of all general government revenue. More than two thirds of subnational government revenue (70%) come from transfers from federal government. Provinces in particular almost fully rely on federal government transfers, and thus the revenue raising ability of federal government is an important factor which contributes to the amount of resources that can be put into health, education and social development.

31% of local government revenue is transfers from federal government, which is significantly less than that of provinces. It is notable though, that within local government, there is a higher reliance on transfers from federal government for predominately rural local government than there is for local governments with a strong urban core. In addition, district municipalities rely significantly on transfers from federal government as they have limited revenue raising ability.

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.
The principal tax for local government is the property tax, which represents 95% of local government tax revenues. The tax base of these property taxes varies significantly from one municipality to another. Property taxes are levied by local municipalities only (not by District Municipalities) and represent 14% of total local government revenue. The tax was reformed in 2014 with the Spatial Planning and Land Use Management Act. Local municipalities are largely autonomous in the rates that can be set, although there is a very low exemption level set by federal government. Section 229(2)(a) of the Constitution in conjunction with section 16 of the Municipal Property Rates Act 29 of 2014 imposes limitations on levying rates. This regulates municipalities' power and autonomy to levy rates to ensure that property rates do not materially and unreasonably prejudice economic activity or national economic policies. The rates are approved by the democratically elected local councils.

GRANTS AND SUBSIDIES. Federal government's primary equalisation grant is the Equitable Share grant. This is a formula-based grant which takes into account demographic and developmental factors in geographic areas. The Local Government Equitable Share was introduced to address the lack of revenue base in some municipalities, and to account for the expenditure taken to provide minimum basic services to poor or indigent municipal residents.

The National Framework for Municipal Indigent Policies provides municipalities with the foundation and guidelines for the development of their policies to the indigent to fulfil their responsibilities in providing basic municipal services for all, as required by the Constitution. The Property Rates Act further ensures that households that qualify for free basic services gain access to them. The Equitable Share transfer system therefore gives municipalities a predictable source of revenue to assist municipalities, particularly in rural areas, that have challenges in raising sufficient revenue to fund their constitutional obligations and general operational costs.

There are also conditional grants which are designed to meet specific developmental goals and are usually allocated to a specific sector and are only received if criteria are met by the province or municipality. The largest conditional grant for municipalities is the Municipal Infrastructure Grant (MIG), which was introduced in 2004. MIG is aimed at assisting municipalities to upgrade and build new infrastructure. Prior to the introduction of MIG, infrastructural grants were managed by different sector departments. Almost 80% of municipal conditional grants are targeted at capital investment in infrastructure and urban development, with the remainder at systems and capacity support. Provincial conditional grants focus on human settlements development, health related functions, roads and education. The transfers from federal government are outlined and quantified in the Division of Revenue Act.

OTHER REVENUES. Focus on tariffs and fees: 15% of local government revenues come from tariffs levied for services rendered. Provinces raise minimal own revenue from tariffs and fees. Municipalities are required by the Municipal Systems Act to recover the costs of the services they provide. The levels of the tariffs are set by the democratically elected local councils.

Focus on other revenues: Section 229 of the Constitution states that municipalities may impose rates on property and surcharges or fees for services provided by the municipality or on behalf of the municipality. It also provides that a municipality may impose other taxes, levies and duties, if authorised by national legislation. Municipalities charge for the services they provide in the form of service charges and administration fees and raise revenues through rental of facilities and fines. The most significant sources of service charges are electricity, water, sanitation and refuse removal. Revenue from service charges generally has been the largest contributor to operating revenue, followed by government grants.

SOUTH AFRICA

QUASI-FEDERAL COUNTRY

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.			% GDP			% GENERAL GOVERNMENT DEBT			% SNG DEBT		
	SNG	State	Local	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total outstanding debt	642			4.8%			9.4%			100%		
Financial debt*												

* Currency and deposits, loans and bonds

FISCAL RULES. South Africa has a number of state institutions that support constitutional democracy and provide independent scrutiny, including the public prosecutor and the auditor general. The public prosecutor has the power to investigate the conduct of public administration in any sphere of government and to take remedial action. The auditor general is required to audit and report on the accounts and financial management of all local authorities. Fiscal responsibility laws are outlined in the 1999 Act and the 2003 Act as well as in different sections of the Constitution. At the national level, the CAB rule (Cyclically adjusted budget balance) was introduced in the 2007 Medium-Term Budget Policy Statement. Local governments are required to enact balanced budgets. In case a province (or a municipality) fails to deliver on these mandates, the national government (or a province) can intervene through Sections 100 and 154 of the Constitution. It is the responsibility of national departments to implement 'emergency' measures to bring local government spending and revenue into balance.

DEBT. Provinces are not allowed to incur debt, unless it represents 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 registered commercial banks or other approved financial institutions to fund capital expenditure only. Federal government does not guarantee debt at subnational level. There is a move towards the financing of infrastructure for economic purposes from debt, and infrastructure for the poor from federal government transfers. Federal government cannot veto a municipality's intention to borrow, however, it may comment upon it. Federal government recommends a Debt (Total Borrowings) to Total Operating Revenue ratio of a maximum of 45%, although this is not enforceable.

FISCAL COORDINATION. Two fora were established by the 1997 Act: the Budget Council (made up of the Minister of Finance and members of the executive council responsible for finance in each of the provinces) and the Budget Forum (comprising the Budget Council and representatives of the South African Local Government Association), in which local government issues are discussed as part of the national budget process. According to the 1997 Act, the Minister of Finance has a legal obligation to convene the Budget Council twice a year and the Budget Forum once a year.

The Financial and Fiscal Commission (FFC) is an independent constitutional institution. It provides recommendations to Parliament, provincial legislatures, organised local government and other organs of state on financial and fiscal matters as envisaged in the Constitution and other national legislation, in particular on the division of nationally collected revenues.

SNGWOFI World Observatory on Subnational Government Finance and Investment

Lead responsible: UCLG
Last update: 02/ 2019

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Socio-economic indicators: OECD // World Bank // UNDP // UN Desa // ILO.
Fiscal data: IMF-Government Finance Statistics // National Treasury (2016). Municipal Finance Data // Statistics South Africa (2017) Financial Statistics of Provincial Government 2015/16.
Other sources of information: South African Local Government Association - SALGA (2015). 15 Years of Development and Democratic Local Government // SALGA (2016). About Municipalities // South African Government (2016) Local Government // Commonwealth Local Government Forum – CLGF (2013) The Local Government System in South Africa // Department of Cooperative Governance and Traditional Affairs (2014) The Integrated Urban Development Framework // Cities Alliance and UCLGA (2018) Assessing the institutional environment of local governments in Africa.

TANZANIA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOW INCOME

LOCAL CURRENCY: TANZANIAN SHILLING (TZS)

POPULATION AND GEOGRAPHY

Area: 947 300 km^2
Population: 57.310 million inhabitants (2017), an increase of 3.2% per year (2010-2015)
Density: 61 inhabitants / km^2
Urban population: 33 % of national population
Urban population growth: 5.3% (2017 vs 2016)
Capital city: Dodoma (0.5% of national population)

ECONOMIC DATA

GDP: 163.9 billion (current PPP international dollars), i.e. 2 946 dollars per inhabitant (2017)
Real GDP growth: 7.1% (2017 vs 2016)
Unemployment rate: 2.3% (2017)
Foreign direct investment, net inflows (FDI): 1 180 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 33.1% of GDP (2016)
HDI: 0.538 (low), rank 154 (2017)
Poverty rate: 59.9% (2016)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Tanzania is a democratic unitary republic divided between Mainland Tanzania and the Archipelago of Zanzibar with a separate government. Mainland Tanzania has a unicameral National Assembly composed of 357 members, of which 239 are elected, five are elected by the Zanzibar House of Representatives and ten are appointed by the President. Zanzibar' legislative power is vested in the House of Representatives made up of 82 members, of which 50 are elected and 10 are nominated by the President of Zanzibar. In both chambers, special seats are reserved for women members (102 in Mainland Tanzania and 20 in Zanzibar). The President is the Head of State and Head of Government and is directly elected for a maximum of two five-year terms. The President of Zanzibar is also directly elected and is responsible for Zanzibar domestic affairs.

In mainland Tanzania, the 1977 Constitution states that the National Assembly must provide for local government through legislation (articles 145 and 146). In Zanzibar, provisions for local governments are mentioned in the 1984 Constitution (article 128). The main legislation regarding Local Government are the Local Government Acts (1992, amended in 1999), the Zanzibar Municipal Council Act (1995) and the District and Town Councils Act (1995). The Minister of State in the President's Office - Regional Administration and Local Governments is responsible for the administration of local government legislation in mainland Tanzania.

After being abolished in 1972, local governments were re-introduced in 1982 through the enactment of several acts, which went concurrently with the amendment of the Constitution in 1984. In 1997, the Local Government Reform Program, with its subsequent funding mechanism, the Local Government Development Grant, was introduced to improve the access and quality of services provided by subnational governments and was aimed to promote democratic, accountable and autonomous local governments, with wide discretionary powers and a strong financial base. This Program had been the main vehicle for operationalizing the national government's decentralisation policy. In 2018, however, the Local Government Development Grant was discontinued due to a lack of resources.

Elections for local government leaders are held every five years at the same time as those of the president and members of the Parliament under the first-past-the-post system. They were last held in October 2015. There is a legal requirement that women must occupy at least one-third of ward representatives' and 25% of village council seats. In 2015, the prescribed special seats have increased the number of women councillors to 978 across all authorities.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	Districts *(wilaya)*			
	Average municipal size: 228 066 inhabitants			
	169			169

OVERALL DESCRIPTION. Tanzania is divided into 31 regions – 26 on the mainland and 5 on Zanzibar – for administrative purposes. The regional committees and offices are accountable to the President's Office - Regional Administration and Local Governments, and are mandated to provide technical advice and exercise supervision to the District councils, facilitating the local governments' functions within the region.

DISTRICTS are the main units of local governments in the country. Currently there are 196 local councils operating in 169 districts, 34 of which are urban and 135 are rural (also called district councils). Moreover, for administrative and electoral purposes, all urban districts are divided into wards and neighbourhoods (*mtaa*), while all rural districts areas are divided into wards, villages and hamlets (*vitongoji*). The urban and district (rural) councils comprise members elected from each ward, members of parliament representing constituencies within which the urban or rural area is situated, and women appointed by the National Electoral Commission in proportion to the number of elected seats of the council.

The 34 urban districts are classified as town, municipal and city councils. This classification depends on the population size, town councils being smaller than municipal councils which in turn are smaller than city councils. Some urban areas such as Dar Es Salaam have more than one council within the same district. Urban districts are administered by urban councils, which are headed by chairpersons or mayors indirectly elected by the other councillors. The 135 district (rural) councils are divided into villages, which are administered by a village council elected by the village assembly.

In addition, urban and district (rural) councils must set up committees in specific sectors such as finance, administration and planning, education, health and water or economic affairs and environment. Local governments may establish further committees within the limit set for each type of local authority. Priorities for local service delivery and local development projects are discussed by the different committees established at the sub-rural and suburban levels before being directed to the Ward Development Committee, which will coordinate and supervise project implementation. The Ward Development Committee is comprised of the elected ward councillor and chairpersons of all village councils within the ward. It also includes members of the district council, and invitees from other groups involved in the promotion of ward development.

Around 83% of the national population dwell in municipalities with between 100 000 and 500 000 inhabitants and only approximately 5% live in municipalities whose population size is greater than 1 million, for instance municipalities in Dar Es Salaam Region.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

According to the 1984 Constitution, local government should enhance the democratic process within its area of jurisdiction and facilitate the expeditious and faster development of the people. Local governments are responsible for consolidating local services and empowering citizens to participate in social and economic development. In particular, urban and district councils are mandated in their area of jurisdiction to maintain peace, order, and good government; promote social welfare and economic well-being, as well as social and economic development in line with national policies; regulate and improve agriculture, trade, commerce and industry; enhance the health, education, and the social, cultural and recreational life of the people; relief poverty and distress; as well assist and ameliorate life for the young, the aged and the disabled or infirm. In addition, local governments coordinate and supervise the implementation of plans for economic, industrial and social development in their respective areas.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPAL LEVEL
1. General public services	Public buildings and facilities; Salaries and administration costs; Civil Status register
2. Public order and safety	Facilitation of maintenance of law and order; Police; Fire protection
3. Economic affairs/transports	Roads (maintenance, construction, lightning); Transport; Ports; Airports; Agriculture, forests, fisheries; Local economic development and promotion; Trade and industry; Tourism
4. Environmental protection	Refuse collection and disposal; Environmental protection
5. Housing and community amenities	Construction and renovation; Housing; Town planning; Gas Service; Electricity; Water supply and sanitation; Cemeteries and crematoria; Slaughter-houses; Consumer protection
6. Health	Primary care; Hospitals; Health Protection
7. Recreation, culture & religion	Theatre and concerts; Museums and libraries; Parks and open spaces; Sports and leisure
8. Education	Primary, secondary and adult education
9. Social protection	Kindergarten and nursery; Family welfare services; Welfare homes; Social security Housing subsidies and benefits

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: municipal, town and district councils. All data provided on SNG Finance refer to Mainland Tanzania only, excluding Zanzibar.	SNA 2008	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. As established in the Local Government Finance Act of 1982 (amended in 1999), local governments have the power to levy taxes (property taxes), collect rents, fees (taxi registration, bus stands, forestry products) and charges. However, the bulk of local governments' revenue comes in the form of sector-specific transfers from national government. Government transfers and donor basket funds are the most significant income sources for local governments. The majority of these resources are recurrent grants which are linked to line ministries responsible for education, health, water, roads and extension services, corresponding to the key services provided by local governments. Other smaller transfers take the form of development and equalization grants.

The national government has undertaken several reforms to increase the resources available to local governments and increase the efficiency of their usage through changing the incentive structure of the intergovernmental fiscal system, albeit with meagre results in terms of increased subnational finance.

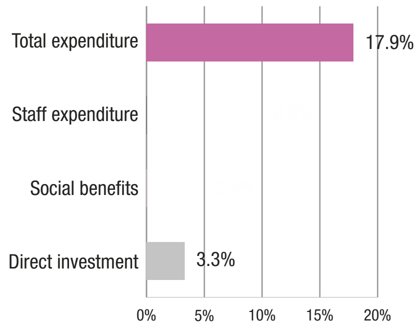
TANZANIA

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**40.2**	**4.1%**	**100%**
Inc. current expenditure	32.8	3.3%	81.5%
Staff expenditure			
Intermediate consumption			
Social expenditure			
Subsidies and current transfers			
Financial charges			
Others			
Incl. capital expenditure	7.4%	0.8%	18.5%
Capital transfers			
Direct investment (or GFCF)	7.4%	0.8%	18.5%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



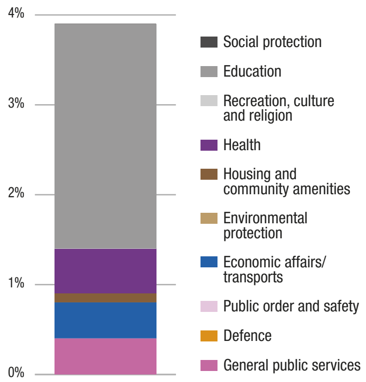
EXPENDITURE. In 2016, SNG total expenditures amounted to 40 dollars PPP/inhabitant, representing 17.9% of general government expenditure and 4.1% of GDP. More than 4/5 of the expenditure corresponds to current expenditure, less than 1/5 is allocated to capital expenditure.

DIRECT INVESTMENT. Investments in education and health facilities and road construction account for the bulk of SNG capital expenditure.

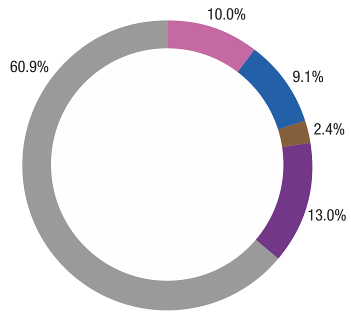
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

SNG expenditures are mainly focused on education (primary and secondary) which accounts for 60% of the total spending, followed by the health, roads, water and agriculture sectors.

% GDP



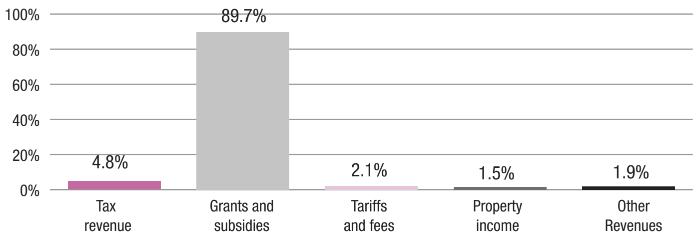
% SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**45.1**	**4.6%**	**18.9%**
Tax revenue	2.2	0.2%	1.6%
Grants and subsidies	40.4	4.1%	
Tariffs and fees	0.9	0.1%	
Property income	0.7	0.1%	
Other revenues	0.9	0.1%	

% SNG REVENUE



OVERALL DESCRIPTION. Intergovernmental transfers are the largest source of local governments' financing (representing nearly 90% of SNG total revenue). This reflects high dependency of the local governments on central government subsidies. Local governments receive their funds from national budget allocations through different ministries. In addition to 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, local governments have a weak revenue base. To remedy the situation, the Local Government Finance Act of 1982 was amended in 1999 to appoint local governments to issue licences to 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 taxes, fees and charges. These include the council property tax, a tax on crop cession, a tax on forest produce cession, a guest house tax, a service levy, among others. Most of these taxes are difficult to collect. Local governments are not able to create taxes besides those allocated to them by the central government. Property tax is levied at flat rates on the property value by the municipal or city councils. Applicable rates vary depending on the size, use and location of the property.

GRANTS AND SUBSIDIES. Transfers are the main source of revenues for local governments. Transfers to local governments include earmarked transfers for five national policy priority areas which are education, healthcare, water, roads and agriculture, and public administration. These recurrent transfers are mainly earmarked for education (around 60%) and healthcare (around 16%) to cover operational activities (paying salaries for public servants), as well as for goods and services, normal repairs and rehabilitation and maintenance of equipment. 30% of national revenues from the fuel levy are transferred to local governments for the maintenance of roads. Local governments also receive 20% of the national 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, as well as donor grants.

As far as capital grants are concerned, a significant part of them is related to the Local Government Development Grant (LGDG) – a performance-based grant system and the main vehicle for allocating development grants to local governments in mainland Tanzania. The Local Government Development Grant transfers across subnational governments are made using a horizontal allocation formula and linked to performance on financial management aspects (including a set of minimum conditions and performance measures). Local Government Development Grant is divided into three types of grants: council development grant, capacity building grant and monitoring and evaluation grant.

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

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. With regards to budgetary accountability and reporting, the Ministry of Finance and Planning requires local governments to report quarterly on both the financial and physical progress of the resources received. Physical progress is reported in the Council Development Report (CDR) whereas financial progress is reported in the Council Financial Report (CFR). Reports are submitted to local government's council for consideration and approval, before being submitted to the President's Office - Regional Administration and Local Governments to show that funds disbursed to local governments are accounted for. As part of the annual reporting, local governments are required to prepare and publish Annual Performance Reports on the results of activities and programmes in their strategic plans and submit them to the President's Office - Regional Administration and Local Governments, usually by 30 September.

DEBT. Local governments can borrow from financial institutions and pension funds. As per section 11(1) of the Local Government Finance Act of 1982, a local government may only take out a loan in the United Republic of Tanzania and with the approval of the Minister responsible for local government, who shall also consult with the Minister responsible for finance. In FY 2016/2017, total local government borrowing amounted to 381 393 730 shillings (i.e. 175 185 dollars PPP).

Local governments process fresh loan requests (only for major projects such as road) to the President's Office - Regional Administration and Local Governments for approval. The request is accompanied by the applicant's own revenues for the last three years and the schedule for payment of interest and repayment of the loan. After scrutiny and approval (if given), the request is sent to the Prime Minister's Office.

Socio-economic indicators: OECD // World Bank // UNDP // UN Desa // ILO.
Fiscal data: World Bank (2018) The World Bank In Tanzania // Ministry of Finance and Planning (2017) The Budget Execution Report for the Fourth Quarter and Fiscal Year 2016/17 (July 2016 – June 2017) // National Audit Office (2017) Annual General Report of the Controller and Auditor General on the Financial Statements for the Year Ended 30th June, 2017.
Other sources of information: Commonwealth Local Government Forum (2018) The Local Government System in Tanzania – Country Profile 2017-2018 // Cities Alliance and UCLGA (2018) Assessing the institutional environment of local governments in Africa // PEFA (2016) Sub-national (Local Government) PEFA Assessment in Tanzania - Final Consolidated Report // National Bureau of Statistics (2012) Population and Housing Census // Kessy, A. (2011) Local Government Reforms in Tanzania: Bridging the Gap between Theory and Practice, in Democratic Transition in East Africa // Shadrack, B (2010) Local Government Authorities in Tanzania.

TOGO

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOW INCOME

LOCAL CURRENCY: WEST AFRICAN CFA FRANC (XOF)

POPULATION AND GEOGRAPHY

Area: 56 785 km^2
Population: 7.798 million inhabitants (2017), an increase of 2.8% per year (2010-2015)
Density: 137.3 inhabitants / km^2
Urban population: 41.2% of national population
Urban population growth: 3.8% (2017 vs 2016)
Capital city: Lomé (12.6% of national population)

ECONOMIC DATA

GDP: 12.24 billion (current PPP international dollars), i.e. 1 570 dollars per inhabitant (2017)
Real GDP growth: 4.4% (2017 vs 2016)
Unemployment rate: 6.9% (2017)
Foreign direct investment, net inflows (FDI): 150 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 26.9% of GDP (2017)
HDI: 0.487 (low), rank 166 (2017)
Poverty rate: 49.1 (2015)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Togo is a unitary state headed by a President of the Republic elected by universal suffrage, with a unicameral parliament (National Assembly). The current constitution dates back to 1992. Its amendment is currently the subject of heated debates between the ruling government and the opposition.

The principle of decentralization is set out in article 141 of the Constitution of 14 October 1992 as follows: "The Togolese Republic shall be organized into territorial units on the basis of the principle of decentralization, while respecting national unity. These territorial authorities are: municipalities, prefectures and regions. Any other territorial authority is created by law. Local authorities are freely administered by councils elected by universal suffrage under the conditions provided for by law".

The last local elections were held in 1987, 30 years ago. Since then, no such elections have been held. The end of the mandate of local elected officials in 1987, five years later, coincided with the political instability of the 1990s. The mayors elected in the 1987 elections were replaced in 2001 by special delegations that were to remain in place until the local elections were held. This temporary system has now been in place for more than 15 years.

Recently, the decentralization process in Togo has seen some positive developments, including: the organization of a national workshop on decentralization, held in December 2016; the adoption by the Government in March 2016 of the roadmap for decentralization and local elections and the creation of the National Decentralization Monitoring Council (CNSD) responsible for steering and monitoring the process; and finally the adoption of Act 2017-008 of 29 June 2017 creating new municipalities.

Two milestones should be noted in 2018:
- The adoption by the National Assembly of the law amending Act No. 2007-011 of 13 March 2007 on decentralization and local freedoms. The amendments include, inter alia, the number of councillors per municipality, prefecture and region; a new division of competences between own competences, shared competences and transferred competences; the limitation of the mandates of local elected representatives to a maximum of two and new provisions relating to the financial organisation of local authorities.
- The official launch at the end of September 2018, by the Ministry of Territorial Administration, Decentralization and Local Authorities (MATDCL) of the national campaign for training, awareness, communication and information on decentralization.

The process was to lead to local elections scheduled for December 2018, which were finally postponed.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	116 municipalities *(Communes)*	39 prefectures	5 regions	
	Average municipal size: 67 200 inhabitants			
	116	39	5	160

OVERALL DESCRIPTION. Togo is divided into 5 regions, 39 prefectures, 116 municipalities and 387 cantons composed of villages. The main cities, outside Lomé the capital, are Kpalimé, Atakpamé, Sokodé, Kara, Dapaong.

The organisation of local authorities is defined in Act No. 2018-003, amending Act No. 2007-011 of 13 March 2007 on decentralization and local freedoms. The law stipulates that the national territory is divided into local authorities with legal personality and financial autonomy. These local authorities are the commune, the prefecture and the region.

REGIONS. The bodies of the region are the Regional Council and the Executive Office of the Regional Council headed by a President elected by the Regional Council from among its members. The prefecture is a territorial community composed of municipalities. The organs of the prefecture are the prefecture council and the executive board of the prefecture council headed by a president elected by the prefecture council from among its members. The organs of the municipality are the municipal council and the executive board of the municipal council composed of the mayor and deputies. The City Council has the obligation to set up the following standing committees: (i) the Economic and Financial Affairs Committee, (ii) the State, Environmental and Technical Affairs

Committee, (iii) the Social and Cultural Affairs Committee. The municipal council may set up special committees to study and monitor the issues submitted to them. Two types of municipalities exist: the urban municipality located in the chief town of the prefecture, it includes one or more cantons; the rural municipality, located outside the urban municipality, it corresponds to a canton.

MUNICIPALITIES. The law of 23 June 2017 creating municipalities proposes a new division of Togo into 116 municipalities on the basis of a grouping of cantons or districts in certain large cantons. It defines the distribution of the 116 municipalities in the five regions of Togo. Thus, the Savannah region has 16 municipalities, the Kara region 21, the Central region 15, the Plateaux region 32, and the Maritime region 32.

INTER-MUNICIPAL COOPERATION. Law 2018-003 introduces inter-municipal cooperation as a compulsory mode of cooperation between municipalities within the same prefecture, as well as for the municipalities of Grand Lomé (composed of the prefectures of Agoenyivé and Golfe). It also provides, in Articles 323 to 325, for the creation of the autonomous district, recognised as a territorial authority, for which a law must determine the powers, organisation and functioning (this is the case for the city of Lomé, the capital).

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Act No. 2018-003 of 31 January 2018 establishes the new division of powers between the State and local authorities. The powers exercised by local authorities are of three types: i) the specific powers of local authorities; ii) the powers shared between the State and local authorities; iii) the powers transferred by the State to local authorities.

The main competences transferred to local authorities are in the following areas: local development and spatial planning; urban planning and housing; infrastructure, equipment, transport and roads; energy and water; sanitation, natural resource management and environmental protection; trade and crafts; education and vocational training; health, population, social action and civil protection; sports, leisure, tourism and cultural action.

The transfer of competences is carried out according to the principle of progressiveness, taking into account each level of decentralisation and the capacity of local authorities to assume them. The law provides that any transfer of powers to a local authority is accompanied by a concomitant transfer by the State to the latter of the corresponding resources and charges, as well as by the transfer of services, movable and immovable property and personnel necessary for the normal exercise of powers.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONS	PREFECTURES	MUNICIPALITIES
1. General public services			Administrative services (marriages, births, etc.); Public buildings and equipment
2. Public order and safety	Civil protection	Civil protection	Municipal police; Urban signage
3. Economic affairs /transports	Local and regional development; Infrastructure; Equipment, transport and communication routes; Trade and crafts	Local and regional development; Infrastructure; Equipment, transport and communication routes; Trade and crafts	Urban roads; Public parks; Urban transport; Local tourism
4. Environmental protection	Management of natural resources; Environmental protection		Parks and green spaces; Waste management; Street cleaning
5. Housing and community amenities	Urban planning and housing; Energy and hydraulics; Sanitation	Urban planning and housing; Energy and hydraulics; Sanitation	Construction and renovation; Drinking water supply; Street lighting; Urban planning; Waste management; Sanitation
6. Health	Health	Health	Primary health care (health centres); Preventive health
7. Recreation, culture & religion	Sports; Leisure; Tourism; Cultural action	Sports; Leisure; Tourism; Cultural action	Sports; Libraries; Local museums
8. Education	Education and vocational training	Education and vocational training	Pre-primary and primary education
9. Social protection	Population and social action	Population and social action	Social protection of children and youth; Family support services

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: municipalities, prefectures and regions.	Report on the execution of the State budget 2017	Availability of fiscal data: **Low**	Quality/reliability of fiscal data : **Low**

GENERAL INTRODUCTION. The general framework for the organization of local finances is set out in Act No. 2007-011 of 13 March 2007 on decentralization and local freedoms. This was amended by Act No. 2018-003, which updated the provisions relating to the transfer of State resources linked to the reorganization of the division of competences between the State and local authorities.

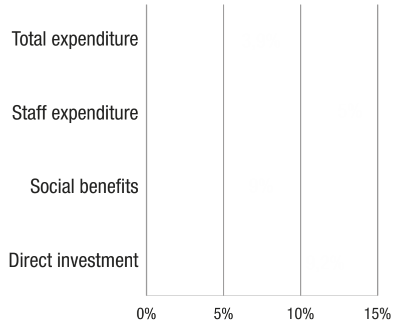
The current overall picture is one of a high dependence of local authorities on state structures in charge of managing their resources and the lack of collaboration and communication that characterizes their relations; insufficient resources relating to the competences transferred to local authorities by the state; and a weak control by local authorities of the fiscal chain and financial transfer mechanisms.

TOGO

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
Total expenditure				
Inc. current expenditure				
Staff expenditure				
Intermediate consumption				
Social expenditure				
Subsidies and current transfers				
Financial charges				
Others				
Incl. capital expenditure				
Capital transfers				
Direct investment (or GFCF)				



EXPENDITURE. No data available.
The bulk of local expenditure is allocated to operating costs, although local public investment should theoretically be set at 20% of local budgets. In order to increase accountability for local expenditures, efforts have been made to increase community participation at the municipal level. Budget decisions on expenditures are now made public and open meetings of local councils are held to discuss budget issues.

DIRECT INVESTMENT. No data available.

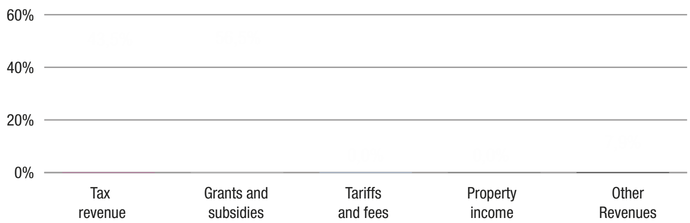
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Low levels of competence and scarce financial resources have led to a downward trend in local spending over the past decade, and a corresponding decline in the quality of delivery of basic services, such as waste disposal. Municipalities give priority, according to their available resources, to waste and sanitation, street lighting, infrastructure and roads. Public intervention in the urban planning, education and health sectors remains highly centralized.

% GDP	% SNG EXPENDITURE

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE
Total revenue				
Tax revenue				
Grants and subsidies				
Tariffs and fees				
Property income				
Other revenues				



OVERALL DESCRIPTION. According to Act No. 2007-011 amended by Act 2018-003, local authorities are governed by a financial regime defined by decree of the Council of Ministers. They have their own resources.

The creation of taxes and fees is a matter of law. The local council by deliberation sets the rate up to the cap set by the finance law. In the municipality, prefecture or region, where specific activities are carried out that may be subject to taxation, the local council may, by deliberation, create corresponding non-fiscal taxes, subject to the approval of the supervisory authority and the Minister in charge of Finance.

Act No. 2007-011 provides for the creation of a Local Government Support Fund (FACT), the organisation and functioning of which are defined by decree of the Council of Ministers.

TAX REVENUE. The General Tax Code defines the taxes to be paid to local authorities for local and regional development. The taxes concerned are collected by the Office of the Commissioner of Taxes and refunded in whole or in part to the benefit of the municipalities or prefectures of the place where the taxable property is located. The main taxes are as follows: the Property Tax on Built Property (TF), the Special Tax on the Manufacture and Trade of Beverages (TSFCB), the Professional Tax (TP), the Single Business Tax (TPU), the Gambling Levy (PJH), the Registration Fees (DE), the Housing Tax (TH). In addition, there is the Toll Tax (TP) and the Infrastructure Protection Tax (TPI).

On the basis of the tax allocation keys as provided by the Office of the Commissioner of Taxes, apart from the housing tax which is 100% due to them, local authorities share the rest of the taxes with the State and the tax administration. They receive on average 50% of the various taxes, with the exception of the Gambling Levy (PJH), for which they receive 20%.

In 2016, the Office of the Commissioner of Taxes allocated a total amount of XOF 11.6 billion (about $50 million PPP) in tax refunds to local and regional authorities.

According to the law, local and regional authorities may levy a certain number of taxes and set their rates within the limits defined by the law. But the tax chain, controlled by the central administration, leaves little autonomy to local authorities. Recently, some cities have set up their own tax registers and have been able to double or even triple their tax revenues.

GRANTS AND SUBSIDIES. Due to the downward trend in the State's financial resources, subsidies have practically disappeared since 1998. The State has created (Act No. 2007-011 of 13 March 2007 on decentralization and local freedoms), the Local Government Support Fund (FACT), whose mission is to mobilize financial resources to strengthen the management capacities of local authorities, financially compensate for the transfer of competences, and support their development work. FACT is a public financial institution with legal personality and financial autonomy.

The fund is intended to mobilise two main allocations, the decentralisation allocation and the investment support allocation, which are managed by two separate windows: the decentralisation window allocates a general operating allocation and a general decentralisation allocation; the investment support window provides a general investment allocation, a specific investment allocation and a guarantee for loans contracted by local authorities from public and private financial institutions recognised by the Ministry of Economy and Finance.
The finance law sets each year the amount that the State allocates to the FACT as well as the percentage to be allocated to each of the two windows.

The criteria for calculating the allocations granted to local authorities, the criteria and procedures for examining specific allocations and the operating rules of the guarantee fund shall be laid down each financial year by joint order of the Minister responsible for decentralisation and the Minister responsible for finance, after consulting the Council of Ministers.

The effective operationalization of the Local Government Support Fund (which is not yet functional) was called for by local authorities at the 14th Togolese Municipalities Day organized by the Union of Togolese Municipalities (UCT) in October 2018.

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

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. The budget of local authorities is subject to prior approval by the supervisory authority, which is the Ministry in charge of finance.

DEBT. As part of the implementation of their development programme, local and regional authorities may conclude loan agreements at national level, in accordance with the conditions laid down by decree of the Council of Ministers. Local authorities may under no circumstances borrow for operating expenses.

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Lead responsible: UCLG
Last update: 02/ 2019
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Socio-economic indicators: World Bank // UNDP // UN DESA // ILO.
Fiscal information: Rapport d'exécution du budget de l'Etat à fin décembre 2017.
Other sources of information: Bernard Daflon, Guy Gilbert (2018) La décentralisation au Togo : analyse économique et institutionnelle // IMF (2018) Perspectives économiques régionales. Afrique subsaharienne. Mobilisation des recettes fiscales et investissement privé // UCLGA & Cities Alliance (2018) Assessing the institutional environment of local governments in Africa // African Development Bank (2016) Document de stratégie pays 2016-2020 Togo.

TUNISIA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: TUNISIAN DINAR (TND)

POPULATION AND GEOGRAPHY

Area: 163 610 km²
Population: 11.532 million inhabitants (2017), an increase of 1.2% per year (2010-2015)
Density: 70 inhabitants / km²
Urban population: 68.6% of national population
Urban population growth: 1.6% (2017 vs 2016)
Capital city: Tunis (19.9% of national population)

ECONOMIC DATA

GDP: 137.4 billion (current PPP international dollars), i.e. 11 911 dollars per inhabitant (2017)
Real GDP growth: 2.0% (2017 vs 2016)
Unemployment rate: 15.4% (2017)
Foreign direct investment, net inflows (FDI): 809.7 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 19.7% of GDP (2016)
HDI: 0.735 (high), rank 95 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Tunisia is a semi-presidential Republic, whereby the President is the Head of State and is directly elected for a 5-year term. Legislative power is led by a unicameral parliament – the Assembly of Representatives of the People - whose members are elected by universal suffrage for a 5-year term. Since the 2010 revolution, the country has experienced major political changes. These changes subsided somewhat when a new constitution was drafted and then adopted in January 2014 by the Assembly, which had been created in October 2011.

Tunisia is a unitary decentralised country, with a two-tier system of subnational government, composed of regions and municipalities. Decentralisation and local government autonomy are enshrined in the 2014 Constitution, which marked a new era in the decentralisation process. 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 so they can become proactive players in planning, implementing and delivering infrastructure and services at regional and local levels. One objective of the decentralisation policy is also to devolve power from the capital to the interior regions and correct economic and social disparities between the wealthier coastal regions and more deprived interior areas of the country.

The Constitution devotes an entire chapter (Chapter VII, articles 131 through 142) to local government, specifying the principles of self-governing local councils, independent administration, and the financial autonomy of the local government units. According to Art. 131, "Local government is based on decentralisation. Decentralisation is achieved through local authorities comprised of municipalities, districts, and regions covering the entire territory of the Republic, and the legal personality as well as financial and administrative independence." Municipal and regional councils are elected through universal suffrage while district councils are elected by the members of municipal and regional councils. The provisions of the Constitution are being implemented.

At regional level, the regional councils are not yet fully self-governing regions but consultative entities attached to the 24 State "deconcentrated regions" called "governorates". 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. Consequently, Regional Councils are both decentralised and deconcentrated entities. In 2016, the governorates were themselves divided into 273 delegations or districts (*iklim*). Yet the constitution does not name or define the attributions of these "district councils", which have not been implemented.

At municipal level, a major step was taken, in April 2018, through the adoption of the Code of Local self-government (*Code des collectivités locales*). The code took effect on 1 January 2019. The new code is an Organic law (no. 48 of 2017) that governs the entire decentralisation process. It repeals the Organic Law no. 75-33 of 14 May 1975 regarding the status of the municipalities and law no. 75-35 of 14 May 1975 regarding the budget of local authorities. The code aims to bring more autonomy to the local governments, both in terms of assigned competencies and financial autonomy.

Following the adoption of the regional and local electoral law in 2018, the first local elections since Tunisia's authoritarian regime was overthrown in a 2011 took place on 6 may 2018. Members of the local councils were elected through a closed-list, proportional representation system with an electoral threshold of 3% (between 2011 and 2017, municipal councillors were appointed by the national government). The local councils are the primary decision-making bodies. The mayor is elected from the members of the municipal council for a five-year term.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	350 municipalities *(Communes)*		24 governorates (Wilayas/ *Gouvernorats/Regions)*	
	Average municipal size: 32 949 inhabitants			
	350		24	374

OVERALL DESCRIPTION. Following the adoption of the new Code of local self-government, Tunisia has 24 governorates and 350 municipalities.

REGIONAL LEVEL. The 24 regions are very diverse in terms of area, demographic size and especially socio-economic development. The smallest region had 111 000 inhabitants in 2016 (Tozeur) while the largest had 1 067 000 inhabitants (region of Tunis). While reducing regional economic and social disparities in Tunisia has been a key objective for many years, activity remains highly concentrated in coastal regions, and inequalities in living standards remain very large by international standards. Since 2011, the government has restated the priority given to regional development, and the Strategic Development Plan 2016-2020 seeks to close the gap through a process of "positive discrimination", which is enshrined in the 2014 Constitution.

MUNICIPAL LEVEL. The territorial reform enacted between 2014 and 2018 resulted in the creation of 86 new municipalities, bringing the total number of municipalities from 264 to 350. In fact, before the reform, more than 50% of the national territory was "non-municipalised". It was thus decided to create these 86 municipalities and expand the territory of several others. On average, Tunisian municipalities are large, having around 33 000 inhabitants in 2016, to be compared to 9 700 in the OECD or 5 900 in the EU28. However, disparities are important, the size ranging from 784 habitants (Beni M'Tir) to almost 638 000 inhabitants in Tunis. However, Tunis, whose size has increased significantly, now extends largely beyond administrative boundaries. The "Grand Tunis" consists of the urban populations in the Governorates of Tunis, Ariana and Ben Arous, accounting for 2.291 million inhabitants, i.e. almost 20% of the national population. The municipality of Tunis is divided into 15 municipal districts. As for the regions, strong disparities exist among municipalities. In particular, coastal municipalities tend to be better-off than inland municipalities.

Two or more municipalities may enter into agreements on matters of common interest in order to carry out projects, deliver services or operate public equipment/facilities. These agreements must be approved by the governor of the region, when the municipalities belong to the same governorate, and by the minister of the interior when the communes belong to two or more governorates.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Prior to 2019, the competencies of SNGs in Tunisia were regulated by the Organic Law no. 75-33 of 1975, amended in 2006, which assigned limited competencies to the regional councils and municipal governments. This Organic law was repealed by the new Code of Local Self-Government on 1 January 2019. The new Code defines subnational governments' own, shared and transferred competencies. Own competencies of municipalities encompass primarily urban planning and infrastructure projects, most of which were already assigned to them through the Organic Law of 1975. Municipalities have shared attributions in economic development, urban transport, and maintenance of schools and primary health establishments. Transferred competencies include the construction and maintenance of health institutions, educational establishments, cultural works and sports facilities.

The regional level of government is notably responsible for preparing and implementing the regional development plan. Governorates also have shared competences in support of cultural and sport activities, preservation of natural zones, urban transport, and transferred responsibilities for the maintenance and development of public buildings and facilities located in the region, and the strengthening of economic, agricultural and industrial activities of a regional nature.

Greater devolution of responsibilities to regional and local self-governing bodies is gradually planned as part of the regional development strategy.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONAL LEVEL	MUNICIPAL LEVEL
1. General public services	Internal administration	Internal administration
2. Public order and safety		
3. Economic affairs/transports	Organisation and support of non-urban transport; Urban transports and distribution channels	Construction and maintenance of roads and sidewalks; Municipal markets; Public buildings and facilities; Urban transport and economic development (shared)
4. Environmental protection	Environmental protection	Parks and green areas; Waste management
5. Housing and community amenities	Territorial planning; Elaboration of the regional development plan	Public lighting; Urban planning, Street cleaning
6. Health		Promotion of hygiene; Primary health establishments (shared)
7. Recreation, culture & religion	Culture; Sport; Youth activities	Promotion and management of cultural activities
8. Education		Maintenance of schools (shared)
9. Social protection		

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: regional councils and municipalities.	SNA 2008	Availability of fiscal data: **Low**	Quality/reliability of fiscal data : **Low**

GENERAL INTRODUCTION. Subnational government finance is regulated by Law no. 97-11 of 1997, which promulgated the Local Tax Code, most recently amended in 2015. The governorates are mainly funded by transfers from the central government while tax revenue is only levied at the municipal level. The new 2019 Code of local governments enables municipalities to set taxes and royalties. It grants local governments various rights related to public properties (streets, public squares, green spaces and others).

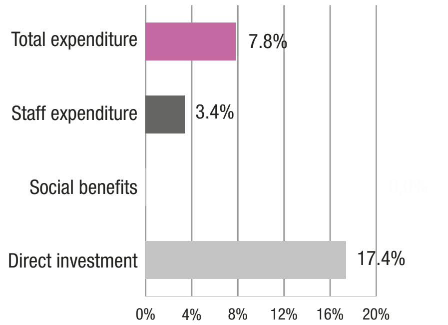
TUNISIA

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**241**	**2.1%**	**100%**
Inc. current expenditure	97	0.8%	40.4%
Staff expenditure	58	0.5%	24.0%
Intermediate consumption	30	0.3%	12.4%
Social expenditure	0	0.0%	0.0%
Subsidies and current transfers	0	0.0%	0.0%
Financial charges	4	0.0%	1.5%
Others	6	0.1%	2.5%
Incl. capital expenditure	144	1.2%	59.6%
Capital transfers	81	0.7%	33.7%
Direct investment (or GFCF)	62	0.5%	25.9%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. In 2016, SNG expenditure reached 2.1% of GDP and 7.8% of general government expenditure, against 1.6% and 4.3% in 2012. This level is well below the OECD average of unitary countries in 2016 (9.2% of GDP and 28.7% public expenditure) as well as the EU28 average (15.5% of GDP and 33.4% of public expenditure).

DIRECT INVESTMENT. Capital expenditure (59.6%) outweighs current expenditure (40.4%), as SNGs are key players in public investment. The share of direct investment in SNG expenditure is also marked, and above the OEDC and EU28 averages (respectively, 10.7% and 8.7% of SNG expenditure in 2016). It shows that SNGs have few management responsibilities in areas requiring substantial current spending. It also shows that SNGs play more of an investment role. However, SNG involvement in public investment is low, well below the OECD average for unitary countries (50.7%) and the EU28 average (51.6%). The share in GDP is also small: 0.5% vs 1.7% in the OECD and 1.4% in the EU28. SNG investment in Tunisia is primarily dedicated to municipal waste management, road construction and maintenance and sewage systems. The decree 2014-3505 sets the framework for the new system of financing of local investments, through loans and subsidies.
Stimulating investment is a major objective of the government, as indicated in the 2016-2020 Development Plan, and development agencies are being set up in each governorate. There are currently three regional development offices, which each manage four governorates, and one commission in charge of the remaining ones, including Tunis. The 2015 law on public-private partnerships (PPP) gives local governments the power to enter directly into PPPs as a means of boosting the local economy and developing social infrastructure projects.

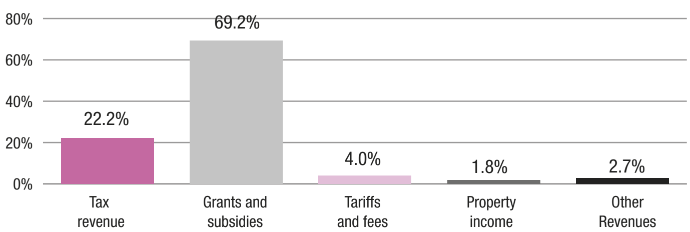
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Municipal solid waste management, road construction and maintenance account for a large share of total municipal spending (recurrent and capital). In Tunisia, little spending on social protection is decentralised and most basic services are managed by public agencies, at the deconcentrated governorate level: water, transport, electricity, education and health.

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**242**	**2.1%**	**6.4%**
Tax revenue	54	0.5%	2.2%
Grants and subsidies	168	1.4%	
Tariffs and fees	10	0.1%	
Property income	5	0.0%	
Other revenues	7	0.1%	

% SNG REVENUE



OVERALL DESCRIPTION. In 2016, SNGs in Tunisia were primarily financed through intergovernmental grants, which amounted to 69% of their total revenues, well above the OECD average for unitary countries (48.8%) and above the EU28 average (44.1%). Other local revenue came from tax revenues, tariffs and fees for the use of services, and property income. Tax revenue (levied only by municipalities) accounted for 22% of SNG revenue in 2016, to be compared to 38.7% in OECD unitary countries and 41.1% in the EU28. The reforms associated with the new Code of local self-government are expected to bring more own-source revenues to SNGs in the future. Regional councils represent 9.7% of current revenues of SNGs in 2016, against 90.3% for communes, but they represent two-thirds of capital revenues (72% in 2016 against 27.4% for communes), coming mainly from equipment grants from the State.

TAX REVENUE. Tax revenues essentially go to municipalities, as there are no specific taxes payable to the governorate regional councils. The share of tax revenue in SNG revenue has increased significantly since 2012 (+58%), with the introduction by the 2013 Fiscal Law of significant changes to the municipal tax system, such as the increase of the TCL and TIB bases. In 2016, tax revenue accounted for 2.1% of GDP and 2.2% of public tax revenue, much below the OECD average for unitary countries (4.7% of GDP and 19.8% of public tax revenue) and the EU28 (6.4% of GDP and 24.0% of public tax revenue).
Municipal taxes include, notably, the tax on industrial, commercial and professional establishments (TCL), the property tax on buildings (TIB), the property tax on undeveloped land (TNB, with a tax rate of 0.3% set by decree), the hotel tax (rate of 2% also set by decree), and the tax on entertainment (rate of 6% set by decree). In 2012, the maximum tax limit of the TCL was removed, which incurred an increase of fiscal resources for the major cities of Tunisia, and Tunis in particular. The property and real estate taxes on built and undeveloped land are still under-exploited, due to census defects combined with low collection rates (around 20% of the amounts are effectively raised). Overall, property taxes accounted for around 15% of SNG tax revenue, 3% of SNG revenue and 0.1% of GDP (to be compared to 1.1% of GDP in the OECD in 2016).
Local governments have very low autonomy over tax bases and rates. Municipalities cannot create new taxes or fees, but they can, in some cases, set the tax base. They have some leeway on the TIB reference price and the TNB tax base, which they can set within limits set by national decree, yet this has been scarcely used as most communes set the price within the lowest range. Decrees enacted in 2017 reviewed the tax bases of many local taxes. Taxes are collected by deconcentrated state services.

GRANTS AND SUBSIDIES. The system of intergovernmental transfers in Tunisia is regulated by Art. 135, 136 and 141 of the 2014 Constitution, which states that the devolution of competences to SNGs must be accompanied by corresponding transfers of resources. Grants are thus a prime source of revenue for regional councils, as they represented 96% of their revenue in 2016, against 45% for municipalities.
SNGs first receive lump-sum grants from the Common Fund for Local Authorities (*Fonds Commun des Collectivités Locales* - FCCL). The FCCL was established by law no. 75-36 of May 1975 and has been funded through the national budget since 1988. The Fund provides annual general-purpose grants to support operating budgets of SNGs, in particular municipalities, which are entitled to 86% of the transfers while the regional councils receive 14%. 82% of FCCL resources are transferred to SNGs while the remaining 18% is allocated to other beneficiaries. The fund allocation is based on a formula which takes into account a base value (10% of the total share for municipalities and 25% for regional councils), the size of the municipal population (respectively 45% and 75%), the municipality's property tax collection in the previous fiscal year (37%) and a remaining 8% aiming at equalising municipal revenues. Transfers from the FCCL are dedicated to the operating budget of SNGs, to finance current expenditures only. Due to severe regional imbalances, approximately 18 municipalities capture 50% of the total resources.
Other transfers include equipment grants through the Municipal Development Fund (or *Caisse des Prêts et de Soutien aux Collectivités Locales*), as well as capital transfers from sectorial ministries to finance investment programs on a case-by-case basis, which constituted up to 22% of transfers to regional councils in 2016. A new equalisation mechanism, the Cooperation Fund of Local Authorities (*Fonds de Coopération entre les Collectivités Locales*), was introduced by the 2013 Fiscal Law. This Fund is composed of resources from the TCL and the surtax on electricity consumption. It is divided between municipalities, regional councils and the Capital City of Tunis according to criteria based on population and resources.

OTHER REVENUES. SNGs collect a variety of user charges and fees, including licensing fees on beverage outlets, a series of tariffs applied to marketplaces, parking fees, building permits, etc. SNGs can set the tariffs of some of these charges within limits set by the central government. SNGs collect rents from public properties. In 2012, property income accounted for 2% of SNG total revenue while tariffs and fees contributed to 1% of total revenue.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. Art. 14, 20, 26 and 30 of the Budget Law 2007-65 require that local governments have balanced budgets on an annual basis. In case of non-compliance, Art. 30 states that there may be individual sanctions. An independent body, the *Institution Supérieure de Contrôle*, is in charge of monitoring and auditing the local budgets, but its efficiency is limited by the lack of standardised accounting. A General Code of Conduct for Public Officials was released in 2014 to improve the delivery of public services at all levels of government.

DEBT. Local borrowing is authorised only to finance investment projects ("Golden Rule"). Loans for investment and capital goods are taken out from the Municipal Development Fund or *Caisse des Prêts et de Soutien aux Collectivités Locales* (CPSCL), under the authority of the Ministry of Local Affairs and of the Environment. The loans are granted upon the approval and thorough analysis of central authorities. In 2016, the CPSCL loans to local governments amounted to approximately 91.36 million Tunisian dinars (TND), a reduction of approximately 8% compared to 2015 (TND 99.30 million in 2015). As of 2017 however, the total municipal debt amounted to TND 150 million, obtained not just through the CPSCL, but also other private and public institutions. The Public Expenditure and Financial Accountability (PEFA) report on a sample of seven municipalities also points to the limited monitoring and evaluation of loans. In 2016, the Tunisian government took out a TND 100 million loan from the African Development Bank with the aim of remediating the financial insolvability and structural indebtedness of 65 municipalities and thereby reinforcing their creditworthiness.

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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO // Institut National de Statistiques de Tunisie (INS)
Fiscal data: Dafflon B. and Gilbert G. (2018), L'économie politique et institutionnelle de la decentralisation en Tunisie, état des lieux, bilan et enjeux – AFD // Tunisian Ministry of Finance // OECD (2018) Subnational Government in OECD countries: key data (brochure and database).
Other sources of information: Dafflon B. and Gilbert G. (2018) L'économie politique et institutionnelle de la decentralisation en Tunisie, état des lieux, bilan et enjeux - AFD // S. Yerkes and M. Muasher (2018) Decentralisation in Tunisia : Empowering Towns, Engaging People, Carnegie Endowment for International Peace // World Bank (2018) Tunisie – Evaluation PEFA 2015-2016 // OECD (2018) OECD Economic Surveys: Tunisia 2018 // ITCEQ and ILO (2017) Tunisian government's five-year plan // POMED project on Middle East Democracy (2018) Tunisia's Municipal Elections - The View from Tunis // Caisse des Prêts et de Soutien aux Collectivités Locales (2016) Etats financiers arrêtés au 31/12/2016 et extrait du rapport du commissaire aux comptes

UGANDA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOW INCOME

LOCAL CURRENCY: UGANDAN SHILLING (UGX)

POPULATION AND GEOGRAPHY

Area: 241 550 km^2
Population: 42.863 million inhabitants (2017), an increase of 3.4% per year (2010-2015)
Density: 177 inhabitants / km^2
Urban population: 23.2% of national population
Urban population growth: 5.8% (2017 vs 2016)
Capital city: Kampala (7.0% of national population)

ECONOMIC DATA

GDP: 79.9 billion (current PPP international dollars), i.e. 1 864 dollars per inhabitant (2017)
Real GDP growth: 4.0% (2017 vs 2016)
Unemployment rate: 2.1% (2017)
Foreign direct investment, net inflows (FDI): 699.5 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 23.5% of GDP (2017)
HDI: 0.516 (low), rank 162 (2017)
Poverty rate: 41.6% (2016)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Uganda is a presidential democratic republic with a governance system comprising national and local governments. The President serves as the head of the state and the head of government.

The Constitution (1995) provides for a system of decentralization and local governments, which is further consolidated in the Local Governments Act 1997 (Cap. 243). In an urban setting, there are City, Municipal, Division/Town, Ward and Cell Councils. In the rural setting, the government structure includes a District Council, County (which is an administrative unit without a Council), Sub-County Council, Parish Council and Village Council. The 1995 Constitution, Article 181(4) states that local government elections shall be held after every five years. The law requires that at least one-third of the council members at all levels be women. Lower level councils (sub-county/city division and below) also have quotas for councilors representing persons with disabilities and youth councilors representing the youth. Elections to the lower levels of the local government structure – village and parish – are conducted by secret ballot. The last election for district/city, municipality/city division, and sub-country/town councils was held in 2016. In July 2018, the government organized elections for village councils for the first time in 17 years. In both elections, the ruling NRM received the majority of votes.

Uganda embarked on an ambitious decentralization program in the early 1990s under President Museveni after emerging from a series of dictatorial regimes and civil wars. In order to achieve greater empowerment and a more responsive public sector, Uganda's 1995 Constitution provided for an extensive system of local government. Schedule 2 of the Constitution provided for the first time, a clear distinction between Central and Local Governments' roles. Since 2005, the tendency in Uganda seems to be one of re-centralization of powers and authority, as central government has become more assertive over local affairs, while the administrative powers and financial resources of local governments have been gradually eroded.

Despite a constitutional framework defining a strong, devolved local government system, there is a considerable gap between the de jure status of local governments in Uganda and the de facto degree to which Local Councils are able to control local affairs. Although local governments at the district level are corporate bodies with their own political leadership, their ability to plan and manage their own affairs is limited. For instance, on the administrative front, constitutional reforms in 2005 eliminated the right of Local Councils to appoint their own Chief Administrative Officers.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	127 districts + the City of Kampala* 41 municipalities**			
	316 021 inhabitants per district (w/o Kampala) 42 860 inhabitants per municipality 1 353 180 inhabitants in Kampala City			
	169			169*

* This number does not include 6 districts to be created in 2019

**This number does not include lower level local councils (LC3, LC2 and LC1), such as division, town, parish, and village

OVERALL DESCRIPTION. Uganda territorial governance structure recognizes five levels of Local Councils (LCs) below the national level. The lowest level is the Local Council I (LC 1), which corresponds to village (or in the case of towns or cities, a neighbourhood). The highest level is the Local Council V (LC5), which corresponds to an entire district and the City of Kampala. Intermediate subdivisions in rural areas include the Parish (LC2), Sub-County (LC3) and County (LC4). Urban areas have a somewhat different territorial governance structure (including City (LC5), Municipality (LC4) and Town Councils (LC3)) in a structure that generally mirrors the rural system. An important legal distinction should be made between Local Government Councils (corporate bodies empowered by the Local Government Act of 1997 where the council is the highest political authority in its area of jurisdiction) and Administrative Unit Councils (where councils serve as political units to advise on planning and implementation of local services). For instance, in rural areas, only the District Council and the Sub-County are Local Government Councils. In urban areas, only municipalities are Local Government Councils (LC4). Municipalities report to districts in whose territory they are located. The City of Kampala has a special status under Kampala Capital City Act (2010) and is managed directly by the central government through the Kampala Capital City Authority (KCCA) which is the governing body of the Capital City headed by a cabinet minister for Kampala. KCCA includes the Lord Mayor who is elected by universal suffrage through a secret ballot but plays a largely ceremonial role.

In addition to the vertical fragmentation of the local government system, the structure of local governments in Uganda has be come considerably more fragmented at the district level over the past twenty years as well. Since the early days of the NRM government there has been a trend for creating new councils by splitting the existing ones into ever smaller units. Uganda has moved from 33 original districts in 1986 to 45 in 1997 to 80 in 2006 and eventually to 127 as of 1st July 2018. This process is still under way as the Government plans to create six more districts in 2019 bringing the total number to 133.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The Local Government Act of 1997 specifies the roles and responsibilities of local governments, separately for rural and urban local councils. Schedule 2 of the Act requires Local Governments to provide a broad range of services ranging from education to water provision and urban services. Furthermore, the Local Government Act specifies that numerous functions and services have to be devolved onward by district councils to lower local government councils (i.e. the Sub-County level in rural areas). In practice, however, the district level retains the bulk of service delivery responsibility over local services while in practice central line ministries often continue to be extensively involved in different aspects of local service delivery.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPAL LEVEL (DISTRICTS)
1. General public services	Civil status registry; Statistical office; Public buildings and facilities
2. Public order and safety	Fire protection; Civil protection; Criminal justice
3. Economic affairs/transports	Agriculture, forests and fisheries; Local economic development and promotion; Tourism; District and community access roads; Public transport and public vehicle parking
4. Environmental protection	Sanitation; Refuse collection and disposal; Cemeteries and crematoria; Slaughterhouses; Environmental protection; Consumer protection; Public parks, gardens and recreation grounds
5. Housing and community amenities	Town planning; Regional planning; Public lighting;Water supply (joint)
6. Health	Primary care (discretionary); Hospitals (discretionary); Health protection (discretionary)
7. Recreation, culture & religion	Theatres and concerts; Museums and libraries; Parks and open spaces; Sports and leisure facilities
8. Education	Pre-school (kindergarten and nursery); Primary and secondary education; Vocational and technical
9. Social protection	Family welfare services; Welfare homes; Social security

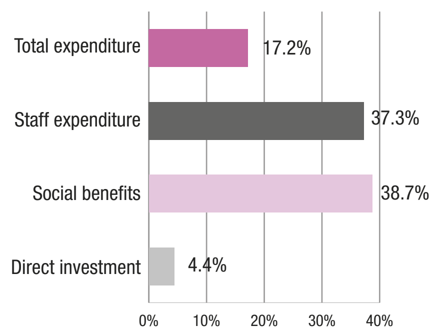
SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: districts, municipalities, city council and town councils.	SNA 2008	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. The Constitution and the Local Governments Act allow Local Governments to collect revenue from a number of specified sources, formulate plans and budgets, allocate expenditure, and make investments in a wide range of services. The development budgets of Local Governments are invariably funded with conditional and equalization grants, a large proportion of which comes from external donors. The share of public sector resources being transferred to Local Councils has stagnated over time around 15%. A number of initiatives have been undertaken to deepen and consolidate reforms in Public Financial Management (PFM) in Local Governments which aim at further strengthening and sustaining accountability and transparency in public expenditure management. To date, the government has introduced an integrated financial management system in 22 district councils, one city and five city division councils. The Government also introduced a Local Government Performance Assessment System aligned with Intergovernmental Fiscal Transfer Reforms to increase the adequacy, improve equity and ensure efficiency of LG financing. The assessment was conducted in 144 district and municipal local governments in FY 2017/18.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
Total expenditure	**57**	**3.2%**	**100%**	
Inc. current expenditure	53	2.9%	91.6%	
Staff expenditure	31	1.7%	54.5%	
Intermediate consumption	11	0.6%	19.7%	
Social expenditure	2	0.1%	4.1%	
Subsidies and current transfers	8	0.4%	13.0%	
Financial charges	0	0.0%	0.0%	
Others	0	0.0%	0.3%	
Incl. capital expenditure	5	0.3%	8.4%	
Capital transfers	1	0.0%	2.1%	
Direct investment (or GFCF)	4	0.2%	6.3%	



UGANDA

UNITARY COUNTRY

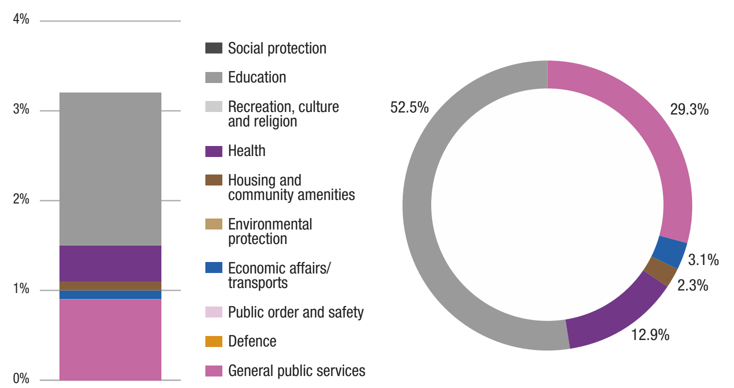
EXPENDITURE. Uganda has a low level of total Local Government expenditure per capita compared to other countries in the region including Kenya (PPP$89.7), Tanzania (PPP$93.7), Rwanda (PPP$107.4) and South Africa (PPP$1 728).

Subnational staff expenditure makes up over one half of the total subnational government expenditure reflecting the predominance of recurrent finance in the expenditure structure and minimal capital transfers and direct investment. The share of municipal annual expenditure averages 24% of the district expenditures but the variation is great and may be as low as 12% for Arua municipality or as high as 53% for Gulu municipality, reflecting in part the regional disparities in development and the Government's efforts to direct additional funding for underdeveloped regions.

DIRECT INVESTMENT. Subnational expenditure is characterized by a low level of direct investment (investment in nonfinancial assets) at 6.3% of the total. The main area of investment are roads, and this has been the trend for a number of years. There is no borrowing by local governments (because of the borrowing thresholds tied to annual own source revenue collection which is very low for most districts). There are no regulatory provisions for borrowing from capital markets. The Public Private Partnership framework is in place (the PPP Act was passed in 2015) but local PPPs are generally management arrangements whereby a private sector manages local governments assets (e.g., markets) and remits an agreed share of revenues/flat payments to local governments. There are no examples of local Build-Operate-Transfer-type PPPs.

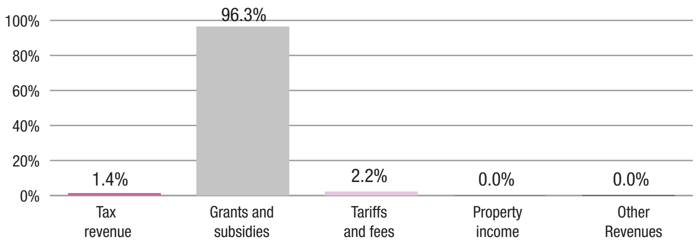
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

The bulk of the subnational expenditure (52.5%) is in education, which is the biggest government employer at the local level. This is followed by general public services (29.3%) and health (12.9%). Taken together, these three sectors account for about 95% of all subnational expenditure. Noteworthy is the low expenditure in economic affairs/transport and housing/community affairs due to the lack of capital finance for local governments.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**60**	**3.3%**	**20.9%**
Tax revenue	1	0.0%	0.3%
Grants and subsidies	58	3.2%	
Tariffs and fees	1	0.1%	
Property income			
Other revenues			



OVERALL DESCRIPTION. Local Government revenues have been growing steadily from 2010-2016 at an average rate of 13.9% from UGX1 054.3bn in 2010 to UGX1 931.4bn in 2016. However, inflation during the same period averaged 8.4% annually, and the real increase in revenues was around 5.5% consistent with the average GDP growth. 96% of revenues come from Central Government transfers reflecting the low revenue base of local government.

The Government of Uganda has initiated a reform of intergovernmental transfers to local governments in four stages: 1) Interim Consolidation of Local Government Transfers (the number of Sector Conditional Grants was reduced to 13 in 2015/16); 2) Reform to Transfers for 2016/17 (consolidating and redesigning discretionary transfers, including the allocation formulas); 3) Reforming frameworks for accountability and strengthening incentives (introducing performance conditionality to lever institutional and service delivery improvements from 17/18 onwards); 4) Fiscal Decentralization Architecture & Share of Transfers (reviewing Local Government mandates and the overall legal and policy framework for local government revenues and expenditures).

TAX REVENUE. Local governments in Uganda can levy taxes and receive non-tax revenue as prescribed by parliament. In rural areas, the district councils set taxes and the sub-county councils collect tax and non-tax revenues on behalf of the various tiers of local government. In urban areas the municipal town councils set their own taxes, which are then collected by divisions of the city council and by town councils. A typical revenue structure is predominantly composed of direct taxes on personal income under Local Service Tax, wealth tax through property rates, taxes on consumption through user charges on services rendered, and production through permits, licenses, tax on agriculture production and business levies. In the recent past, taxes on property and user levies have become more prominent than direct taxes on personal incomes and wealth. However, a majority of the local revenue (particularly in districts) is generated from fees and fines, taking on average nearly half of the total local revenues. Locally raised revenue is, by law, shared between district councils (35%) and sub-county councils (65%) as well as between city and municipal councils (50%) and their divisions (50%).

GRANTS AND SUBSIDIES. As a result of the recent reforms of the intergovernmental fiscal transfer system, the current grant system has been reduced to 10 grants for recurrent (wage and non-wage) and capital expenditures. 6 are conditional sector grants (Health, Education, Agriculture, Water and Environment, Public Works, Community Development), 2 are unconditional (District Development Equalization Grant and Urban Development Equalization Grant) and 2 are *ad-hoc* conditional grants (Support Services and Transitional Development) to be phased out at a later stage of reforms.

The allocation formula for the unconditional DDEG grants uses 5 criteria with differing weights for different local governments depending on their particular situation, namely: Conflict (5-3%), Constant (fixed allocation 10-5%), Rural Population / Urban Population (30% for rural and 72% for urban), Poverty Head count (50% for rural and 20% for urban), and Land area (5% for rural and 0% for urban).

OTHER REVENUES.

Tariffs and fees

User charges and licenses show some growth in the recent past. This may be an indication of the impact of increased rates for trading permits and licenses rather than efficiency in revenue management. However, it is evident from economic growth indices that there is an increase in trading premises and business in most of the urban areas in Uganda which in itself creates an opportunity for revenue expansion. The recent revision of rates for trading licenses and permits has made it difficult for some low income Local Governments to collect prescribed licenses and permits. Local Governments do not have the legal discretion to change these rates to suit local economies and in most cases no collection has been done. The growth in user fees indicates that there is more willingness to pay revenues that directly respond to services obtained and suggests that future reforms should focus heavily in the area of user fees or direct contribution to service costs.

Property income

Property taxes have grown slower than anticipated, at about 45% of the estimated potential. One of the reasons for this shortfall is the provision for exemptions on residential property for owner occupied residences. The cost of property valuation and the subsequent post valuation process costs have been unaffordable for most Municipalities and Town Councils who are legally prevented from collecting property tax without un updated property register. In 2013, the Local Government Finance Commission recommended that rural Local Governments should introduce a Property Service Tax (PST) by creating a bye law to assess all residential properties exempted under the rating Act. However, this proposal has not yet been adopted.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**0.3**	**0.02%**	**0.3%**	**100%**
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. Fiscal rules require local governments to have a balanced budget and establish a maximum of 60% (of own generated revenues) for Local Government debt and guarantee loans. The Accouting Officer appointed by the Secretary to the Treasury (District Chief Admistrative Officer or Town Clerk) is ultimately responsible for financial administration of a local government unit. The Accounting Officer prepares and submits half-year and annual financial statements, the latter being audited on an annual basis by the Office of the Auditor General.

DEBT. According to the Local Government Act (Schedule VI), a local government council may raise loans by way of debenture, issue of bonds, or any other method, in amounts not exceeding 25 percent of the locally generated revenue provided that a local government council demonstrates ability to meet its statutory requirements. For the City of Kampala, the borrowing threshold is established at 10%. Borrowing is subject to the approval of the Ministry of Finance and unqualified audit opinion for the preceding financial year. The Public Finance Management Act of 2015 allows the Minister of Finance to guarantee the repayment of the principal money and the payment of the interest and other charges on a loan raised within or outside Uganda by a local government council, subject to the approval of Parliament.

Currently, no debt and borrowing market exists for local governments. The depth and capitalization of Ugandan markets are low and there is no regulation on local government shares or bonds. The upside of this situation is that Ugandan Local Governments have no market loans or debts; their indebtedness consists of outstanding payments to providers of goods and services.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: UNCDF
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Socio-economic indicators: World Bank // UNDP // UN DESA // ILO.
Fiscal data: IMF Government Finance Statistics // Ministry of Finance, Planning and Economic Development, Annual Budget Performance Report, FY 2016/17.
Other sources of information: Cities Alliance and UCLGA (2018) Assessing the institutional environment of local governments in Africa // Commonwealth Local Government Forum. The Local Government System in Uganda. Country Profile 2017-18 // Ministry of Local Government Factsheet (2017) // Auditor General (2016) Financing of Local Governments in Uganda Through Central Government Grants and Local Government Revenues // Local Public Sector Initiative, Country Profile: Uganda 2010-11 // Local Government Finance Commission Review of Local Government Financing (2012) Management and Accountability for Decentralized Service Delivery.

ZAMBIA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: ZAMBIAN KWACHA (ZMW)

POPULATION AND GEOGRAPHY

Area: 752 610 km² (2017)
Population: 17.1 million inhabitants (2017), an increase of 3.0% per year (2010-2015)
Density: 23 inhabitants / km² (2017)
Urban population: 41.8% of national population (2017)
Urban population growth: 4.2% (2017 vs 2016)
Capital city: Lusaka (14.8% of national population)

ECONOMIC DATA

GDP: 69.2 billion (current PPP international dollars), i.e. 4 050 dollars per inhabitant (2017)
Real GDP growth: 3.4% (2017 vs 2016)
Unemployment rate: 7.8% (2017)
Foreign direct investment, net inflows (FDI): 866 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 36.4% of GDP (2016)
HDI: 0.588 (Medium), rank 144 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Zambia is a unitary state with two levels of government: national and local. Chapter 9 of the 2016 Zambian Constitution states that "the management and administration of the political, social, legal and economic affairs of the State shall be devolved from the national government level to the local government level" (Art. 147(1)).

Decentralisation in Zambia has its roots in the Public Sector Reform Programme of 1993. For the first time in the 1996 Constitution, local governments were given a constitutional basis. Subsequently, a National Decentralisation policy was adopted in 2002 and launched in 2004. In 2009, the Ministry of Local Government and Housing (MLGH) published a Decentralization Implementation Plan to operationalise the main elements of the decentralisation policy. The National Decentralisation Policy (NDP) contains the government's vision for the establishment of a devolved system of governance, and sets out a new decentralised structure of governance by introducing provincial, district and sub-district levels (referred to as wards in the Constitution). The policy considers the provinces as the central link between the centre and the districts, and the districts as structures that provide a platform for local communities to play a role in development and service delivery. The NDP also includes objectives to a) empower local communities by devolving decision-making, functions and resources from the central level to the lowest level of governance; b) enhance local political and administrative authority; c) build capacity for development and maintenance of infrastructure at local level and d) provide legal and institutional frameworks to promote decision-making at local level.

In 2013, the NDP was reviewed and relaunched. Key revisions to the revised Decentralisation Policy include recognition and emphasis on public participation and traditional authority within local governance.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	84 District Councils, 15 Municipal Councils, and 4 City Councils			
	Average municipal size: 165 962 inhabitants			
	103			103

OVERALL DESCRIPTION. Zambia is divided into 10 provinces, which are in turn divided into 103 councils, which are further divided in 1258 wards. City councils are situated in urban areas characterised by a dense population and substantial economic activity; Lusaka which is also the capital city of Zambia, is the largest city council. Municipal councils are located in suburban areas and district councils are located in rural districts.

The Barotseland, also known as the Western Province, currently identifies itself as an independent state from the Republic of Zambia. The contestation of this region dates back to independence when the Barotseland Agreement was passed and recognised the land as its own principal authority. The agreement was cancelled in 1969; with the enactment of the 1969 Constitution, then president Kenneth Kaunda announced that it would be referred to as the Western Province of Zambia. Since then, tensions have arisen which led Barotseland to officially proclaim itself as an independent state in September 2011. The region has an estimated population of 3,5 million. The recent 2016 amendment to Zambia's Constitution continues to refer to the region as the Western province.

COUNCILS. The 1991 Local Government Act (consolidated in 2006 and amended in 2010 and 2014) provides that each council must be composed of members of the Parliament in the district, two representatives of traditional chiefs and all elected councillors of the district. Chiefs are appointed by all other district chiefs. Councillors are elected according to the first-past-the-post system for each ward for a five-year term. A mayor and deputy mayor are elected in the case of city and municipal councils, while a president and vice-president are elected in district councils from among the members of the council. The term of office of the mayor or the president of the municipal council is five years. The councils also have an administrative division. The Local Government Services Commission is responsible for hiring members for the administrative division.

PROVINCES. The provinces are a deconcentrated level of national government. They are headed by provincial ministers. As heads of government in the provinces, ministers are mandated by section 117(3) of the Constitution to ensure the implementation of national policies in all districts and that local authorities fulfil their exclusive functions. Ministers are appointed by the President.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The second schedule of the Local Government Act lists 63 functions of local councils: Primary healthcare; public health service and protection; housing; town and regional planning; roads; environmental protection; slaughterhouses; theatre and concerts; and parks and open spaces are joint responsibilities of national and local government. Economic activities, such as agriculture, forests and fisheries; local economic development; trade and industry and tourism are discretionary services provided by local councils.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	LOCAL LEVEL
1. General public services	Real estate management; Civil status; Civil registration
2. Public order and safety	Public order and security including emergency response
3. Economic affairs/transports	Local roads (maintenance and construction); Local public transport; Telecommunications
4. Environmental protection	Zoning and local environmental protection; Waste management (since 2013)
5. Housing and community amenities	Spatial planning (local planning, water and supply sewage treatment, maintenance of landfills); Public areas (including cemeteries); Electricity, gas and heat supply; Housing; Maintenance of buildings and public facilities
6. Health	Health promotion; Primary healthcare services
7. Recreation, culture & religion	Market places; Promotion, management of municipal libraries and other cultural institutions; Monument protection; Promotion of sports
8. Education	Pre-primary and primary education; Kindergarten; Elementary education
9. Social protection	Social services including family benefits (since 2004) through municipal social assistance centres

SUBNATIONAL GOVERNMENT FINANCE

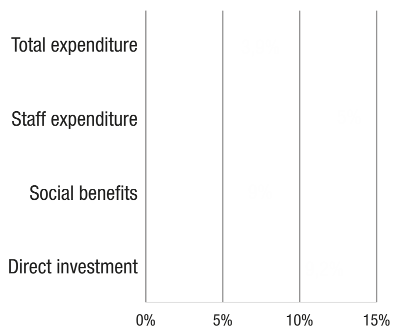
Scope of fiscal data: district, municipal and city councils.	SNA 2008	Availability of fiscal data: **Low**	Quality/reliability of fiscal data : **Low**

GENERAL INTRODUCTION. The following legislative tools regulate and set the financial provisions in which councils are allowed to operate: Article 198 of the 1996 Constitution provides the guiding principles of public finance that apply to the different levels of government. Section six of the Local Government Act forms the basis and context for the financial management of councils. Article 46 in particular states that "the Minister shall, by statutory instrument make regulations for the control and management of finances of councils…". Finally, other laws that have financial implications for councils include the Rating Act of 1997, the Trade Licensing Act (2011) and the Personal Levy Act (1994).

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure			
Inc. current expenditure			
Staff expenditure			
Intermediate consumption			
Social expenditure			
Subsidies and current transfers			
Financial charges			
Others			
Incl. capital expenditure			
Capital transfers			
Direct investment (or GFCF)			

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. The level and nature of local government expenditure in Zambia is unknown. The government of Zambia, in its effort to improve the efficiency of local service delivery, has started developing service charters and integrity committees in selected public service institutions including local authorities. Once these measures are fully operational and monitored, it is expected that transparency and accountability in the service delivery process by public institutions will be improved.

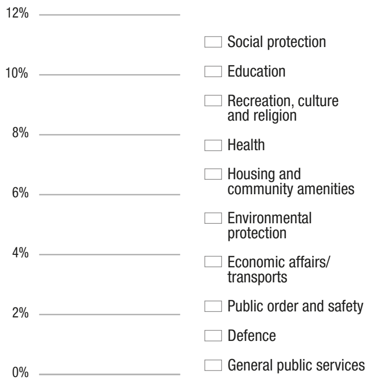
DIRECT INVESTMENT. Generally speaking, the expenditure structure of all local authorities shows that more than 90% of their resources are used for operating expenditure and that only a small balance is devoted to capital expenditure. As a result, there is little direct investment. Councils generally tend to reduce their services and are frequently in default of payment of amounts due.

ZAMBIA

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

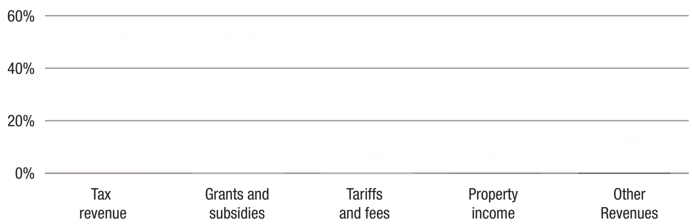
% GDP	% SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue			
Tax revenue			
Grants and subsidies			
Tariffs and fees			
Property income			
Other revenues			

% SNG REVENUE



OVERALL DESCRIPTION. Councils are responsible for raising and collecting local taxes and user fees, however not all are able to collect their local revenues as budgeted. There is no comprehensive data available on the level of revenues collected by councils. Councils, generally, raise funds through rates, rent, property taxes, fees and charges, licenses, levies, permits and other sources. The main source of revenue for the councils are central government grants.

TAX REVENUE. Section 161 of the Constitution gives local councils the power to levy, collect and retain local taxes, including property taxes. Budget guidelines for councils were produced by the government in 2010. In practice, councils have great difficulty in collecting taxes and consolidating their financial base. Local councils face serious challenges especially in collecting property taxes on residential properties. Local authorities can only collect property taxes on properties that have been valued and entered on their valuation roll. As these roles are rarely updated, property taxes do not represent a stable source of income for local governments.

GRANTS AND SUBSIDIES. Section 45 of the Local Government Act gives the MLGH the authority to allocate development grants and loans to councils. The Ministry's constitutional mandate to oversee local councils includes the active monitoring of their financial situation. From 2002 to 2014, the subsidies mobilized by the Ministry were multiplied by more than 240 in nominal terms and 65 times in real terms. The 2014 amendment to the Local Government Act created an Equalization Fund, funded by 5% of the income tax collected at the national level and distributed according to a formula based on population and poverty levels. In addition to this Fund, there is a Constituency Development Fund distributed equally among all the districts according to the projected revenues for the fiscal year. In 2016-2017, the amount of grants and subsidies allocated to local governments amounted to nearly ZMW 890 million, i.e. 250 million PPP dollars, or about 15 PPP dollars per capita.

OTHER REVENUES. Fees and levies collected are classified into two categories: those imposed and collected by the councils under their own regulations (e. g., rental of Council equipment) and those imposed by the national government but collected and retained by the councils, such as commercial licences. Local councils also collect development assessment fees, i.e., fees to recover from users or developers of land serviced by the local council - they cover administrative costs, materials, loan repayments and the construction of infrastructure such as roads, water supply systems, pipes and sewer systems. Income from small-scale income-generating activities (manufacturing and selling school uniforms, public transport, motels and rest houses) is also a source of revenue for local councils in Zambia. Finally, local councils receive rents for the use of their buildings, offices, shops, market stalls and residential housing.

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. All local councils' budgets must be approved and aligned to the national budget as approved by Parliament and in line with the 7th National Development Plan. Following the 2016 constitutional amendment, the Office of the Auditor General (OAG) has a mandate to audit the accounts of the local Councils. The Ministry of Local Government monitors the preparation of the councils' financial statements, which must be completed no later than six months after the end of the fiscal year. Local government auditors appointed by MLGH visit all 103 councils to audit their annual financial accounts. Audit reports must be submitted to both the council and the ministry. Each council must then submit an 'action taken' report within 60 days of receipt of its audit report. MLGH consolidates these reports and submits them to the parliamentary committee for scrutiny, then MLGH issues an annual budget circular with budget guidelines.

According to the end-of-year Reports of the Auditor General on the Review of Operations of Local Authorities in 2013, 2014 and 2015, the main issues observed among the Zambian local authorities included understaffed councils; inadequate operational systems; no risk management strategies; and underqualified accounting staff that led to poor financial management.

DEBT. Section 47 of the Local Government Act states that local governments may borrow in order to carry out their functions, either by contracting a loan from the central government or sources other than foreign governments and organizations, a mortgage, a temporary loan (such as an overdraft) or by issuing stocks or bonds. The extent to which the available options for borrowing have been used is unknown.

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Lead responsible: UCLG
Last update: 02/ 2019

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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data:
Other sources of information: Government of the Republic of Zambia and World Bank, PEFA (2017) Report on the Evaluation of the Public Financial Management System of Zambia // CLGF (2018) The Local Government System in Zambia: Country Profile 2017-18 // Cities Alliance and UCLGA (2018) Assessing the Institutional Environment of Local Governments in Africa // Chitembo, Andrew & B. Sakala, J & Mukwena, Royson & S. Mwasile, F & Zulu, Jobe & K. Lolojih, P & Mbolela, M. (2014) 50 Years of Local Government In Zambia // LusakaTimes (2013) Zambia: Government Approves the Decentralisation Policy to Empower Provinces and Districts Manage Their Own Affairs // Committee on Local Governance, Housing and Chiefs' Affairs. National Assembly of Zambia.

ZIMBABWE

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOW INCOME

LOCAL CURRENCY: ZIMBABWEAN DOLLAR (ZWD)

POPULATION AND GEOGRAPHY

Area: 390 760 km^2
Population: 16.5 million inhabitants (2017), an increase of 2.3% per year (2010-2015)
Density: 42 inhabitants / km^2
Urban population: 32.2 % of national population
Urban population growth: 2.1% (2017 vs 2016)
Capital city: Harare (9.2% of national population)

ECONOMIC DATA

GDP: 40.1 billion (current PPP international dollars), i.e. 2 428 dollars per inhabitant (2017)
Real GDP growth: 4.7% (2017 vs 2016)
Unemployment rate: 5.2% (2017)
Foreign direct investment, net inflows (FDI): 247 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 9.67% of GDP (2016)
HDI: 0.535 (low), rank 156 (2017)
Poverty rate: 21.4% (2011)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Zimbabwe is a constitutional democracy, with a President as Head of State elected for a five-year term that runs concurrently with that of the National Assembly. It is a unitary country with two levels of sub-national governments – provincial and local governments – which are recognised in the 2013 Constitution (Chapter 14). Under the 2013 Constitution, provinces became a new layer of government between the national and local levels. The Constitution further acknowledges urban and rural authorities as local authorities in place to manage the affairs of urban and rural areas respectively (article 274 -279, Part Three). Prior to this, local government in Zimbabwe functioned as a decentralised level of government that derived its authority from Acts of Parliament and not from the Constitution.

Urban authorities are composed of four types of local authorities: local boards, town councils, municipalities and city councils. 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. In addition, all cities and municipalities are served by an administration headed by appointed Chief Executive Officers or Town clerks.

At the regional level, there are provincial councils and metropolitan councils. These councils have greater independence from the central government and broader powers than local governments. At the provincial level (excluding metropolitan) there is also a Provincial Assembly of Chiefs. These Provincial Assemblies of Chiefs in turn appoint representatives to the National Council of Chiefs in Parliament. The participation of traditional leaders in provincial and national governance is governed by Chapter 15 of the Constitution and the Traditional Leader Act.

In 2014 the Local Authorities Bill draft was released for public discussion by the Ministry of Local Government, Public Works and National Housing (MLGPWNH). The Bill was introduced to address the inconsistencies regarding the tenure of members of local authorities between the 1995 Urban Councils Act, the 1988 Rural District Councils Act and the 2013 Constitution. The Bill created provisions for the suspension and removal of local authorities including mayors, chairpersons and councillors of local authorities. The amendment was set out to align to section 278(2) and (3) of the Constitution. Criticism brought against the bill highlighted that the Bill did very little to remove and limit the Minister of Local Government's power to intervene in local affairs and thus underwent revisions. The amended Bill was published in 2016.

The last general elections comprising presidential, parliamentary and local government elections (referred to locally as "harmonised" elections) were held in July 2018.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	32 urban councils 60 rural district councils		8 provinces 2 cities (metropolitan councils)	
	Average municipal size: 179 673 inhabitants			
	92		10	102

OVERALL DESCRIPTION. Zimbabwe is divided into 8 provinces and 2 metropolitan councils at regional level and 92 local councils at municipal level, which comprise 32 urban councils in urban areas and 60 rural councils in rural areas. Urban and rural councils are further divided into 1200 wards for administrative purposes. The provinces are governed by provincial councils whose members are drawn from local councils, parliamentarians and party leaders within the province, and democratically elected members. The Chair of the provincial council is elected by its members and must be a representative of the political party which gained the highest number of National Assembly seats in the province concerned, while an Act of Parliament provides for the election of the Mayor of the metropolitan council. According to the Urban Councils Act, the 32 urban councils are divided into 9 municipal councils, 13 town councils, 7 city councils and 3 local boards. These local authorities are ranked and granted status according to their "status, power, authority and resources". Local boards are established in settlements with a very small population, or in areas that are not able to sustain themselves without central government assistance. Town councils on the other hand have a sufficient size to stand alone. City Councils have the highest status in the country and constitute the large cities.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

According to the Constitution, provincial and metropolitan governments are responsible for social and economic development, the coordination and implementation of government programs, environmental protection and the promotion of tourism. Urban councils' competencies include water supply, healthcare, maternity and child welfare, housing, transport, schools, libraries, sanitation, environment protection, fire brigades and municipal police, street lighting, public spaces and parks, among others. Rural district councils' competences include the provision of social services such as health and education, construction and maintenance of sewage works, roads and dams, among others.

Subnational governments also share responsibilities with national level, including in road traffic control, public transport, environmental protection, water distribution, housing, public healthcare services, education and social welfare. Section 264 of the Constitution states that the national government will endeavour, whenever appropriate, to devolve its powers to provincial councils, metropolitan councils and local authorities which are competent to carry out those responsibilities efficiently and effectively.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONAL LEVEL (PROVINCES)	MUNICIPAL LEVEL (URBAN AND RURAL COUNCILS)
1. General public services	Administrative services; Public buildings and facilities (e.g. town houses); Administration and operation of general services (not assigned to specific functions)	Public buildings and facilities (e.g. town houses)
2. Public order and safety		Traffic Police; Firefighting; Road traffic control; Traffic signs and lights
3. Economic affairs/transports		Road networks and facilities (regional, local); Public transport
4. Environmental protection	Conservation, improvement and management of natural resources	Parks and green areas; Environment protection; Waste management (collection, treatment and disposal of waste); Sewerage (waste water management); Street cleaning
5. Housing and community amenities		Drinking water distribution; Public lighting; Housing (subsidies, construction and renovation and management)
6. Health		Primary healthcare (medical centres); Hospital services (general and specialist); Preventative healthcare; Public health services
7. Recreation, culture & religion	Promotion of tourism	Libraries; Museums; Cultural activities
8. Education		Pre-primary education; Primary and Secondary education
9. Social protection		Social care for children and youth; Support services for families; Social welfare centres; Housing subsidies and benefits

SUBNATIONAL GOVERNMENT FINANCE

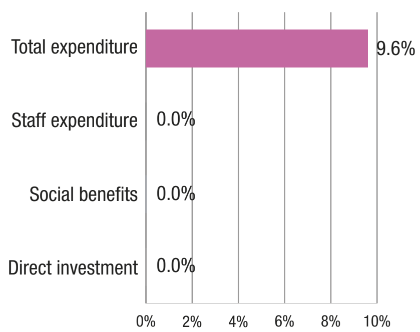
Scope of fiscal data: provincial and metropolitan governments and urban and rural councils.	SNA 1993	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. The key laws underlying the subnational government finance are the 2013 Constitution, the 1995 Urban Councils Act, the Rural Councils Act updated in 2016 and the Public Finance Management Act 11 of 2009. The 2013 Constitution introduced the fiscal transfer to provinces and local authorities of five percent of national revenue raised (article 301), but this has not yet been realised: the policy governing the transfer process is still being finalised by the Ministry of Finance and Economic Development in conjunction with the Ministry of Local Government, Public Works and National Housing. Urban and Rural Councils Acts provide a regulatory framework for urban and rural councils, which include financial provisions, auditing, borrowing and the types of levies and taxes the Urban and Rural Councils can charge. The Public Finance Management Act 11 provides fiscal framework by outlining and clarifying public entities' responsibilities in financial management.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2014	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**49**	**2.1%**	**100%**
Inc. current expenditure			
Staff expenditure			
Intermediate consumption			
Social expenditure			
Subsidies and current transfers			
Financial charges			
Others			
Incl. capital expenditure			
Capital transfers			
Direct investment (or GFCF)			

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



ZIMBABWE

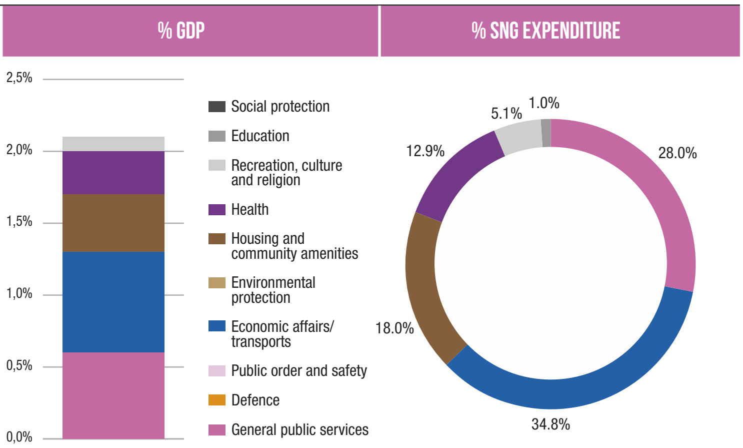
UNITARY COUNTRY

EXPENDITURE. Zimbabwean local government has few devolved functions, which partly explains why the level of expenditure is relatively low (2.1% of GDP and less than 10% of total public expenditure in 2014). This leads to constrained expenditure at the local level, and consequently an inability of local governments to fully deliver on their mandate. According to a 2017 World Bank report, current expenditure dominates local government spending, with staff costs accounting on average for 40% of total expenditure and nearly half of the budget of the country's largest cities. The same report estimates that local governments' capital investment expenditures represent between 15% and 25% of their total expenditures.

DIRECT INVESTMENT. The limited resources of local governments lead most cities and councils to make very limited investments in local infrastructure. In 2014, the bulk of expenditure (more than 80%) was spent on civil engineering works and plant machinery and equipment. The remainder was devoted to office equipment and furniture, land development and residential and non-residential buildings. In the last budget law, the Government committed itself to facilitating the strengthening of the partnership between the relevant ministries, respective local authorities and development partners to address infrastructure deficiencies in urban areas.

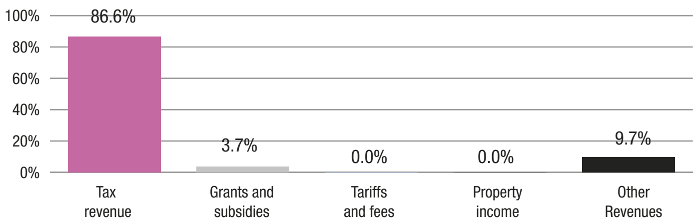
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

A significant share of local government spending (28%) is devoted to general public services which include administrative, finance and management costs. In terms of service delivery itself, the largest category of expenditure is roads and works in the "Economic affairs/transports" category which accounts for more than one-third of total expenditure, followed by water provision, sanitation and health. Expenditure on education is extremely low since much funding is paid through the central fiscus or directly by households to schools.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2014	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**39**	**2.0%**	
Tax revenue	33	1.4%	
Grants and subsidies	1	0.1%	
Tariffs and fees		0.0%	
Property income		0.0%	
Other revenues	4	0.2%	



OVERALL DESCRIPTION. In 2014, local government revenue represented 2% of national GDP, and approximately 9% of total public revenue. Grants and subsidies represented a minimal share (less than 4%) of resources. Provinces' sources of revenue are not detailed in the Provincial Councils and Administration Act, and provinces do not benefit from any own tax. Revenues collected across local authorities are insufficient to cover full service delivery, resulting in local authorities incurring debt, and barely being able to provide adequate services. The main reasons for low revenues include excessive central government control over raising fees or rates, very low central government grants and subsidies , adverse macroeconomic conditions and poor financial management.

TAX REVENUE. The vast majority of local government revenue comes from property taxes, which represent 68% of total LG revenue and 78% of LG tax revenue. This tax is levied on residential and non-residential property owners, licensed property dealers, residential permit holders and on mining locations.

Unit (land) Tax revenues for rural local authorities have been severely strained or even collapsed almost completely in some jurisdictions. The databases on rates held by the councils prior to the post-2000 land reforms were not fully rebuilt due to the centralisation of information on land redistribution. In contradiction with the legislative texts, a directive was issued in 2015 which provides that farmers land rental and Unit Tax (Land tax) be collected by the Land Ministry rather than by local governments as was previously the case. There is much debate about the further centralization of revenue sources that were previously intended for local authorities.

GRANTS AND SUBSIDIES. According to the 2013 Constitution, five percent of national revenues must be allocated to provincial and local governments. This is not yet the case in practice.

In 2014, grants and subsidies accounted for 4.0% of local government revenues. Local authorities, in particular urban local authorities, used to receive a larger share of the central budget for their capital expenditure through the Public Sector Investment Programme (PSIP) and other grant programmes, but due to budgetary constraints, this source of revenue has decreased in recent years.

Transfers to urban/rural districts are provided in support of different sectors (mainly health, education and roads). A large part of these transfers is intended to cover general administrative costs in these sectors, including the payment of recurrent expenses such as salaries. Due to the structural weakness of local government revenues, capital investment funds are often diverted to finance operating expenses.

OTHER REVENUES.

Fees, fines, licences

Under the Urban Councils Act and the Rural Councils Act, local governments may adopt by-laws to raise revenues through "fees for any services, facilities or facilities provided by the council". These revenues include, in particular, revenues from the sale of water. Since 2009, local authorities have been deprived of responsibility for issuing driving licences, which were the main source of funding for road maintenance projects. This is now the responsibility of the central government.

In 2013, a central government directive required local authorities to cancel the debt of all their customers, which led to a culture of non-payment from 2013 onwards and therefore to a reduction in revenues from tariffs and fees. Cities and town councils rely primarily on sales, while municipalities and local boards rely primarily on fees, fines, permits and licenses.

Other Income

Local authorities are permitted to raise revenue from income generating projects, such as beer halls and farming activities. In 2015, about 69 percent of urban local authorities had income generating projects in their books. However, most projects are poorly managed and not profitable and some have not received ministerial approval.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. In general, Zimbabwe's local governments do not have an integrated budgeting, accounting and financial reporting system based on a sound chart of accounts. Section 309 of the Constitution provides that the Office of the Auditor General of the Ministry of Finance shall audit local governments and provincial and metropolitan councils.

DEBT. With regard to debt, local authorities may only borrow on the open market with the approval of the relevant central government department. The Constitution requires Parliament to monitor public debt, finances and the use of borrowing powers by all governments, including local authorities.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: UCLG
Last update: 02/ 2019

www.sng-wofi.org

Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data: World Bank (2017) Local Government Service Delivery - Zimbabwe Public Expenditure Review // Zimbabwe National Statistics (2015) 2009-2015 National Accounts Report.
Other sources of information: Cities Alliance and UCLGA (2018) Assessing the institutional environment of local governments in Africa // Chigwata, T.C. & de Visser, J. (2018) Local government in the 2013 constitution of Zimbabwe: Defining the boundaries of local autonomy // CLGF (2013) The Constitution of Zimbabwe 2013 as a basis for local government transformation: A Reflection Analysis.

AUSTRALIA

FEDERAL COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: AUSTRALIAN DOLLAR (AUD)

POPULATION AND GEOGRAPHY

Area: 7 741 220 km^2
Population: 24.598 million inhabitants (2017), an increase of 1.5% per year (2010-2015)
Density: 3 inhabitants / km^2
Urban population: 85.9% of national population
Urban population growth: 1.7% (2017 vs 2016)
Capital city: Canberra (1.8% of national population)

ECONOMIC DATA

GDP: 1 192.1 billion (current PPP international dollars), i.e. 48 460 dollars per inhabitant (2017)
Real GDP growth: 2.3% (2017 vs 2016)
Unemployment rate: 5.6% (2017)
Foreign direct investment, net inflows (FDI): 42 580 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 24.0% of GDP (2017)
HDI: 0.939 (very high), rank 3 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Australia is a constitutional monarchy, and a federation of six states and two self-governing territories. Its Constitution, The Commonwealth of Australia Constitution Act 1900, entered into force in 1901. The Australian federal system has undergone significant centralisation since its establishment, the structure of the federation remain stable and the states remain essential components of the Australian political process.

The Commonwealth Parliament comprises both an Upper (Senate) and Lower House (House of Representatives), with similar powers. The House of Representatives has 150 members elected for three-year terms under a preferential vote system. The Senate consists of 76 senators, 12 from each of the six states and two from each of the two mainland territories. State senators are elected for six-year mandates through a proportional representation system, and territory senators for three-year, at the same time as elections for the House of Representatives. Australia remains a member of British Commonwealth of Nationals, and thereby the Head of State is HM Queen Elizabeth II, represented by a Governor General appointed for five years, which appoints a Prime Minister as head of the executive branch.

Australia's federal system is enshrined in the Commonwealth Constitution. Each state has its own constitution, and its own parliament, with a similar structure to that of the federal Parliament, comprising a lower and upper house with directly elected representatives (except for Queensland which has only one chamber). State governments are headed by a Premier, in general the party leader of the State parliament's lower house, appointed as such by a Governor, himself appointed by the Queen. The Northern Territory and Australian Capital Territory, each headed by a Chief Minister and an appointed Administrator, have unicameral elected parliaments since respectively 1974 and 1989. The Australian Capital Territory is the only government at regional level with no separate tier of local government, and where the responsibilities usually handled by local government are administered by the territory.

Despite several failed or abandoned referendums (1974, 1988 and 2013), local governments are not explicitly recognised by the Constitution in Australia. They have no direct relations with federal authorities but depend directly on state governments, which have their own Local Government Act, and are governed by state legislation. Consequently, the status, names (cities, shires, county councils, districts, towns, etc.), roles and responsibilities of local governments differ from state to state. Local governments are headed by city councils or shire councils, headed by Mayors of Shire Presidents, and whose members vary from 4 to 15, except for the Brisbane City Council, which has 26 councillors and a Lord Mayor. Local elections vary from state to state, from direct to indirect elections of mayors. State and local elections are run by state electoral bodies.

The Council for the Federation was created in 2006 to facilitate horizontal co-operation between states and act as a representative for the states and territories. Whereas local government do not have independent relations with the federal government, their interests are represented through a number of groups, including the Council of Australian Governments and the Australian Local Government Association. Besides, The Council on federal financial relations consists of the Treasurers of the Commonwealth and the States. The Council of Australian Governments (COAG) is a strategic, consultative and co-operative decision-making forum, whose members include the Prime Minister and Heads of State governments, as well as the President of the Australian Local Government Association. Since its foundation in 1992, it has been dedicated to facilitating broad policy co-operation mandates between states and federal territories in a variety of sectors.

TERRITORIAL ORGANISATION

2018 — MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
562 local government areas		6 states and 2 federal territories	
Average municipal size: 43 770 inhabitants			
562		8	570

OVERALL DESCRIPTION. The SNG system consists of two levels of subnational government: six states and two federal territories with state-like powers, territories (Northern Territory and the Australian Capital Territory) at the federal level, and 562 local governments at the local level.

REGIONAL LEVEL. The regional level is composed of six states and two territories. Prior to the constitution of the Federation, the six states of Australia were former British colonies separately established between 1788 and 1859. The two mainland territories of Northern Territory and Australian Capital Territory are self-governing. In addition, the federation also comprises the mainland territory of Jervis Bay and seven external territories under the jurisdiction of the Commonwealth government. The territory of Norfolk Island was self-governing until its status was revoked in 2015. Inter-regional disparities in Australia are above the OECD average and growing. Western Australia is the wealthiest of states and territories, together with Australian Capital Territory, and ranks 7th among the OECD fastest growing regions, while on the other hand Tasmania and the Northern Territory have been the poorest performers in recent years.

LOCAL GOVERNMENT AREAS. The nomenclature for local governments varies across states and territories, the most common denominations being "Shire" and "Cities". The number of municipal-level governments recently fell from 869 in 1980 to 562 following merger policies initiated by several states (South Australia, Tasmania, Victoria, Queensland, New South Wales and Western Australia). However, due to failed attempts to amalgamate municipalities, there remain some very small local governments and amalgamation policies are still on-going. Each state's economy is largely based on a single metropolitan area; however, these large metropolitan-scale area are mostly under the jurisdiction of numerous local authorities. Australia is the third most urbanised country in the OECD, with two-thirds of the population living in its six metropolitan areas. Local government authorities are the main actors regarding land-use decisions. They are involved in developing Local Planning Schemes and Metropolitan Plans, which are used as frameworks for housing and employment growth and for co-ordinating land-use and infrastructure policies.

INTER-MUNICIPAL CO-OPERATION. Following the disappearance of former Regional Organisations of Councils, various types of inter-municipal co-operation exist depending on the state: Regional Local governments (Western Australia), Regional Subsidiaries (South Australia), County Councils (NSW), etc. Shared services arrangements are promoted at both state and local levels throughout Australia. The Australian Government released the Smart Cities Plan on 29 April 2016, and a decentralisation programme was launched in April 2017, which aims to ensure that the benefits of national economic growth are not restricted to Australia's major cities. The Commonwealth Government had committed to produce, together with the States and Territories, a White Paper on the Reform of the Federation, but this project was abandoned. A new Minister was recently created in 2016 for dealing with urban issues (Assistant Minister for Cities and Digital Transformation).

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The Constitution defines the country's 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, particularly in the area of business regulations. However, there is still significant overlap in mandates between the federal government and the states, in particular in healthcare (the Commonwealth funds general-practitioner services while the states are responsible for segments of primary service and for managing, running and partly-funding public hospitals). To overcome this challenge, a National Health Reform Agreement was passed in 2011, with the introduction of Local Hospital Networks.

State responsibilities include education, health care (including hospitals), railways and public transport, and core responsibilities in urban issues (community services, sport and recreation, consumer affairs). With the implementation of a National Disability Insurance Scheme in 2017, the Commonwealth will now provide funding for disability support services directly to individuals, rather than providing funding to the states.

Constitutional responsibility for local government lies with the state and territory governments. Consequently, the roles and responsibilities of local government may vary from state to state. There are six separate state systems overseeing local governments, with a seventh system operating in the Northern Territory. In the Australian Capital Territory (ACT), the state government provides services that would normally be delivered by local governments in other regions. Local councils typically have statutory responsibility for local infrastructure and services including waste management, land-use and community services including childcare, elderly care and recreation, cultural and educational establishments, and some commercial establishments.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	STATE LEVEL	MUNICIPAL LEVEL
1. General public services		Building inspections; Food and health inspections
2. Public order and safety	Police and emergency services	
3. Economic affairs / transports	Urban transport (road, rail, bus, etc.); Agriculture; Industrial relations; Consumer affairs	Local roads; Parking; Aerodromes; Cemeteries; Slaughterhouses
4. Environmental protection	Environment; Waste disposal; Sewerage	Waste collection; Green and public space provision
5. Housing and community amenities	Gas services; District heating; Electricity; Water supply; Zoning legislation	Town planning and land-use
6. Health	Healthcare; Hospitals	
7. Recreation, culture & religion	Sports and recreation	Theatres; Museums; Parks; Open spaces; Leisure facilities; Religious facilities
8. Education	Planning and delivering early childhood education; Pre-school; Primary school; Secondary, vocational and technical school	
9. Social protection	Planning and delivering early childhood care	Childcare; Elderly care facilities

SUBNATIONAL, STATE AND LOCAL GOVERNMENT FINANCE

Scope of fiscal data: state governments, local government areas (LGAs) including several entities: cities, district councils, municipalities, shires, towns, and unincorporated areas.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

AUSTRALIA

FEDERAL COUNTRY

GENERAL INTRODUCTION. Taxation powers of the Commonwealth and the states are defined in the Constitution as well as in the Intergovernmental Agreement on Federal Financial Relations (IGAFFR). Upon federating in 1901, the six Colonies of Australia ceded the right to impose and collect customs and excise duties (the main source of public revenue at the time) in favour of the Commonwealth. Whereas Australian states and territories have spending responsibilities in a large array of sectors, they have a limited fiscal autonomy and rely primarily on transfers from the federal government, which results in significant vertical fiscal imbalances.

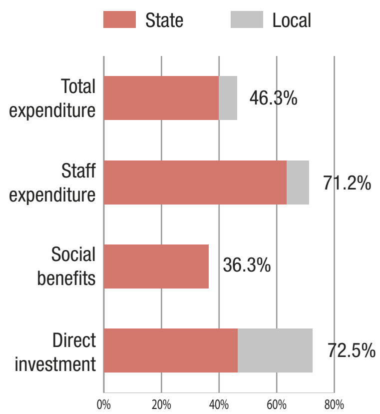
Australia has a system of horizontal fiscal equalisation that distributes revenue from the Good and Services Tax (GST), which is governed by national legislation and administered centrally but all revenues are passed onto the states. The system compensates states for the structural and financial disadvantages of delivering services and almost completely eliminates disparities in fiscal capacity between states. According to the Commonwealth budget, transfers to state governments, which represented 6.6% of GDP as of 2016, are expected to fall to 6.2% by 2020-21 due to new funding arrangements in the social welfare sector and to the completion of major infrastructure projects. Fiscal equalisation at the local level varies according to states' legislative frameworks.

A reform of the IGAFFR took place in 2008, which led to the simplification and greater flexibility of the system of intergovernmental grants. In 2015, a public consultation was held in the country on tax reform, considering the revenue raising capacity of each level of government in the federal system, yet the expected tax reform was abandoned.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.			% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT EXPENDITURE		
	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total expenditure	7 912	6 803	1 109	16.4%	14.1%	2.3%	100%	100%	100%
Inc. current expenditure	6 787	6 042	744	14.1%	12.5%	1.5%	85.8%	88.8%	67.1%
Staff expenditure	3 227	2 874	353	6.7%	6.0%	0.7%	40.8%	42.2%	31.9%
Intermediate consumption	1 929	1 578	352	4.0%	3.3%	0.7%	24.4%	23.2%	31.7%
Social expenditure	185	185	0	0.4%	0.4%	0.0%	2.3%	2.7%	0.0%
Subsidies and current transfers	1 087	1 070	17	2.3%	2.2%	0.0%	13.7%	15.7%	1.5%
Financial charges	358	336	22	0.7%	0.7%	0.0%	4.5%	4.9%	2.0%
Others	0	0	0	0.0%	0.0%	0.0%	0.0%	0,0%	0.0%
Incl. capital expenditure	1 125	761	364	2.3%	1.6%	0.8%	14.2%	11.2%	32.9%
Capital transfers	116	114	1	0.2%	0.2%	0.0%	1.5%	1.7%	0.1%
Direct investment (or GFCF)	1 009	646	363	2.1%	1.3%	0.8%	12.8%	9.5%	32.7%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. Australian SNG spending as a share of GDP is the lowest of the nine OECD federal countries on average (19.2% of GDP in 2016), and the second lowest, after Austria, regarding the share in total public expenditure, which amounted to 50.0% in the OECD federations on average in 2016. Staff expenditure account for a large share of SNG expenditure (41%) as well as of total public staff expenditure (71%), higher than in the OECD on average (63% in 2016), but lower than in the OECD federations on average (76.5%).

The states and the territories account for the bulk of SNG spending, which (86% of total SNG spending, i.e. 14.1% of GDP and almost 40% of public expenditure). The main expenditure item for the states and territories is staff spending (42% of their expenditure). State governments accounted for 63% of public staff spending in 2016. Local government made up 14% of total SNG spending in 2016, i.e. 2.3% of GDP and 6.5% of total public expenditure, which is quite low by international comparisons. Local governments dedicate on average 67% of their budget to current expenditures, compared to 89% for regional governments. The share of staff expenditure in local expenditure is below the OECD average (36%) while the share of staff expenditure in total public staff spending is particularly small (7.8%) compared to that of staff government.

DIRECT INVESTMENT. SNGs play a key role in public investment in Australia and accounted for almost three-quarters of total public investment in 2016 (i.e. 2.1% of GDP). Subnational investment is funded primarily (64%) by state governments and to a lesser extent (36%) by local governments. Direct investment represented 13% of total SNG spending, but 9.5% of state expenditure vs 33% of local government expenditure, showing that one of the main functions of local governments is to invest in local infrastructures. Local investment accounted for 26% of total public investment (and 0.8% of GDP) vs 46% (and 1.3% of GDP) for the state level.

In 2016, the increase in SNG investment was primarily driven by the Commonwealth's fiscal stimulus packages to support state infrastructure projects, primarily transport infrastructures and reconstruction following natural disasters as well as local infrastructure projects. Several funding schemes have been implemented by the federal government to finance infrastructure investments, including since 2016, the new Building Better Regions Fund (BBRF), to support infrastructure and community initiatives in areas outside of major cities (replacing the National Stronger Regions Fund); the Community Development Grants

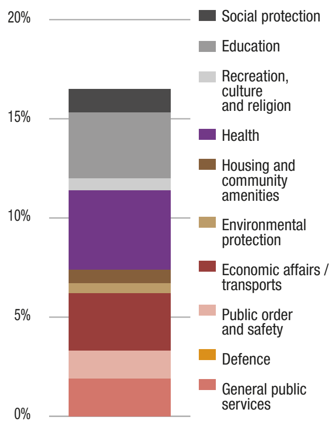
Programme to support needed infrastructure that promotes stable, secure and viable local and regional economies; and the Stronger Communities Programme (SCP). SCP provides grants to community organisations and local governments for small capital projects that deliver social benefits for local communities. As a result, capital grants represented 10% of total grants in 2016.

The Council of Australian Governments plays a crucial role for effective public investment at all levels of government in the country. It enabled the federal and subnational governments to endorse national guidelines on public-private partnerships, to agree to a national port strategy, and to conclude intergovernmental agreements on heavy vehicles, rail and maritime safety. The Council also receives regular reports from Infrastructure Australia, a statutory body established at the federal level to support nationwide infrastructure investment and to advise governments and other investment stakeholders. In particular, Infrastructure Australia works with states, territories, local governments, and the private sector on the basis of rigorous cost-benefit analysis to identify investment priorities and the policy and regulatory reforms necessary to enable timely and co-ordinated delivery of national infrastructure investment. It also advises Australian subnational governments on how to manage infrastructure gaps and bottlenecks that hinder economic growth.

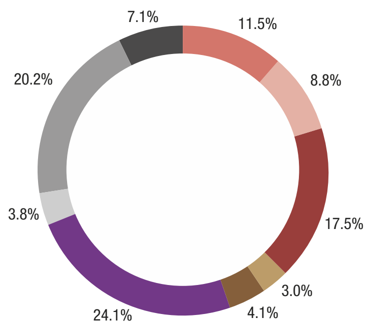
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG (OR OTHER CLASSIFICATION OR ESTIMATION)

2016	% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT		
	SNG	State	Local	SNG	State	Local
Total expenditure	16.4%	14.1%	2.3%	100%	100%	100%
1. General public services	1.9%	1.3%	0.6%	11.5%	9.4%	23.9%
2. Defence	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
3. Security and public order	1.4%	1.4%	0.1%	8.8%	9.8%	2.3%
4. Economic affairs / transports	2.9%	2.2%	0.6%	17.5%	15.8%	27.8%
5. Environmental protection	0.5%	0.2%	0.3%	3.0%	1.4%	13.4%
6. Housing and community amenities	0.7%	0.5%	0.2%	4.1%	3.4%	8.9%
7. Health	4.0%	3.9%	0.0%	24.1%	27.8%	1.1%
8. Recreation, culture and religion	0.6%	0.2%	0.4%	3.8%	1.5%	17.7%
9. Education	3.3%	3.3%	0.0%	20.2%	23.4%	0.5%
10. Social protection	1.2%	1.1%	0.1%	7.1%	7.5%	4.5%

SNG EXPENDITURE AS A % GDP



% OF TOTAL SNG EXPENDITURE



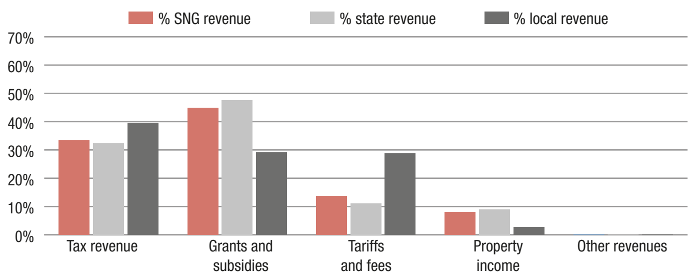
Australian SNGs are below the OECD average regarding the share of subnational spending in most economic sectors, with the exception of the health sector. Therefore, health and education/research, which are the main responsibilities of state and territory governments, represent overall the two largest areas of subnational expenditure, and in particular of regional governments' expenditure (respectively 27.8% and 23.4% of state expenditures). In these two sectors, regional governments are in charge of approximately half of total public spending. Infrastructure, transport and planning is the third biggest spending area for SNGs (17.5%, a slight increase since 2013). Australian states and territories play a significant role also in security and public order and housing and community amenities (they are responsible for respectively 81.6% and 53% of total public spending).

Major expenditure items for local government include transport and communications, general public services and recreation, culture and religion. For the latter, local government areas are responsible for the majority of public spending (52%). They also play a key role in environmental protection and management of green areas, being responsible for 61% of SNG spending in this sector, amounting to 42% of total public spending.

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	% GDP			% GENERAL GOVERNMENT REVENUE (SAME REVENUE CATEGORY)		
	SNG	State	Local	SNG	State	Local
Total revenue	16.3%	13.9%	2.4%	49.6%	42.3%	7.3%
Tax revenue	5.5%	4.5%	0.9%	20.6%	17.0%	3.6%
Grants and subsidies	7.3%	6.6%	0.7%			
Tariffs and fees	2.2%	1.5%	0.7%			
Property income	1.3%	1.2%	0.1%			
Other revenues	0.0%	0.0%	0.0%			

% SUBNATIONAL, STATE AND LOCAL GOVERNMENT REVENUE



GENERAL DESCRIPTION. Australia's subnational finance system is characterised by a particularly high degree of vertical fiscal imbalance. Almost 45% of SNG revenues come from grants and subsidies, which is high by international comparisons: 37.2% in the OECD on average in 2016, especially when compared to the OECD average for federal countries (31.5%). By contrast, the share of taxes in SNG revenues is lower than in the OECD on average (44.6%) or in the OECD federations (47.5% on average in 2016). While the share of tariffs and fees is in line with the OECD average, that of property income is particularly high (8.1% vs 2.0% on average in the OECD), resulting from the importance of revenues from mining activities.

Vertical fiscal imbalance is particularly significant at state level, as the share of grants and subsidies reached almost 48% of their revenues in 2016 while that of taxes amounted to only 32%. At local level, the share of tax in local government revenues is significantly higher than at state level (almost 40%) while that of grants and subsidies is lower. Among local government areas, local councils located in rural and remote areas have fewer own-source resources than their urban counterparts, being less reliant on user charges, which constitute a significant share of local revenues on average. Overall local government areas raise up to 70% of revenues from taxes and other own-source revenues, state governments have limited tax and own-source revenues to finance their spending responsibilities, depending largely on grants and subsidies.

TAX REVENUE. SNG tax revenue in 2016 was lower in Australia than in the OECD on average (7.1% of GDP and 31.9% of public tax revenues, especially compared to the average of other OECD federations (8.8% of GDP, 42.4% of public tax revenue). The bulk of tax revenues are allocated to the state and territories' level which accounted for 83% of total SNG tax revenues in 2016 while local governments accounted for the remaining part (17%).

Except for the land property tax, there is no co-occupancy of tax bases between the centre and the states, unlike in other federations. Therefore, there are no shared taxes in Australia but only own-sources taxes.

Regional governments' tax revenues mostly comprise property-related taxes, i.e. around 42% of states' tax revenue, including the land property tax (32% of property tax revenues) and the tax on financial and capital transactions (68% of property tax revenue). The tax on immovable property accounted for 13.2% of state tax revenue and 4.3% of their revenue. States and territories also receive payroll taxes (29% of state tax revenues), vehicle-related taxation on registration and transfers (15%) and taxes on specific services (15%). States have the right to set their own tax rates and bases for the taxes they control. Thus far, only one jurisdiction, Australian Capital Territory, has embarked on a major reform that would leverage the land tax and reduce their reliance on inefficient taxes. The reform intends to increase land taxes, reduce transfer duties on conveyances and abolish insurance taxes.

There is only one tax for local government: the land property tax, which they share with the state and territory governments. It accounted for 39% of their revenues in 2016. Each piece of state or territory government legislation sets out a framework within which local governments can levy rates within its jurisdiction. In most cases, local governments have some discretion as to the rates they set. In the states of Victoria and New South Wales, council-proposed rates increases cannot exceed caps set by the state government. Revenue from property taxes accounted for approximately 39% of total local government revenue in 2016.

Overall, total SNG taxes on immovable property accounted for 28.3% of SNG tax, 9.5% of SNG revenue and 1.5% of GDP which is higher than in the OECD on average in 2016 (1.1%). Local governments accounted for 61% of recurrent property tax receipts and states for the remaining part (61%).

GRANTS AND SUBSIDIES. Grants and subsidies are the primary source of funding for SNGs on average (45%), but especially for states and territories. They represented around 48% of state revenues, compared to 29% of local revenues on average.

The system of intergovernmental transfers from the federal governments to states and territories was reviewed and amended in 2008 by the IGAFFR in order to be more flexible. It is based on two types of transfers: transfers for specific projects or sectors (National Specific Purpose Payments-SPPs), National Partnership Payments-NPPs); and transfers for "general revenue assistance", which mainly includes the Goods and Services Tax (GST), to be used by the states for any purpose. SPPs are allocated to the States based on population shares, and are earmarked for specific sectors or programmes agreed in partnership with the Commonwealth government.

The GST reallocation is also used for horizontal equalisation between states themselves. Indeed, even though the Australian Constitution does not refer to fiscal equalisation as such, the federal government considers that its mission is to ensure that all states have the same per capita fiscal capacity to provide services and the associated infrastructure to their residents. The equalisation system is based on asymmetric vertical grants composed of VAT transfers (i.e. Goods and Services Tax – GST) calculated on "per capita relativities". Allocation is made through the Commonwealth Grants Commission (CGC), an independent advisory body created in 1933. A 2017 report from the CGC states that despite achieving a high degree of equalisation, the system has the potential to discourage states from pursuing efficiency-enhancing reforms. The relevant GST legislation prescribes that neither the rate nor the base can be changed without unanimous agreement of federal and state Parliaments. Other transfers from the federal government to states and territories include a National Health Reform Fund, and National Partnership payments, as incentives for the delivery of specified outputs or projects, and to reward states and territories that deliver on nationally significant reforms. The framework and amount of the transfer from the Commonwealth, the states and territories is to be reviewed periodically, and at least every five years.

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 on a per capita basis, for distribution to local government via state grants commissions, based on local councils' revenue-raising capacity and expenditures. Framed by the Australian Government Local Government (Financial Assistance) Act 1995, FAGs amounted to approximately AUD 2.29 billion nationally in 2016 (compared to AUD 1.14bn in 2015), representing about 5% of total local government revenue on average, but they may make up half the revenue of some small and remote councils.

Other transfers to local governments include small earmarked grant programmes for infrastructure, capacity building, etc. SNG funding programmes primarily include funding for roads recovery, public transport and metro projects. Local government also receive grants and subsidies from states or territory governments. At the subnational level, there is no national horizontal fiscal equalisation system, but state-level schemes that may take the form of Disaster Resilience Funds, and funding to support indigenous councils and their communities. This issue is currently being debated, with some suggesting that the CGC should introduce a "national distribution" model, providing General Purpose grants directly from the Commonwealth to Local Governments (bypassing the States), based on their relative "need" rather than their state's population (horizontal equalisation).

OTHER REVENUES.

Tariffs and fees. The level of tariffs and fees in SNG revenues is close to the OECD average (14.9% in 2016), but there are large difference across levels of SNGs. Tariffs and fees accounted for almost 30% of local government revenues, which is particularly high, compared to 11% for the state level. At local level, these revenues come from user charges for council services ranging from water supply, sewerage services, garbage collection, to dog registration and council hall hire. This is a main source of revenue particularly for local governments in urban areas.

Property income. The share of property income in SNG revenue is particularly high in Australia, compared to the OECD. It is particular high for the state level (9% of their revenues, i.e. 1.2% of GDP) while it amounted to 2.7% of local government revenues. A large part of these revenues come from mining activities as all states but one collect royalties from the extraction of mineral and energy resources. 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). These revenues are very unevenly distributed among the states. Over AUD 44 billion in royalty revenue was redistributed between states for the ten years to 2016-17, of which 86% was redistributed away from the resource-rich state of Western Australia. Revenue from government-owned corporations are another source of revenue for states and territories, increasing for jurisdictions that have mandated increases in the dividends paid by the corporations.
Other property income include interest income, dividends from regional and local public corporations, and developer charges.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.			% GDP			% GENERAL GOVERNMENT DEBT			% SNG DEBT			% SNG FINANCIAL DEBT		
	SNG	State	Local	SNG	State	Local	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total outstanding debt	10 279	10 279		19.8%	19.8%		29.1%	29.1%		100%	100%	100%			
Financial debt*	4 427	4 427		8.5%	8.5%		22.6%	22.6%		43.1%	43.1%		100%	100%	100%

* Currency and deposits, loans and bonds

FISCAL RULES. The amendment of the Intergovernmental Agreement on Federal Financial Relations in 2008 aimed to enhance the transparency of public performance reporting, based on monitoring and assessment. The Australian Loan Council also operates on a voluntary basis and emphasises transparency of public sector financing. These arrangements are designed to enhance financial market scrutiny of public sector borrowing and facilitate informed judgements about each government's financial performance, even though the Local Council cannot provide direct sanctions on states and territories.

Fiscal rules for state and local governments vary from state to state, and tend to be self-imposed and non-binding. Typically, councils may be required to prepare and publish detailed corporate and management plans, quarterly reviews and annual reports, updated corporate plan and draft budgets. Performance indicators and comparative data for local councils are published annually.

DEBT. The Australian Loan Council (including the federal and state governments) was set up in 1929 to co-ordinate and monitor government borrowing on the basis of fiscal positions and infrastructure needs. Jurisdictions may be requested to make adjustments if borrowing plans are at odds with Council's macroeconomic objectives. The Australian states can borrow on their own account with no limits imposed by the central government. Financial markets and rating agencies act in this case as important discipline mechanisms. Nowadays, the Loan Council is primarily responsible for enhancing the transparency and accountability of public sector finances (including through comprehensive data reporting requirements), rather than, as it used to in the past, securing adherence to strict borrowing limits. The Commonwealth and each state government are required to submit their net financing requirements (so called, Loan Council Allocations) for the coming year.

Australian SNG debt as a share of GDP is lower than the OECD average (24.5% of GDP in 2016), especially when considering the OECD average for federal countries (31.3% of GDP). As a share of public debt, SNG debt in Australia is higher than the OECD average (20.7%) and slightly higher than the OECD average for federal countries (27.1%). SNG debt is mainly composed of state and territory 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 45% of total SNG outstanding debt, whereas SNG financial debt accounts for 43% and other accounts payable 12% (commercial debt, arrears). Financial debt is almost exclusively composed of loans (98%). Despite this low share of bonds in total outstanding debt, it is important to note that Australian states are very active on the capital markets. However, these actions are carried out by their corporations (e.g. New South Wales Treasury Corporation, Treasury Corporation of Victoria, Queensland Treasury Corporation, etc.), which issue debt for the states and in turn guarantee their debts.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: OECD
Last update: 02/ 2019
www.sng-wofi.org

Socio-economic indicators: OECD // World Bank // UNDP // UN DESA // ILO // Australian Bureau of Statistics.
Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // IMF-GFS // Australian Bureau of Statistics // Australian Taxation Office.
Other sources of information: CLGF (2018) Country profile: Australia // Coppel J. (2018) The economic impacts of HFE: Lessons from Australia, OECD Centre for Tax Policy and Administration // Australian Government (2018) Making reform happen, using incentives to drive a new era of infrastructure reform // OECD (2018) Regions and cities at a Glance // Parliament of Australia (2017) National fiscal outlook as at 2017-18 budgets, Report No. 04/2017 // OECD (2017) OECD Economic Surveys: Australia 2017 // OECD (2017) Effective public investment across levels of government // OECD (2016) "Australia", in OECD Regional Outlook 2016: Productive Regions for Inclusive Societies // Koutsogeorgopulou, V. and A. Tuske (2015) Federal-State Relations in Australia, OECD Economics Department Working Papers, No. 1198 // Carter M. (2013) Australian Local Government Financial Reform, A Federal Perspective // Australian Local Government Association (2013), Facts and figures on local governments in Australia.

BANGLADESH

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: BANGLADESHI TAKA (BDT)

POPULATION AND GEOGRAPHY

Area: 147 630 km^2
Population: 164.670 million inhabitants (2017), an increase of 1.2% per year (2010-2015)
Density: 1 115.4 inhabitants / km^2
Urban population: 35.9% of national population (2017)
Urban population growth: 3.2% (2017)
Capital city: Dhaka (11.9% of national population)

ECONOMIC DATA

GDP: 637.1 billion (current PPP international dollars), i.e. 3 869 dollars per inhabitant (2017)
Real GDP growth: 7.3% (2017 vs 2016)
Unemployment rate: 4.4% (2017)
Foreign direct investment, net inflows (FDI): 2 151 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 30.5% of GDP (2017)
HDI: 0.608 (medium), rank 136 (2017)
Poverty rate: 14.8% (2016)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The People's Republic of Bangladesh is a unitary and democratic republic with a unicameral parliament. The Parliament comprises 300 members directly elected by universal suffrage. The President is the Head of State and he is indirectly elected by members of the Parliament for a maximum of two five-year terms. The leader of the majority party is appointed by the President as Prime Minister and Head of Government. While the political and administrative leadership is vested in the national government, democratically elected sub-national bodies perform delegated functions at the district, sub-district, unions of villages, city and municipal levels.

The legal basis and responsibilities of local government in Bangladesh are incorporated in the 1972 Constitution. According to Article 59 of the Constitution, local government bodies at all levels of administration shall be established. At present, there are two distinct types of local government bodies in Bangladesh: rural and urban local government, which have the same functions. The rural local government has three tiers, districts (*Zila Parishad*), sub-districts (*Upazilla Parishad*) and union of villages (*Union Parishad*), while the urban local government is divided into city corporations and municipalities (*Pourashavas*). In addition, there are also hill district *parishads* at rural level. The municipality and city corporation are headed by a mayor and councillors who are directly elected every five years. At the rural level, the chairpersons and councillors of sub-districts and union of villages are also directly elected. The last local elections were held in 2016 to elect district councils for the first time in the country.

All of these local government bodies are constitutionally autonomous and not hierarchical. In parallel with this subnational government system, the central administration has deconcentrated government units, namely the Divisional Administration at the same level as city corporations, the District Administration at the same level as districts, and Upazilla Administration at the same level as sub-districts.

The Government of Bangladesh established a comprehensive legal framework for union of villages (2009) and sub-districts (2011). In addition, there is a number of supplementary Acts and Rules regulating the different tiers of the local government system in Bangladesh. The local government division within the Ministry of Local Government, Rural Development and Cooperatives is in charge of developing and implementing legislation regulating subnational government, with the exception of the Hill District Local Government, which is administered by the Ministry of Hill Tract Affairs.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	4 553 Union of villages *(Union Parishad)* 11 City Corporations 324 Municipality *(Pourashava)*	Sub-districts *(Upazila Parishads)*	Districts *(Zila Parishads)*	
	Average municipal size: 30 625 inhabitants			
	5 377	489	64	5 441

OVERALL DESCRIPTION. Administratively, the central government is territorially divided into eight administrative divisions which are further subdivided into 64 districts (*Zila Parishads*). In rural areas, districts are further organized into 489 sub-district councils (*Upazila Parishads*). There are about 4 553 union councils (Union *Parishads*) further sub-divided into wards. Urban areas have two alternative structures: city corporations in the eleven largest cities and 324 municipalities (*Pourashavas*) in the rest of the country that are further sub-divided into wards. The ward members/commissioners are elected by their respective constituencies.

While the overall structure of the country has been stable, recent changes in the territorial organisation include the creation of a new division (*Mymensingh*), established in 2015, and the formation of new municipalities or expansion of municipalities by merging in adjoining wards from union of villages. The three districts in the Chittagong Hill Tracts are recognized as a special region, and local governments enjoy special powers, because the Hill Tracts are the only extensively hilly area in Bangladesh which is settled by indigenous peoples.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Local government bodies are responsible for administration and the work of public officers, the maintenance of public order, and the preparation and implementation of plans relating to public services and economic development (Article 59 of the Constitution). Although there is no hierarchy between the different subnational governments, in practice, most of the smaller local governments do not have the resources to perform their functions and therefore work as an extension of the central government. According to the relevant laws, the main responsibilities of subnational government include civil administration, fire protection, development and operation of markets, roads and infrastructure, traffic and urban transportation, local economic development, environmental protection, water supply, street lighting and land use planning.

The Second Schedule of the Local Government Municipal Act provides more than 64 functions assigned to municipalities depending on the availability of funds. These include: infrastructure development and implementation of urban development; developing plans for economic and social justice; transport management and construction of roads and other communication systems; development of markets and slaughterhouses; public health and environment conservation; social welfare, education and culture, and public safety among others.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONAL LEVEL (DISTRICT)	MUNICIPAL LEVEL (POURASHAVA)
1. General public services	Public buildings and facilities	Administrative services (marriage, birth, etc.) Public buildings and facilities
2. Public order and safety	Regional firefighting services	Municipal police, urban traffic signs
3. Economic affairs/transports	Regional roads, railways, airports and ports inter-city and regional railway transport, transports; Employment services; Support to local enterprises and entrepreneurship; Agriculture and rural development; regional Tourism	Local roads; Park spaces; Local ports; Urban transport; Local tourism
4. Environmental protection	Nature preservation; Soil and groundwater protection, climate protection; Sewerage	Parks & green areas; Waste management; Street cleaning
5. Housing and community amenities	Construction/renovation; Management	Construction/renovation; Distribution of drinking water; Public lighting; Urban and land use planning; Urbanism
6. Health	Hospitals	Primary healthcare (medical centres); Preventive healthcare
7. Recreation, culture & religion	Regional museums; Cultural heritage	Sports; Libraries; local museums
8. Education	Secondary and higher education	Pre-primary and primary education
9. Social protection	Care for the elderly; Disabled people (benefits and services)	Social care for children and youth; Support services for families

SUBNATIONAL GOVERNMENT FINANCE

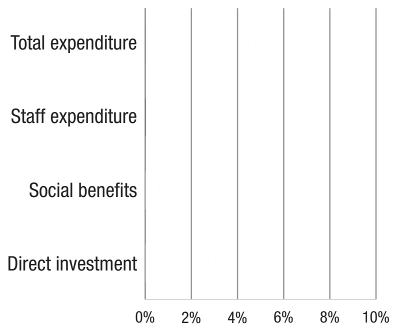
Scope of fiscal data: consolidated accounts for local government do not exist for Bangladesh. Information is highly fragmented and reporting standards varies from one level of local government to another.	Other	Availability of fiscal data: **Low**	Quality/reliability of fiscal data : **Low**

GENERAL INTRODUCTION. Article 60 of the Constitution of Bangladesh provides for the delegation of powers to local government bodies, including the power "to impose taxes for local purposes, to prepare their budgets, and to maintain funds". Revenues for local governments come from both central grants and own source revenues. From central government, local governments receive, for example, block grant through the Annual Development Program (ADP), special grants for development projects, *Octroi* compensation grants, and salary subvention. While particular Local Government Acts provide the framework for own source revenue mobilization, the share of the annual budget that is available for fiscal transfers to local governments is left to the discretion of the central government.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure			
Inc. current expenditure			
Staff expenditure			
Intermediate consumption			
Social expenditure			
Subsidies and current transfers			
Financial charges			
Others			
Incl. capital expenditure			
Capital transfers			
Direct investment (or GFCF)			

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



BANGLADESH

UNITARY COUNTRY

EXPENDITURE. Local government financial system remains highly centralized in Bangladesh. According to a 2013 study, subnational government expenditure as a percentage of GDP has rarely exceeded 3 per cent in Bangladesh. In FY 2016-17, total subnational government expenditure accounted for approximately 8.0% of total government expenditure (approx. BT 2 151 500 000, i.e. $0.44 PPP per capita). Most local government expenditure is spent on staff salaries, contributions towards the cost of holding local elections and such other matters as may be specified by the central government.

Urban and rural governments have a significant difference in the amount of expenditure. In FY 2006/2007, municipalities and city corporations accounted for nearly 70% of sub-national government expenditure while they only represented about 28% of the total population. In contrast, Union Parishads accounted for about 20% of total local government expenditure.

DIRECT INVESTMENT. No data available.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Based on the subnational responsibilities listed above and data from previous years, local expenditures mainly concern physical infrastructure (around 30-40% of total subnational government expenditures) public health (15-20%) and administrative expenditure (on average between 7-16%). Subnational government expenditures in the social sectors are minimal.

% GDP | % SNG EXPENDITURE

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue			
Tax revenue			
Grants and subsidies			
Tariffs and fees			
Property income			
Other revenues			

% SNG REVENUE

OVERALL DESCRIPTION. Local governments are required to have a single fund known as the municipality fund into which revenue streams must be credited. All local governments have the power to levy taxes and rates. LG's main revenue include taxes, rates, tolls, fees, and other charges; rents and profits from property; grants made by the central government and other authorities; profits from investments; donations and transfers of private or public funds.

While own source revenue potential varies vertically and horizontally, on average less than 2% of total government revenue is collected at sub-national levels, which is among the lowest rates in the world. Local governments generate very little of their own revenue, especially compared to their counterparts in other low-GDP countries.

The largest share of city corporations' revenue come from donor-supported projects, followed by funding through block grants and support of government projects constituting between 50%-60% in 2007/08. Municipalities depend largely on project specific funding followed by general block grants.

TAX REVENUE. Most tax bases are under the control of the central government. There has been an informal effort to raise new local taxes, which are used to improve local services. For example, there is some evidence that informal taxes raised by the Unit Office are contributing to improve refuse collection services, but they also raise complaints about their imposed nature and the steep increase in costs.

Local tax management and collection in Bangladesh is weak due to a poor assessment system, lack of efficient manpower and legal issues as well as corruption.

GRANTS AND SUBSIDIES. Bangladesh's local governments are highly dependent on central government's grants and subsidies (largely funded from development aid), but their amount is very limited. Overall, the share of resource transfer for Local Government Institutions (LGIs) as a proportion of Local Government Division's budget had declined from 17.57% in FY2013-14 to 13.66% in FY2016-17. However, there are frequent fluctuations in direct transfer of funds from the national government to LGIs both in terms of amount and rate.

The main flows of funds from the government to city corporations come from the Local Government Division and other ministries, divisions and agencies.. The government allocates development funds to city corporations through "block allocation for development assistance to city corporations". There is also discretionary fund called a "special grant" from the government, the amount of which is determined by special and political considerations, according to city corporation officials and elected representatives. City corporations also get a portion of land transfer taxes within their perimeter as defined by their respective laws. However, the share of land transfer taxes varies largely because of the amount and ratio of direct transfer from the government. Additionally, large city corporations – Dhaka North and Narayanganj – have demonstrated their ability to finance development projects through public private partnerships or foreign sources.

OTHER REVENUES. No information available.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**4**	**0.1%**	**0.3%**	**100%**
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. No information available.

DEBT. No information available.

Socio-economic indicators: OECD // World Bank // UNDP // UN Desa // ILO.
Fiscal data: Annual Financial Statements of Bangladesh 2016-2017 & 2017-2018
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CAMBODIA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: CAMBODIAN RIEL (KHR)

POPULATION AND GEOGRAPHY

Area: 181 040 km^2
Population: 16.005 million inhabitants (2017), an increase of 1.6% per year (2010-2015)
Density: 88 inhabitants / km^2
Urban population: 23% of national population (2017)
Urban population growth: 3.3% (2017)
Capital city: Phnom Penh (12.2% of national population)

ECONOMIC DATA

GDP: 64.2 billion (current PPP international dollars), i.e. 4 009 dollars per inhabitant (2017)
Real GDP growth: 6.8% (2017 vs 2016)
Unemployment rate: 0.2% (2017)
Foreign direct investment, net inflows (FDI): 2 788 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 21.9% of GDP (2017)
HDI: 0.582 (medium), rank 146 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Cambodia is a unitary country with a three-tiered subnational government system. The country is organized as an elective constitutional monarchy with a monarch, chosen by the Royal Throne Council, as head of state. The head of government is the Prime Minister. The bicameral Parliament consists of a lower house, the National Assembly and an upper house, the Senate. The 117 members of the National Assembly are directly elected for five-year terms, while the Senate members are elected by the commune councillors from the 24 provinces of Cambodia (except for 4 of them who are appointed by the king and the national Assembly). Executive power is vested in the Council of Ministers, headed by the Prime Minister and whose members are elected by the National Assembly to five-year terms.

The subnational governance arrangements (SNA) are acknowledged in the constitution adopted in 1993 (Chapter 1 Article 6 and Chapter 11 articles 126 and 127). Over the last 20 years, Cambodia has embarked on several major initiatives in relation to decentralization. Importantly, in 2001, the Government adopted two watershed Organic Laws: The Law on the Administration Management of Commune/*Sangkat* and the Law on the Election of the Commune/*Sangkat* Council, which led to the first elections to the commune and *sangkat* councils in 2002. The advancement of the the legal framework for subnational governance was put forward by the national government with the 2005 Strategic Framework for Decentralization and Deconcentration, overseen by the National Committee for Decentralization and Deconcentration (NCDD) and under the auspices of the Ministry of Interior. In general, the Deconcentration methodology and process have entailed the creation of line ministries in each administrative level. The 2008 Organic Law on Administrative Management of Capital, Provinces, Municipalities, Districts and *Khans* establishes the functions and sets out the finance provisions of the capital city, provinces, municipalities, districts and *khans*.

Local administrations and agencies are accountable upwards to the Royal Government for the implementation of the delegated functions. The Department of Local Administration (DoLA) oversees districts, municipalities and *khans*, while provinces and the capital city are under the supervision of the General Department of Local Administration (GDoLA) and the Secretariat for Subnational Democratic Development.

TERRITORIAL ORGANISATION

2016	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	1 410 Communes 236 *Sangkats*	159 Districts 26 Municipalities	24 Provinces 1 Capital city	
	Average municipal size: 9 600 inhabitants			
	1 646	185	25	1 856

OVERALL DESCRIPTION. Cambodia is made up by its capital city, 24 provinces, 159 districts, 26 municipalities, 1 410 communes and 236 *sangkats*. The capital city, provinces, municipalities, districts and *khans* are administered by councils and boards of governors at each territorial level. The councils are the legislative body while the boards of governors are the executive body. The number of council members depends on population density of the given territory. The council decides on and approves investment programs, development plans, annual budget plans and public security matters by approving *deika* (by-laws). In addition, the Ministry of Interior recorded a total of 14 168 villages, which are not part of the territorial administration scheme.

COMMUNES AND SANGKATS. The communes are the administrative territories located in rural areas, whereas sangkats are the lowest tier of government in the capital city. The estimated average population size for each commune is 9 600 inhabitants. Communes and *sangkat* councils are directly elected for five-year terms and they in turn elect the members of the councils of the capital city, the provinces, districts and khans through a proportional electoral system and a candidate list.

DISTRICTS AND MUNICIPALITIES. The intermediary level of administration comprises districts, municipalities and *khans*, as set out in the 2008 organic Law on Subnational Administrations. Districts are rural administrative territories while municipalities are generally located in provincial capitals. *Khans* are the districts of the capital city. Districts, municipalities and *khans* have indirectly elected councils, which embody the legislative power, as well as an appointed board of governors, headed by an executive governor, which holds the executive power.

PROVINCES AND CAPITAL CITY. The regional level in Cambodia includes 24 provinces and the capital city, Phnom Penh, which is considered a special autonomous territory. Provinces are the highest administrative units and oversee all aspects and business of subnational governments. All provinces have indirectly elected councils and are headed by an appointed Governor. Phnom Penh is the most populous territorial unit at the regional level, with approximately 1.5 million inhabitants, followed by the provinces of Kandal and Battambang, with approximately 1.2 and 1 million inhabitants, respectively.
Provincial administration is in charge of providing the strategic framework within which districts, municipalities and khans may draft local plans and take decisions. Moreover, provincial administration is responsible for putting in place adequate mechanisms for the oversight of human resources as well as for building up the capacity of local systems to perform their assigned functions.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The 2008 Organic Law on Administrative Management of Capital, Provinces, Municipalities, Districts and *Khans* regulates the responsibilities assigned to such territorial bodies, which are mainly restricted to budget and management duties. The roles of commune and *sangkat* administrations are outlined in chapter 4 of the 2001 Law on Commune/*Sangkat* Administration. Responsibilities are mainly limited to the maintenance of security and public order and to the promotion of citizens' well-being on a broad level (Art. 43). Although the government has conducted various functional reassignment studies for key social and economic ministries, legislation has only been passed to transfer functions of primary health care access and waste management from central government to the district level SNAs. Budget control, management and fiscal transfers for SNA remains under the control of the Ministry of Finance and with the line ministries for sector-based services. In essence, the subnational governance system is deconcentrated and not decentralised. To date, only three functions have been transferred through government decree, namely waste management, access to primary health care and pre-school education and kindergartens.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGION (PROVINCES / CAPITAL CITY)	INTERMEDIARY (DISTRICT / MUNICIPALITIES / KHANS)	MUNICIPAL (COMMUNES / SANGKATS)
1. General public services	Public buildings and facilities		Administrative services (marriage, birth, etc.); Public buildings and facilities
2. Public order and safety	Regional Firefighting services		
3. Economic affairs /transports	Regional roads, railways, airports and ports, inter-city and regional railway transport, pupils' transports; Employment services; Support to local enterprises and entrepreneurship; Agriculture and rural development; Regional tourism	Rural roads; Rural Drainage and Sanitation Systems	Rural roads; Rural Drainage and Sanitation Systems
4. Environmental protection	Nature preservation; Soil and groundwater protection; Climate protection; Sewerage	Parks and green areas; Waste management; Street cleaning	Parks and green areas; Waste management; Street cleaning
5. Housing and community amenities	Construction and renovation; Management		Construction and renovation; Distribution of drinking water; Public lighting; Urban and land use planning; Urbanism
6. Health	Hospitals	Primary healthcare (referrals)	Primary healthcare (medical centres); Preventive healthcare
7. Recreation, culture & religion	Regional and local museums; Cultural heritage; Sports Libraries		
8. Education	Secondary and higher education	Pre-primary education	Pre-primary education
9. Social protection	Social care for children and youth; Support services for families	Social Payments	

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: provinces and Communes. Data of Districts are consolidated to provinces.	SNA 1993 and Subnational Administration Budget	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Low**

GENERAL INTRODUCTION. The finance system in Cambodia is highly centralised with respect to public expenditure and revenue. Although the SNAs have legitimacy to plan and budget capital investments and collect local tax, such activity is limited as the means of implementation remains at the central government level. In 2011, the Law on Financial Regime and Property Management of Subnational Administrations was approved in order to regulate the financial and property management of the capital city, provincial, municipal, district and *khan* councils. The Law establishes that councils will formulate, approve and implement their budgets following financial accounting standards. It is also established that councils in charge of the management of property and that there will be both internal and external audits on the council's budget and finance. Councils are also required to produce both a 5-year development plan and 3-year rolling investment program which define the councils' visions for territorial development. Provinces are the highest administrative units and have budgetary control over the Districts, Municipalities, *Khans* (DMK) and Communes/*Sangkats* (CS).

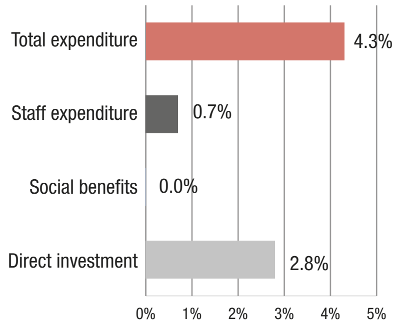
CAMBODIA

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**37**	**1.0%**	**100%**
Inc. current expenditure	29	0.8%	77.2%
Staff expenditure	2	0.1%	5.3%
Intermediate consumption	3	0.1%	7.2%
Social expenditure	2	0.1%	5.2%
Subsidies and current transfers			
Financial charges			
Others	22	0.6%	59.5%
Incl. capital expenditure	8	0.2%	22.8%
Capital transfers			
Direct investment (or GFCF)	8	0.2%	22.8%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. The share of sub-national expenditure has increased over the reform period in alignment with national policy, but the annual budget for sub-national governments remains very low. In FY 2016 the total on-budget SNG expenditure corresponded to approximately 1% of GDP. Subnational governments' current expenditure represented 77% of the total expenditure incurred at the subnational level, of which 63% corresponds to provinces, 18% to districts and 19% to communes.

DIRECT INVESTMENT. In FY 2016, subnational investment expenditure represented 22.8% of expenditures incurred, with 70% of all investments being allocated to the provincial level and 30% being spent at the commune level. Very limited capital expenditure was incurred at district level. Collaboration between the communes has been exercised through the joint application for funding for capital projects. Such collaboration is agreed and overseen by the provincial level of government

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

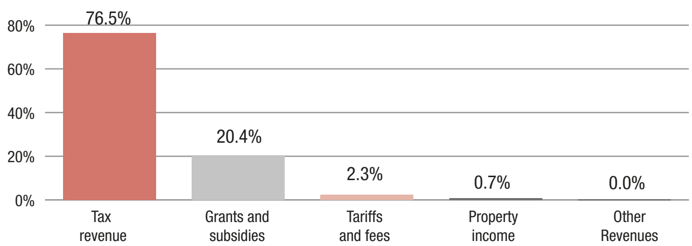
Formally, local civic participation is encouraged through a broad-based planning forum at all stages of local planning and budgeting, and open access of the population to local council meetings. The main lines of expenditure at the commune level include infrastructure development (rural roads and drainage systems) and maintenance, social benefits and personnel expenses, although there is no information available at a disaggregate level regarding such capital investments.

% GDP	% SNG EXPENDITURE

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**45**	**1.2%**	**7.9%**
Tax revenue	34	0.9%	
Grants and subsidies	9	0.3%	
Tariffs and fees	1	0.0%	
Property income	0.3	0.0%	
Other revenues			

% SNG REVENUE



OVERALL DESCRIPTION. Although current reforms have devolved more resources to subnational levels, subnational governments in Cambodia continue to perceive minor revenues, amounting to 1.2% of the GDP and 8% of the total public revenue. The 2011 Law on Financial Regime and Property Management of Subnational Administrations establishes that the revenues of provinces, districts, municipalities and *khans* may come from three sources of revenue (article 24): Local Sources; National Sources and Other sources on the basis of an agreement or contract signed with the line ministries. First, Local sources include tax and non-tax revenue, such as administrations' property rentals or service fees. Second, national sources include transfers of funds and service fees from functions carried out by the councils on behalf of government institutions. Third, when acting as agent on behalf of another tier of government, local government are authorized to collect revenue from this activity, on the basis of a specific contract or agreement.

In FY 2016, subnational revenues corresponded to 1.2% of GDP, to which tax revenue was the greatest contributor (76.5%). Taxes collected at the subnational level include property tax, land tax, vehicle taxes, GST, and commercial tax, and are all collated at the provincial level by the Department of Taxation. While the 2001 Law on Commune/*Sangkat* Administration establishes that communes and sangkats have the right to directly collect tax revenue, there is no record of tax collected at both districts and communes/*sangkat* levels.
Districts and Communes/*sangkat* only gain revenues from grants and subsidies (20. 4%), followed by tariffs and fees for services delivery (at 2.3% of subnational public revenue) and rent (at 0.7%).

TAX REVENUE. Overall, tax revenue is the main source of income for subnational governments (at 76.5% of SNG revenue). The law provides for subnational taxes; it sets out that taxes need be further regulated with additional legislation. Taxes collected at the subnational level include property tax, land tax, vehicle taxes, GST, and commercial tax, are generally collected at the provincial level. In FY 2016, property taxes (collected at the provincial level following the 2011 Law), constituted the largest source of tax revenue, accounting for approximately 46.6% of tax revenue and 35.7% of subnational revenue. Property taxes were followed by taxes on commercial activity (VAT and excise taxes) as the most important sources of tax revenue at the subnational level, respectively representing 30% and 19% of subnational revenues. These taxes are then returned to central government for inclusion into the budget. Although the legislative base does not prohibit local taxation there is an anomaly within the tax code that specifies all taxes belong to the central government.

The government has been prioritizing the improvement of tax collection across all tax codes but with a special emphasis on GST and corporation tax. Additionally, as more people enter into the formal economy income, tax revenues are also increasing. This is highlighted as the successful increase of tax revenues as a % of GDP from 9.6% (2009) to 15.3% (2016).

GRANTS AND SUBSIDIES. In FY 2016, grants and subsidies correspond to 20.4% of subnational government revenues.

Subnational governments receive unconditional grants to cover administrative costs, functions of the subnational government and capital development. The District Municipality Khan (DMK) Fund and the Communes Sangkat (CS) Fund are established by the National Government with support from development partners through a pooled arrangement, to allocate this funding. These are distributed through a criteria-based formula. Both funds are managed by the Ministry of Interior under the responsibility of the NCDD. In the period of 2002-2018, 2%-2.8% of national current revenues have been allocated to communes and *sangkats* via the CS Fund.

In addition, subnational governments are eligible to Conditional grants. These transferred from national to the different tiers of subnational government based on the function assignment from Line Ministries to SNAs. The Ministry of Environment has transferred US$2 million to 26 municipalities to implement the function of solid waste and sewage management. However, line ministries are reluctantly to transfer functions to SNAs, as a result some functions are transferred without financial support and some are only stated in the paper but not real assignments.
The Sub-National Investment Fund (SNIF) is a financing instrument supported by the Asian Development Bank that channels additional funds to subnational governments based on their performance. It is off-budget and parallel to regular grants for subnational governments. The fund is established with the objective of promoting pilot investment projects in rural districts, including civil works in sanitation, health, infrastructure and education. The SNIF works as a facility to convert a sovereign loan to subnational grant or reimbursable grant, since subnational governments are not authorized to contract loans.

Furthermore, many transfers to the sub-national level administrations, especially for capital expenditures, are off-budget and provided through ODA grants.

OTHER REVENUES. Communes, *sangkats*, districts and municipalities collect non-fiscal revenues that include sales and rent of goods and services (including administrative fees and revenue from administrative permission, administrative form and other administrative management fees), revenues from service delivery (cadastre and construction fees) and from other sources, such as revenues from local citizen participation in project implementation.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. The government introduced program budgeting and gradually moved to Performance Informed Budgeting. The principles and objectives are to improve effectiveness and efficiency in budget management and to ensure the linkage of results to budgeting. The implementation of program budgeting was piloted in 12 provinces, yet issues such as challenges regarding the programs and performance indicators remain.

DEBT. Currently, no subnational governments is allowed to undertake any form of debt financing for development i.e. capital projects. As mentioned above, SNIF is a facility that converts a sovereign loan to subnational grant or reimbursable grant.

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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO // Uzbekistan National Statistical Committee.
Fiscal data: Ministry of Finance - Sub National Budget Database // Minsitry of Finance. Budget in Brief 2016 // IMF (2016) Article IV Consultation. Cambodia.
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CHINA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: CHINESE YUAN RENMINBI (CNY)

POPULATION AND GEOGRAPHY

Area: 9 634 057 km^2 *
Population: 1 386.395 million inhabitants (2017), i.e. 0.5% per year (2010-2015)
Density: 145 inhabitants / km^2
Urban population: 58.0% of national population
Urban population growth: 2.7% (2017 vs 2016)
Capital city: Beijing (1.4% of national population)

ECONOMIC DATA

GDP: 23 300.8 billion (current PPP international dollars), i.e. 16 807 dollars per inhabitant (2017)
Real GDP growth: 6.9% (2017 vs 2016)
Unemployment rate: 3.9%% (2017) (*Urban areas only)
Foreign direct investment, net inflows (FDI): 168 224 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 41.9% of GDP (2017)
HDI: 0.752 (high), rank 86 (2017)

*The area includes the two special administrative regions of Hong Kong (China) and Macau (China) as well as Chinese Taipei.

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The People's Republic of China is a unitary country governed by the Chinese Communist Party since 1949. China has a unicameral national legislature, the National People's Congress (NPC) and its Standing Committee, which operates under the leadership of the Communist Party and is defined by the constitution as "the highest organ of state power". The State cabinet, the State Council headed by a Prime Minister, and "people's governments" at lower levels of governments implement and execute policy.

The Constitution recognises three levels of subnational government: provinces, prefectures and counties. Historically, subnational governments have a relatively high degree of autonomy, but the political system remains highly centralized. Therefore, each subnational government unit is governed jointly by a secretary from the communist party, appointed by party committees from higher levels of government, and by a mayor, or governor in the case of provinces, who are selected and appointed by the local people's congress, but higher levels of government often influence this selection. Central government ministries have offices in each province, which report both to their ministry in Beijing and to the provincial leadership, even though on specific topic (e.g. environment), they tend to increasingly interact directly with their line ministries. Provinces have the right to pass their own regulations, which may supplement national laws and regulations, although not conflict with them.

Since China's last major fiscal reform in 1994, a large vertical imbalance between revenue allocation and spending responsibilities across levels of government has prevailed. Recently, the State Council announced a forthcoming intergovernmental fiscal reform plan with the aim to alleviate misallocation, imbalances and risks, by increasing the role of the central government.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	counties *(县级行政区)*	prefectures *(地级行政区)*	provinces *(省级行政区)*	
	Average municipal size:			
	2 851	334	31	3 216

These statistics cover mainland China only, without the special administrative regions of Hong Kong (China) and Macau (China) or Chinese Taipei.

OVERALL DESCRIPTION. China is a unitary country with four layers of subnational governments: provincial, prefectural, county and township/village levels. The Constitution only recognises the first three layers of subnational governments, yet townships and villages are addressed in the Budget Law and in the fiscal system. China has also encompassed two independent Special Administrative Regions (SARs), namely Hong Kong (China) and Macau (China), since 1997 and 1999, respectively.

At the provincial level, the country is divided into 22 provinces, five autonomous regions and four centrally administered municipalities. The intermediary level is composed of 334 prefectures including 283 prefecture-level municipalities. The lower-tier of subnational government, i.e. counties, is made up of 2 851 municipal districts, county-level municipalities and autonomous counties. Townships, towns and districts form the fourth level of subnational government, the lowest level of administration (39 862 according to the 2016 census). They are further divided into villages in for towns and townships, and neighbourhoods (jie dao) units in urban areas at the township level that serve as a channel of communication to the population.

China has experienced rapid urbanisation since 1978, and between 1978 and 2017, the residents-based urbanisation rate increased from 18% to 59%, still below the urbanisation rate of most other advanced and emerging economies. In contrast, based on *hukou* (household registration), the urbanisation rate would be 24% and 42%, respectively. Despite the emergence of a number of megacities and urban regions, metropolitan areas and megacity regions are not designated as specific administrative units, and their management and coordination across jurisdictions is taken up by the upper level of government, most often provinces. Similarly, cities are a geographical concept, not an administrative one, and they exist at each of the three administrative levels. Regional disparities are also growing significantly.

In 1983, the government adopted a Municipality-Managing-County (MMC) system to enhance rural–urban interdependence and integration. Under this system, a prefecture-level municipality has a jurisdiction over a central city and surrounding rural counties or districts. Yet this system often led to an ambiguous division of government functions, fund diversions, and resource rivalry between different levels of government. The MMC system has been replaced in a number of provinces since the 2000s by the Province-Managing-County system (PMC), which aims to allow provincial governments to deal directly with county governments on almost all fiscal affairs, and to free themselves from the subordinate relationship with prefectures. Moreover, a decree regarding the management of administrative divisions (enforced in January 2019) focuses on urban integration and coordination between rural and urban areas where administrative divisions need to be adjusted.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Intergovernmental organization in China has mainly emerged through economic reform, and not directly from national law, the constitution of any other dedicated legal basis for decentralisation that would clarify the functions of each level of local government. The Comprehensive Fiscal Reform (1994), Budget Law (1995), and Tax Sharing System (1994) have helped define the role of subnational governments.

Governments at each level are all-purpose governments, responsible for public service and local affairs, as well as economic development, judicial administration and urbanisation. In principle, subnational governments are agents of the central government, tasked with implementing national policy objectives within their jurisdictions. The allocation of responsibilities and expenditure to the various tiers of sub-national government is uneven, and varies among provinces, which have considerable regulatory control over lower levels.

The 2016 Guiding Opinion by the State Council aims at clarifying spending assignments between the central and sub-national levels by 2020. In many cases, prefectural and county governments have very broad and overlapping expenditure responsibilities, and overall they deliver about 90% of major public services including health, education, social protection and environmental services.

Regarding social welfare, China has developed both a public pension system, and unemployment insurance managed at the local level.
Lower-tiers of subnational governments are 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.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	PROVINCES	PREFECTURES	COUNTIES
1. General public services	Civil affairs; Judicial administration	Judicial administration	Civil affairs; Ethnic affairs; Judicial administrations
2. Public order and safety			
3. Economic affairs /transports	Infrastructure construction; Agricultural production	Infrastructure construction; Agricultural production	Infrastructure construction; Agricultural production
4. Environmental protection			
5. Housing and community amenities			Urban and rural development
6. Health	Health	Public health services	Public health services
7. Recreation, culture & religion			
8. Education	Education	Compulsory education	Compulsory education
9. Social protection	Unemployment insurance; Social security and welfare	Social welfare	Social welfare

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: provinces at the regional level, encompassing autonomous regions, provinces and municipalities, in addition to prefectures at the intermediary-tier of government, and counties at the lower-tier. The SARs of Hong Kong (China) and Macau (China) as well as Chinese Taipei are not included in these data.	Other	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. Provinces, prefectures and counties in China are fiscal units with their own revenue, budget and expenditure assignments. Villages and townships, at the sub-county level, have their own budget but they have no own revenue source, and rely exclusively on transfers from higher-levels of government. There exists no consolidated budget document in China that contains all the expenditures and revenues of local governments, which are divided between four separate budgets, the largest one being the Public Finance budget, being used in this country profile. On the revenue side, it includes all local tax revenue and the local portion of shared taxes, non-tax revenues from user charges, administrative fees, and other sources, as well as most intergovernmental transfers. Regarding expenditure, it includes almost all current expenditures of local governments, in addition to some capital expenditures. Other budgets are the Government Funds budget, the Social Security budget, and the State-Owned Enterprises Operating Fund budget.

China's fiscal system is characterised by a strict vertical hierarchical relationship between different tiers of government, similar to its administrative system. Counties bear the largest share of fiscal mandate among Chinese SNGs. China’s local governments do not have taxing power, have limited access to borrowing, and are often overloaded with unfunded mandates. However, they have a considerable degree of autonomy over land concession revenues, and may engage in indirect borrowing from banks or the bond market through local government financing vehicles, to finance infrastructure investment and local economic development. The last comprehensive change in inter-governmental fiscal relations dates back to 1994, with the introduction of a tax sharing reform, which allocated a greater revenue share to the central government level. Since 2004, provinces that chose to implement the PMC system have the power to determine the assignment of both counties’ revenues and expenditures, bypassing the prefectural level, which introduced greater spending autonomy for county governments. In August 2016, a major intergovernmental fiscal reform was announced to address the long-standing misalignment of revenue and spending across levels of government, which should be ready by 2020 with the drafting of an Intergovernmental Fiscal Relations Act.

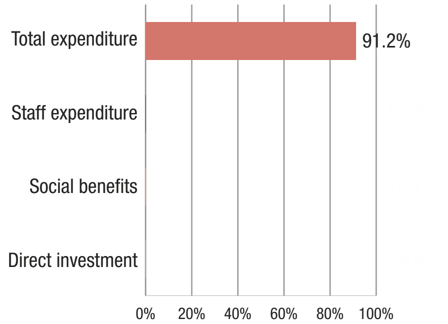
CHINA

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**3 338**	**21.6%**	**100%**
Inc. current expenditure			
Staff expenditure			
Intermediate consumption			
Social expenditure			
Subsidies and current transfers			
Financial charges			
Others			
Incl. capital expenditure			
Capital transfers			
Direct investment (or GFCF)			

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



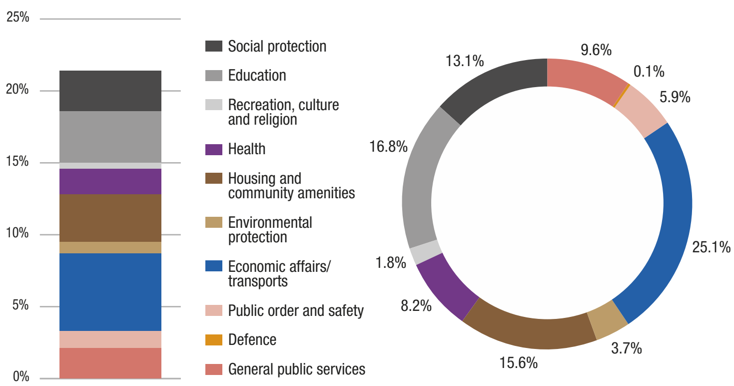
EXPENDITURE. According to data from the Public Finance budget, subnational expenditure in China in 2016 amounted to CNY 15.854 trillion, representing 85.4% of total public expenditure and 21.6% of GDP. Expenditure arrangements of Chinese local governments are more decentralised than revenue arrangements, generating high fiscal pressure for local governments. This high figure marks an increase of almost 6 percentage points since 2013. Their spending autonomy, and in particular counties' leeway, is still largely constrained, as the system remains highly centralised through the use of laws, regulations and directives. Local governments are "spending agents" acting on behalf of the State, spending according to the objectives and priorities set by the central government.

DIRECT INVESTMENT. Infrastructure investment in China is mainly the responsibility of subnational governments, even though strategic projects of national and interregional nature are financed by the central level. In the wake of the 2007/08 global financial crisis, most of the economic stimulus package, whose major components were urban and rural infrastructure projects, was therefore implemented through China's local governments. Overall, the central government gives provinces considerable leeway in adopting policies to boost investment and economic growth, and encourages them to undertake approved policy experiments. Infrastructure investment relies increasingly on PPPs, financed by banks, government funds and local government vehicles. The Thirteenth Five-Year Plan of the PRC for 2016–2020 promotes improvements in the resource allocation in order to make investment more efficient. As a result, the growth rate of total public investment as a share of GDP has started to slowly recede. Priority subnational investment area are poverty alleviation and shantytown rehabilitation, agriculture, education and ecological progress, as well as lessening regional disparities.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Main subnational areas of spending in 2016 were economic affairs and transports, education and health. According to the Public Finance budget, in all economic functions, except for defence and general public services, subnational governments in China are responsible for more than 80% of total public expenditure. Chinese Provinces in particular were responsible for the lion's share of these expenditures, including almost all public spending at the national level on education, health, unemployment insurance, social security, and welfare. Education and healthcare are the fastest-growing expenditure categories because of ageing and urbanisation dynamics. Lower-tiers of subnational governments keep being devolved additional assignments related to local development and infrastructure.

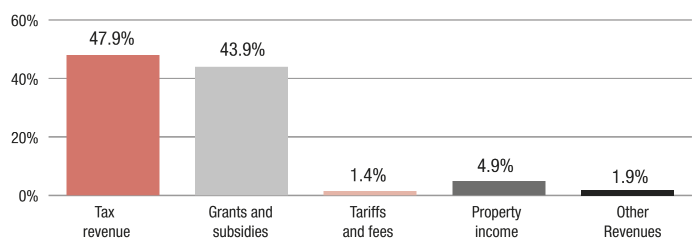
% GDP | % SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**1 816**	**11.7%**	**54.7%**
Tax revenue	1 347	8.7%	49.6%
Grants and subsidies	239	1.5%	
Tariffs and fees	39	0.2%	
Property income	139	0.9%	
Other revenues	54	0.3%	

% SNG REVENUE



OVERALL DESCRIPTION. Subnational fiscal imbalances in China have been growing recently due to the increase in the level of subnational spending, compared to a decrease in subnational revenue. According to data from the Public Finance budget, SNG revenue amounted to CNY 8.724 trillion in 2016, representing 11.7% of GDP, compared to 15.9% on average in the OECD.

China has a multi-level financing structure, according to the Tax Sharing System Reform put in place in 1994, which removed control of local governments over local tax revenues, and reallocates tax revenues collected at the central level through a system of tax sharing and transfers. Overall, revenues are highly centralised, and resources can be transferred from rich provinces to poorer ones through an equalisation transfer system. Chinese provinces have their own revenue streams, whereas lower-tiers local governments, counties, are mostly dependent on both transfers from the central administration, tax-sharing agreements which differ across provinces, and land concessions as sources of subnational revenue (land rights sales constitute the bulk of the revenues of prefecture-level cities).

Tax sharing rules were last modified significantly in 2016, with the transformation of the business tax levied on services into a VAT tax, incurring reduced budget revenues at the subnational level.

TAX REVENUE. The central government is the sole legislative tax authority, enacting laws or provisional regulations for all types of taxes. Local governments collect more than half of local taxes, but they have very limited powers of their own to set the rate of define the base, and the heavy reliance on revenue sharing exposes subnational governments to uncertainty and limit their fiscal autonomy. Each provincial government determines the revenue-sharing rules within their respective prefectures; each prefecture then determines the revenue-sharing rules within their counties. In the provinces that adopted PMC, county governments can no longer share subnational tax revenue with prefectures but only with provincial governments and, therefore, they can retain a higher proportion of the tax revenues generated in their jurisdictions.

At the subnational level, the National Taxation Bureau and Local Taxation Offices merged in 2018 to form a single Tax Administration Agency, responsible for both collecting central taxes (VAT and CIT) under the direct administration of the central government, and collecting subnational taxes and PIT (under the direct administration of subnational governments). More recently, they also started to collect social security contributions. Since 2013, the country is engaged in a new fiscal policy reform to optimise the tax structure, and increase direct tax revenues, in particular the PIT, the private residential property tax, and the future property tax. In 2016, the business tax, formerly levied exclusively by SNG on services, was transformed into a VAT (also encompassing finance, construction, real estate and personal services), shared across levels of government, reducing subnational government revenues stream.

China has a multi-level government tax system that divides all taxes into three categories: central, local and shared. Subnational taxes are primarily indirect taxes, levied on firms, leading local governments to implement horizontal tax competition through discretionary tax enforcement.

Shared taxes, which altogether amount to 51% of subnational tax revenues, comprise the subnational component of the VAT, the PIT and the CIT. Fixed ratios set the shares received by subnational governments to 50% of the VAT (in 2016, they perceived 46% of VAT revenue, accounting for 29% of SNG revenue and 21.5% of their tax revenue), 40% of the PIT (4.6% of total SNG revenue and 6.2% of tax revenue) and 35% of the CIT (11.6% of SNG revenue and 15.7% of tax revenue). In addition, they also receive 50% of security and exchange taxes.

Several local taxes are related to real-estate properties: urban and township land use tax, arable land occupancy tax, the real estate tax, the deed tax and the land appreciation tax. They account for a total for 17.2% of total SNG revenue, 23.2% of subnational tax revenue and 2% of GDP. However, the taxes are based on physical area and transaction values of properties, instead of recurrent assessments based on properties' market value. There is no property tax on ownership of private residential properties as such yet, but a property tax law is in discussion at the National People's Congress. Finally, SNG also collect the vehicle and vessel tax, the tobacco tax, and social security contributions to finance local insurance systems.

GRANTS AND SUBSIDIES. In addition to the tax-sharing system, subnational governments receive current transfers from the central government, which can be divided between earmarked transfers and general-purpose transfers. Intergovernmental transfers have grown in China since 1994, to compensate for the delivery of public services in urban areas. Generally, upper-level government can provide transfers to all levels of government that are below them, yet, since the PMC reform, county governments may receive fiscal transfers directly from provincial governments.

General-purpose transfers include tax rebates, which were established after the 1994 tax-sharing system reform, to compensate for falling SNG revenue resulting from the reform, and to ensure local governments have enough revenue to cover for their basic need. Tax rebates include VAT rebates, excise tax rebates, income tax rebates, and tax rebates from the reform of taxes and fees on refined oil products. General transfers also include an equalisation transfer, which aims to ease disparities across provinces. Other general transfers are used to finance social security and pensions and government wages. Conditional earmarked transfers, on the other hand, are granted by the central government to subsidise local programmes, mainly in the fields of transportation, social housing, education, energy saving and pollution reduction. Overall, the system of conditional transfers is relatively opaque and complex, with high administrative costs.

OTHER REVENUES. Chinese subnational governments, counties and prefectures in particular, receive revenues from the sale of land-use rights for periods of 30 to 70 years. According to the Chinese constitution, urban land is owned by the State and rural land is owned collectively by village communities. The Land Administration Law provides all levels of governments with the power to control and regulate land use, to convert rural land into urban land, and to sell land rights to real estate developers, within the limits set by the national farmland preservation policy. Land is often used as collateral for the LGFV to borrow from commercial banks, and the net revenue from land sales must be dedicated to investments. In some provinces and municipalities, land-right sales revenues accounted for up to 40% of total revenues in 2014 (Chongqing, Anhui or Zhejiang). However, the volatility in land sales has recently slowed down local governments revenue. Other local non-tax revenues include fees, levies, penalties and profits from local State-Owned Enterprises (SOEs). In contrast with the situation in most countries, tariffs are exclusively assigned to the central level.

CHINA

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	3 189	20.6%	46.6%	100%
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. China subnational government financing is subject to soft budget constraints. In 2014, the China State Council issued Rule no. 43, which laid out less strict guidelines for the supervision of local government debt and operating procedures for the public release of local budgets and financial accounts. Subnational borrowing through off-budget local government financing vehicles (LGFV) is being widely used by subnational governments in China to finance massive infrastructure construction until today. The Chinese government has multiplied its efforts in recent years to bring local debt under control, reduce outstanding debt and promote more transparency. In 2010, in an effort to provide guidelines and regulations, the China State Council issued the "Notice of the State Council on Issues concerning Strengthening the Administration of Companies on Local Government Financing Platforms".

DEBT. The amended 2014 budget law allowed provinces and cities to issue bonds for investment projects (subjected to the approval of the central government and the local people's congresses), within approved debt limits. The total debt limit is set by the National People's Congress (NPC), and debt limits for different provinces are approved by the State Council. A few wealthier municipalities have been allowed direct access to capital markets under central government supervision. The 2014 Budget Law also aims to close the "back-door" on local governments' off-budget activities by prohibiting guarantees and any source of financing other than approved bonds. However, some local governments have kept piling up debt in ways not permitted by regulations, including through the use of public welfare assets (roads, sewage systems) as collateral to borrow from banks and financial institutions, due to the persistence of the underlying fiscal pressure. As of 2018, the amounts of debt issued by LGFV was close to or even exceeding local debt in some provinces (Jiangsu, Tianjin, Chongqing and Beijing), and accounted sometimes for over half of total local revenue.

By the end of 2017, China's local government debt accounted for CNY 16.51 trillion, and by the end of 2018 it reached CNY 18.26 trillion, according to data from the Ministry of Finance. This amount remained below the CNY 21 trillion debt ceiling set by the national People's Congress for 2018. A debt swap programme was set up to facilitate the transition from LGFV debt to local government bonds, and between 2015 and 2016, LGFV debt totalling CNY 8.7 trillion was swapped to bonds. In 2016, 88% of subnational debt was held in the form of bonds, and this share increased further in the next years.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: OECD
Last update: 02/ 2019
www.sng-wofi.org

Socio-economic indicators: OECD // Eurostat // World Bank // UNDP // UN DESA // ILO.
Fiscal data: China Statistical Yearbook 2017 // China Data Insights // CEIC // China National Audit Office of the People's Republic of China.
Other sources of information: OECD (2019), OECD Economic Surveys: China 2019 // Zhuo C., Zhiguo H., Chun L. (2018) The financing of local government in the people's republic of China : Stimulus loan wanes and shadow banking waxes, Asian Development Bank Institute // Wingender P. (2018), Intergovernmental Fiscal Reform in China, IMF Working Paper // Liu Z. (2018), Land-Based Finance and Property Tax in China, ATI Working Paper // Guangrong M., Mao J. (2017) Fiscal Decentralisation and Local Economic Growth: Evidence from a Fiscal Reform in China // Wu L. (2017) The Impact of the China's Province-Managing-County Reform on Economic Growth in the Short Term and Long Term, Scientific Research Publishing // OECD (2017), OECD Economic Surveys: China 2017 // Jaros K. (2016) Rethinking subnational government capacity in China // OECD (2015), OECD Urban Policy Reviews: China 2015.

INDIA

FEDERAL COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: INDIAN RUPEE (INR)

POPULATION AND GEOGRAPHY

Area: 3 287 259 km^2
Population: 1 339 million inhabitants (2017), an increase of 1.2% per year (2010-2015)
Density: 407 inhabitants / km^2
Urban population: 33.6% of national population (2017)
Urban population growth: 2.4% annual (2017 vs 2016)
Capital city: New Delhi (2.1% of national population)

ECONOMIC DATA

GDP: 9 453.7 billion (current PPP international dollars), i.e. 7 059 dollars per inhabitant (2017)
Real GDP growth: 6.7 % (2017 vs 2016)
Unemployment rate: 3.52 % (2017)
Foreign direct investment, net inflows (FDI): 39 966 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 28.5% of GDP (2017)
HDI: 0.640 (medium), rank 130

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Indian Union Government governs the union of 29 states and seven Union Territories (UTs). It is a constitutionally democratic federal republic (*Bahrat*) with a parliamentary system of government. The 1950 constitution, amended several times, includes a list of fundamental rights and "directive principles" of state policy and defines the structure of the government.

At the national level, the President is the head of executive of the Union and is elected through indirect suffrage for a 5-year term by the elected members of the parliament and the elected members of the Legislative Assemblies of the states. The Prime Minister is appointed by the President and is the head of Government. The parliament of the Republic is composed of two chambers with the President of India acting as their head. The upper house is the Council of States (*Rajya Sabha*) and the lower house is the House of the People (*Lok Sabha*). The Council of States consists of 12 members nominated by the President and no more than 238 indirectly elected by members of legislative bodies of the federated entities for a term of six years. The number of members from a state depends on its population. The House of the People consists of no more than 545 members, including two members appointed by the President of India from the Anglo-Indian Community and 543 members directly elected by the citizens of India for five years on the basis of universal suffrage. The members of the House of the People represent parliamentary constituencies across the country.

States have their own legislative and executive branches, mirroring the structure of the federal government. Each state has its own legislative assembly (*Vidhan Sabha*). The executive power is vested in the state governor, who acts as the representative of the President of India. The governor is assisted and advised by a council of ministers led by a chief minister, who is the leader of the state assembly.

Union Territories are "federal territories" ruled directly by the Central Government and have special rights and status. They do not have their own legislature and are administered by a Lieutenant Governor who is appointed by the federal government and is the representative of the President of India. Among the seven Union Territories, there are however two territories with a special status and powers: Delhi and Puducherry (Pondicherry). These two territories closely ressemble states and have an elected legislative assembly, executive council of ministers and carry out state-like functions. In addition, Delhi has been re-defined as the National Capital Territory of Delhi (NCT) and incorporated into a larger area known as the National Capital Region (NCR).

Part IX and IXA of the Constitution refer to the "Local bodies" i.e. rural local bodies (*Panchayats*) in rural areas and urban local bodies (municipalities or ULBs) in urban areas. According to articles 243g and 243w of the Constitution, states devolve powers, authority and responsibility to their "local bodies". Each state is free to develop its own local legislation, known as the "state municipal/municipal corporation act" for ULBs and the "*Panchayati Raj* legislation" for *Panchayats*. Therefore, local governments often vary from one state to another in terms of status, powers, responsibilities, funding mechanisms, fiscal powers (such as local tax-raising power) and, therefore, degree of decentralisation. Some states have a high level of decentralisation while others have only devolved few functions and spending assignments to the local level, limited to the provision of basic public services.

In 1992, following the 73rd and the 74th Constitutional Amendment Acts, municipal governments were granted statutory recognition as the third tier of government (for local governments in rural and urban areas). These two amendments also ensure protection to local government and provide a basis for the state legislatures to guide the state governments in the assignment of municipal responsibilities and governance. They contributed to strengthening functional responsibilities at the municipal level.

In recent years, several initiatives have been taken at national level to further the decentralisation process in India. These initiatives have contributed to strengthen local governments in India and aim at providing local urban bodies with substantial autonomy and legitimacy. For instance, the Jawaharlal Nehru National Urban Renewal Mission (JnNURM) is a federal government initiative designed to foster greater efficiency and transparency in the functioning of urban local governments. Set up in 2005, this national scheme was designed to simultaneously decentralise power to municipalities and promote urban renewal by improving urban infrastructure and expanding basic services in urban areas, including slums. The idea was that strengthening municipal government is the key to driving urban growth and alleviating poverty.

Other urban development initiatives have also been a key component of the decentralisation and development agenda in recent years. They support local governments on a national scale and include:

- the National Urban Livelihood Mission (NULM, an urban poverty alleviation scheme launched in 2013);
- the Swachh Bharat Mission (Clean India launched in 2014);

- the Pradhanmantri Awas Mission (PMAY, affordable housing programme for the urban poor launched in 2015);
- the Atal Mission for Rejuvenation and Urban Transportation (AMRUT in 2015);
- the Smart City Mission (urban renewal and retrofitting programme launched in 2016), which was created and being implemented by the Ministry for Housing and Urban Affairs (MoHUA).

These urban missions, spearheaded by the federal government of India in collaboration with the state governments of the respective cities, tend to promote a participatory approach, providing more flexibility to states and local governments to set local priorities.

The government is currently promoting a new federalism paradigm consisting of co-operative and competitive federalism. The idea is to shift from a top-down/planning approach to a bottom-up approach that promotes experimentation, benchmarking and the sharing of experience across states. Several examples of vertical co-ordination arrangements already exist: the Inter-State Council (ISC); the National Institution for Transforming India, also called NITI Aayog; and the Finance Commission of India (see below). The ISC, in particular, is specified in the Constitution as a platform for strengthening Centre-State and Inter-State relations. The NITI Aayog, which replaces the Planning Commission instituted in 1950, was established in 2015 to foster co-operative federalism.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	262 771 rural local bodies *(Panchayat)* and 4 657 urban local bodies *(Municipalities)*		29 States and 7 Union territories	
	Average municipal size: 5 010 inhabitants			
	267 428		**36**	**267 464**

OVERALL DESCRIPTION. India has a two-tier subnational government structure, based on a state level (states and Union Territories) and a local government level, comprising almost 268 000 entities.

STATES AND UNION TERRITORIES. A recent territorial reform in 2014 divided the Andhra Pradesh State into two states Telangana and Andhra Pradesh, thereby increasing the number of states to 29. The regional level is thus comprised of 36 units: 29 states and seven Union territories. However, only two territories can be considered subnational governments. States have very diverse characteristics whether geographic, demographic, economic, social or cultural. Uttar Pradesh, the most populated state (with an estimated population of around 215 million in 2015, i.e. 17% of all India) is 335 times more populated than the smallest state (Sikkim, 640 000 inhabitants). Maharashtra and Bihar are the second- and third-most populous states with respectively around 119 million and 130 million inhabitants. In seven states, the urban population accounts for less than 20% of the total population while in six states it accounts for more than 40%. The 11 mountainous states in the north and northeast differ markedly from the rest and are therefore designated as "special category" states. Inequalities across states are high by international standards and have increased. In 2013, output per capita in the poorest state (Bihar) was just 13% the level of Delhi, one of the richest territories.

LOCAL LEVEL. Local government units are comprised of rural (*Panchayats*) and urban local bodies (ULBs). As of summer 2017, there were a total of 267 428 local government bodies across the country, of which 262 770 are rural and 4 657 urban municipalities.

The local government structure is complex and differs according to each state. In rural areas, the system of local self-government called *Panchayat* (*Panchayati Raj*) comprises three levels in almost all states: the village (*Gram Panchayat* which is the basic level), the Development Block at the intermediate level (*Mandal Parishad* or *Block Samiti* or *Panchayat Samiti*) and the District level (*Zila Panchayat*). The Panhayat system has existed for several centuries but was formalised in 1992 by the 73rd amendment to the Indian Constitution. The Panchayat system exists in almost all states (some have a two-tier or a single-tier system such as Nagaland, Meghalaya, Mizoram, Goa, etc.) and in all Union Territories except Delhi. They all have a council elected for a term of five years, elected directly by the villagers (*Gram Panchayat*) or indirectly (blocks and districts). In 2017, there were 255 466 gram panchayat, 6 672 intermediate governments and 632 districts.
In urban areas, local urban bodies are classified according to their size in three categories. They are designated municipal corporations in large metropolitan areas, i.e. population of more than 1 million inhabitants (*Nagar Nigam/Mahanagar Palika*), municipalities in urban areas comprising between 100 000 and 1 million (*Nagar Palika*), and city councils (*Nagar Panchayat/Nagar Parishad*) for smaller towns, i.e. areas in transition from rural to urban (population between 11 000 and 25 000 inhabitants). They are all sub-divided into wards. Ward committees are chaired by the local ward councillor. Coucillors are elected in each ward for a term of five years but, in certain instances, members can be nominated. Mayors are elected directly or indirectly, depending on the state for either one or five years.

Metropolitan areas have highly fragmented municipal bodies with very limited co-ordination. According to the last census, there were 53 metropolitan areas of more than 1 million people, including 45 with a population ranging from 1–5 million, five with populations ranging between 5–10 million and three megacities (Delhi, Kolkata and Mumbai) with populations of greater than 10 million each. The 74th Amendment contains an important provision in relation to the establishment of Metropolitan Planning Committees (MPCs) within metropolitan areas. However, various approaches have been adopted in the establishment of MPCs within different states. In parallel, states have established "urban development authorities" to improve co-ordination at the metropolitan area level.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The separation of powers and responsibilities between the Union and states is laid out in Schedule VII of the Constitution. The constitution divides the powers of the federal and state governments into three "lists" or groups of compentences: a union list (97 items including defence, foreign affairs, national transports, currency, etc.), a state list (66 items including public order, police, and administration of justice, public health, education, agriculture, local government, etc.) and a concurrent list on which both the governments can legislate (47 items including education and environment). The importance of concurrent powers explains why India's national government is frequently referred to as the "central" government, illustrating the centralised nature of India's federal structure and the power that the national government wields vis-à-vis the states.

INDIA

FEDERAL COUNTRY

In India, the division of powers between sub-states is not, however, symmetric: the Indian Constitution makes special provisions for 12 states. The reason for these provisions was to meet the needs and aspirations of the least-developed areas of each state, to protect their culture and economic interests, to deal with local challenges and to protect their customary laws.

Responsibilities have been mostly devolved by the Constitution to state governments rather than to local governments. Local governments derive their powers and responsibilities from state-level statutes. As a result, they vary significantly across the country from one state to another with some local governments exercising very limited functions, while others have bigger remits. However, Schedule XII of the federal constitution provides a basis for the state legislatures to guide the state governments in the assignment of municipal responsibilities and governance. It outlines 18 functions that may be entrusted to the municipalities. These include water supply, construction and maintenance of public streets, lighting and watering of public streets, maintenance or support of public hospitals, civil registration. Functions vary according to the type of local government i.e. between ULBs and Pachayats and within each category (between municipal corporations, municipalities and city councils and between villages, blocks and districts).

Indian municipalities are increasingly turning to the private sector to fund infrastructure improvements and the delivery of basic services.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	STATES	MUNICIPAL LEVEL (GENERAL SCHEME)
1. General public services	General Public Administration; Civil status register; Oversight of Local administration, electoral register	Production of public administrative statistics; Registration of births and deaths
2. Public order and safety	Public Order; Police; Fire protection; Civil protection	Public safety including fire services
3. Economic affairs /transports	Agricultural Production; Industries and Minerals; Roads; Public transport; Urban roads; Ports; Airports; Local economic development; Tourism	Economic development planning; Roads and bridges (ULBs and districts); Public transport (ULBs); Regulation of slaughterhouses and tanneries
4. Environmental protection	Parks	Environmental protection; Promotion of ecological initiatives; Urban forestry
5. Housing and community amenities	Management of Land rights; Irrigation; Housing, town planning; Regional planning; Water and sanitation; District heating; Gas service	Sanitation and solid waste management; Urban and town planning; Regulations of land use and construction of buildings; Water supply; Urban forestry; Urban amenities (parks, green spaces); Burial and cremation facilities; Public amenities (street lighting, parking lots); Housing to low-income residents
6. Health	Primary care; Hospitals; Health protection	Primary and health protection (ULBs)
7. Recreation, culture & religion	Theatres; Museums; Libraries; Sports; Leisure activities; Religious facilities	Theatres; Museums; Libraries; Sports; Leisure activities; Religious facilities
8. Education	Pre-schools; Primary and secondary schools; Vocational and technical training; Higher education, adult education	Pre-schools (optional for ULBs, Districts and Blacks); Adult education (ULBs)
9. Social protection	Family welfare services; Welfare homes; Social security	Planning of social development; Protection of the disabled; Urban poverty alleviation; Slum improvement; Welfare homes (optional)

SUBNATIONAL, STATE AND LOCAL GOVERNMENT FINANCE

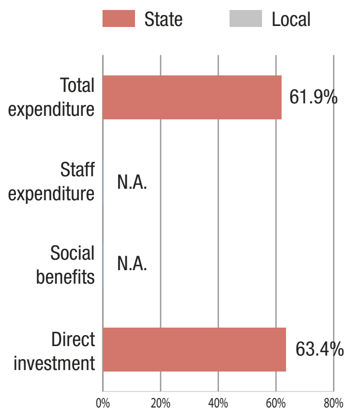
Scope of fiscal data: the 29 States and the seven Union territories and their respective local government bodies (NB: the breakdown of the public finance data between the states and the local governments is not available).	SNA: Other	Availability of fiscal data: **Low**	Quality/reliability of fiscal data : **Low**

GENERAL INTRODUCTION. States account for most SNG expenditure and revenue. However, states depend heavily on federal funding (grants or tax-sharing arrangements). Recent measures have given them more financial autonomy. Local governments have a relatively weak discretionary and decision-making power over revenues and expenditure. There is a lack of reliable and comparable data on local government finance. At national level, in fact, there is no distinction between local government and state finance. Local bodies rely on transfers from the central and state governments to meet their expenditure requirements.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.			% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT EXPENDITURE		
	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total expenditure	1 045			17.1%			100%		
Inc. current expenditure	869			14.2%			83.0%		
Staff expenditure									
Intermediate consumption									
Social expenditure									
Subsidies and current transfers									
Financial charges									
Others									
Incl. capital expenditure	177			2.9%			16.9%		
Capital transfers	9			0.1%			0.9%		
Direct investment (or GFCF)	167			2.7%			16.0%		

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. In 2016, SNG expenditure in India accounted for 61.9% of public expenditure and 17.1% of GDP, well above the average OECD for federal countries (50.0% of public expenditure). As a share of GDP, Indian SNG expenditure is however below the OECD average for federal countries (19.2% of GDP in 2016). SNG expenditure is primarily comprised of current expenditure (83%) leaving a small share to total capital expenditure (17% of total SNG expenditure). According to CLGF, local government accounted for 16.3% of general government expenditure in 2015-2016.

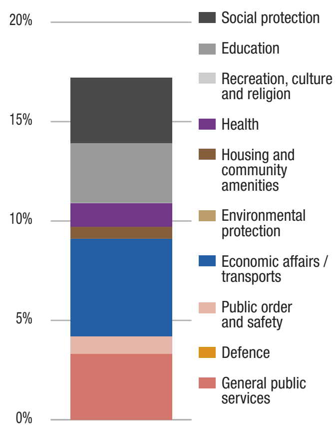
DIRECT INVESTMENT. Public investment accounted for 4.3% of GDP in 2016, which is quite low by international standards, especially compared to others BRICs and emerging economies. States and municipalities play a major role in public investment, accounting for almost two-thirds of public investment, which is slightly higher than the OECD average for federal countries (62.3% in 2016), i.e. 2.7% of GDP and 16.0% of SNG expenditure.

Despite substantial public investment over the last 20 years, infrastructure supply remains poor, both in terms of quantity and quality, especially in urban areas. Less than 40% of the population has access to sanitation facilities and one-fifth is not yet connected to the electricity grid, with large variations across states and between urban and rural areas. In cities, there are huge needs in terms of housing. For instance, 17% of urban households live in slums on average. This figure climbs to 41% in Mumbai, according to the latest Census. Inequalities are also rampant in the areas of water provision, sanitation facilities and public transport. Co-ordination across sectors and levels of government is lacking, with overlapping powers between the central government and the states in many sectors. The Government of India has made infrastructure upgrades a top policy priority. It has developed several programmes to support subnational investment. PPPs are also strongly encouraged, in particular in the framework of the JnNURM. This programme was the Indian government's first initiative to foster PPPs in urban sectors such as solid waste, water supply, sewage, and urban transport. It was estimated by the former Planning Commission that between 13% and 33% of urban sector investments could potentially be made using the PPP model. The Twelfth Five Year Plan (2012–2017) also promoted the "4P" framework—People–Private–Public–Partnerships.

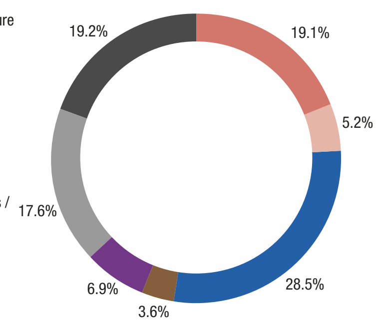
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

2016	% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT		
	SNG	State	Local	SNG	State	Local
Total expenditure	17.1%			100%		
1. General public services	3.3%			19.1%		
2. Defence	0.0%					
3. Security and public order	0.9%			5.2%		
4. Economic affairs / transports	4.9%			28.5%		
5. Environmental protection	0.0%					
6. Housing and community amenities	0.6%			3.6%		
7. Health	1.2%			6.9%		
8. Recreation, culture and religion	0.0%					
9. Education	3.0%			17.6%		
10. Social protection	3.3%			19.2%		

SNG EXPENDITURE AS A % GDP



% OF TOTAL SNG EXPENDITURE



In 2016, SNGs allocated 28.5% of their total budget to economic affairs and transports, which stood at 67% of total public expenditure and 4.9% of GDP. Social protection was the second biggest economic function, representing 19.2% of total SNG expenditure, 66.1% of total public social protection expenditure and 3.3% of GDP. This confirms that SNGs play a major role in the provision of social services. The weight of social expenditure in SNG expenditure is above the average for OECD federal countries (14.8% of SNG expenditure). Despite a lower weight on the SNG budget, housing and community amenities, health and education (including culture due to the current classification) are mostly carried out by state and local governments, amounting respectively to 92.7%, 95.5% and 87.5% of total public spending in these areas.

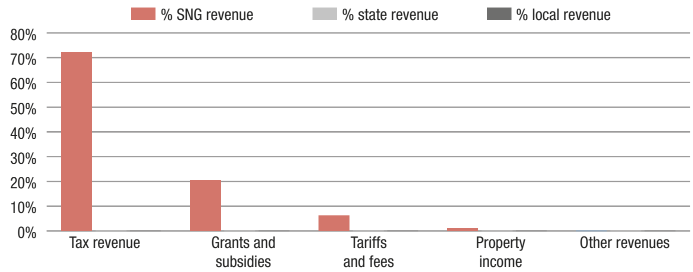
INDIA

FEDERAL COUNTRY

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	% GDP			% GENERAL GOVERNMENT (SAME REVENUE CATEGORY)		
	SNG	State	Local	SNG	State	Local
Total revenue	14.6%			70.8%		
Tax revenue	10.6%			60.1%		
Grants and subsidies	3.0%					
Tariffs and fees	0.9%					
Property income	0.2%					
Other revenues	0.0%					

% SUBNATIONAL, STATE AND LOCAL GOVERNMENT REVENUE



OVERALL DESCRIPTION. The Constitution contains complex arrangements relating to the distribution of fiscal powers and revenues between the federal and state governments. It recognises that the assignment of tax powers and expenditure functions creates imbalances between expenditure needs and the ability to raise revenue. Imbalances are both vertical (among different levels of government) and horizontal (within SNGs). Pursuant to the Constitution, a share of centrally-levied taxes is allocated to the states and the Consolidated Fund of India allocates grants to the states.

Tax sharing arrangements and allocation of grants among different states are determined by the Finance Commission of India, an independent quasi-judicial body enshined in the constitution (article 280), which is appointed by the President of India every five years. The Finance Commission is also in charge of making recommendations regarding the measures needed to increase the Consolidated Fund of a State to supplement municipal and *Panchayats*' resources in the State. A finance commission - whose role is similar to that of Finance Commission of India - exists in each state to provide fiscal advice on state-local government relations.

The SNG financing system is currently changing, following the reform of the 2017 Goods and Service Tax (GST) reform and the recommendations of the Fourteenth Finance Commission (FFC - 2015-2020). The FFC has recommended to increase the percentage of national tax revenues allocated to states from 32% to 42% and improve the grants system to provide more fiscal autonomy and incentives to the states.

Tax revenues represented the bulk of SNG revenues (greater than two-thirds of total SNG revenues), which is well above the average for federal countries in the OECD (47.5%) while the share of grants is smaller. At local level, the opposite is true: municipalities and *Panchayats* depend mostly on federal and state grants (although data are missing).

TAX REVENUE. The Seventh Schedule of the Constitution is very detailed concerning the taxation powers of the Union and the states. Most of the broad-based and productive taxes have been assigned to the federal government such as the PIT or the CIT, but states can benefit from shares of these taxes. Several exclusive taxes are assigned to the states. The Constitution also authorises states to devolve the power to levy, collect and appropriate taxes to local authorities but it does not contain a separate list of taxes for local bodies.

States receive a share of all central government taxes excluding surcharges and earmarked taxes (so-called "divisible tax pool") in particular the personal income tax (PIT), the corporation tax (CIT), the wealth tax, union excise duties, union custom duties and the service tax. Total shared taxes accounted for 33% of SNG tax revenue in 2016, including 11% for the CIT and 8% for the PIT. Following the FFC recommendation, new criteria have been taken into consideration for tax distribution (population, demographic changes, area, forest cover, etc.).

State own-source taxes account for the lion's share of their tax revenue (67%). The general sales tax is the most important, representing 4.4% of GDP, 41.3% of SNG revenue and 30% of SNG total revenue. State taxes also include the state excise duties (7.8% of SNG tax revenue), stamp and registration fees (7.2% of SNG tax revenue), the motor vehicle tax, tax on electricity, tax on goods and passengers and the recurrent property tax. Some states levy a professional tax on individuals, which applies to business owners, individuals working in private companies and merchants. The implementation of a reform on taxation of goods and services will have a significant impact on states' tax revenue as most central and state taxes on goods and services will be merged as of July 2017 into one single national tax: the new GST.

At the local level, sources of tax revenue are relatively narrow compared to international benchmarks. The main local taxes are the recurrent taxes on immovable property and the professional tax (if states have devolved to them taxation powers over these taxes) as well as a luxury tax (entertainment, betting and gambling). The property tax is mainly levied by local authorities. The property tax represented 0.9% of total SNG tax revenues, 0.7% of SNG revenues and 0.1% of GDP which is very low (compared to 1.1% of GDP in the OECD). The municipal revenue base suffers from substantial inefficiencies and a low level of collection. Local governments have very limited autonomy to set the bases and rates and to enforce them since they often lack the appropriate workforce. States can decide to abolish them and some have done so.

GRANTS AND SUBSIDIES. To correct vertical and horizontal imbalances, the constitution provides for statutory fiscal transfers from the centre and the states. There are two types of government transfers: general purpose transfers and specific purpose grants. General purpose transfers are allocated by the Finance Commission to offset the fiscal shortfalls besetting lagging states so they can provide comparable levels of public services at comparable tax rates. They have a strong equalising impact.

Special-purpose grants are conditional grants allocated for various purposes by sectoral ministries. The objective is to ensure that certain worthwhile services are delivered to a minimum standard and to ensure that services with significant inter-state spillovers are carried out.

The FFC has recommended improving the system of central government transfers to the states by, notably, 1) reducing certain conditional grants (45 "plan transfers" or central sector schemes); 2) streamlining the "centrally sponsored schemes" (from 66 to 28, including the matching requirement from the states); and 3) allocating funds based on more objective and progressive criteria (fiscal capacity was given more weight in the formula). The federal government also wishes to move towards outcome-oriented transfers in all policy areas, a move monitored by NITI Aayog and the Ministry of Finance. Examples of schemes are the National Health Mission, the Universal Elementary Education Programme, and the Mahatma Gandhi National Rural Employment Guarantee. As a result of these reforms, the share of general-purpose transfers rose significantly from 55.5% to 71% of total transfers.

At the local level, local governments receive grants and subsidies from three main sources: local body grants (as per the recommendation made by the Indian Finance Commission), federal funds for implementation of sponsored schemes, and state funds.

OTHER REVENUES. SNGs collect other revenues in the form of property income (development charges, transferable development rights) and user charges and fees on a wide range of services. In 2016, tariffs and fees and property income amounted to 6.1% and 1.1% of total SNG revenues, respectively. They remain low by international standards (respectively 14.9% and 2.0% of SNG revenue in the OECD on average in 2016). User charges do not offset operating and maintenance costs of many services, particularly the provision of electricity- and water-related services. Non-tax revenues have been neglected as potential revenue sources in Indian cities and continue to have "untapped potential", in particular in large agglomerations.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.			% GDP			% GENERAL GOVERNMENT DEBT			% SNG DEBT		
	SNG	State	Local	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total outstanding debt	**1 306**			**21.3%**			**29.9%**			**100%**	100%	100%
Financial debt*	1 306			21.3%			35.0%			100%		

* Currency and deposits, loans and bonds

FISCAL RULES. At the national level, a Review Committee set up to evaluate the Fiscal Responsibility and Budget Management Act (FRBMA adopted in 2003 but suspended following the crisis) submitted its report to the finance minister on January 2017 with recommendations on the reinstatement of budget balance rules at the federal level and on "partnering the states". It is currently being reviewed by the government of India. At the state level, the years following the introduction of the FRBMA, most state governments introduced fiscal responsibility laws that limited their deficits to 3% of gross state product (GSP). The 10th plan of the Planning Commission of India highlighted the need for systematic fiscal discipline at the level of the states. At the local level, budget rules are defined by the relevant state.

DEBT. According to the Constitution, states may borrow freely, without debt ceiling limits, unless they hold outstanding loans from (or guaranteed by) the central government. According to the 1914 Local Authorities Loans Act, municipal corporations may borrow with prior approval from their respective state governments. An amendment to the Income Act of 1961 also grants municipalities the right to issue tax-free bonds. Some municipal councils and corporates have also managed to raise finance (with their state government's approval) both through taxable and tax-free bonds, with and without state guarantees. It is interesting to note that the federal government has taken the initiative to encourage ULBs to tap into financial markets. A state-level pooled finance development fund scheme (PFDF) has been established by the Ministry of Urban Development to provide credit enhancement to ULBs wishing to access the bond market. ULBs are scrutinised through a mandatory rating system when the issue maturity is greater than 18 months. In 2017, 94 cities across 14 states have received credit ratings from agencies as part of their preparations for issuing municipal bonds.

In 2016, SNG non-consolidated debt consisted entirely of financial debt, of which 56.5% are loans (including market loans and loans from banks and other institutions), 17.4% are bonds (including special securities issued NSFF) and 26.1% currency and deposits (including ways and means of the Reserve Bank of India, reserve and provident funds). SNG total debt reached 29.9% of total public debt, slightly higher than the OECD average for federal countries (27.1% in 2016); yet, SNG debt stood at 21.3% of GDP, which was much lower than the OECD average for federal countries (31.3% in 2016).

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: OECD
Last update: 02/ 2019

www.sng-wofi.org

Socio-economic indicators: World Bank // UNDP Human Development report // UN Desa // ILO // Ministry of Statistics and Programme implementation: Statistical yearbook 2018 of India.
Fiscal data: Ministry of Finance, Department of Economic Affairs, Economic Division (2016) Indian Public Finance Statistics 2015-2016 // Finance Commission of India (fincomindia.nic.in).
Other sources of information: Rao, G. (2018) The effects of central-government transfers to states in India, in Kim, J. and S. Dougherty (eds.), Fiscal Decentralisation and Inclusive Growth, OECD // Commonwealth Local Government Forum Handbook (2017/18) Country Profile 2018: The local government system in India // Ministry for Housing and Urban Affairs of India (web resources) // OECD (2017) OECD Economic Surveys: India 2017 // OECD (2017) Promoting strong and inclusive growth in India – Better Policies Series // Sharmila L Murthy and Maya J. Mahin (2015) Constitutional impediments to decentralisation in the world's largest largest federal country // Simanti Bandyopadhyay (2014) Municipal Finance in India: Some Critical Issues // Nina Singh (2014) Mapping Metropolises in India // AFD (2014) Panorama of the Urban and Municipal Sector in India // Ministry of Urban Development and National Institute of Urban Affairs New Delhi (2013) Approach to the finances of municipalities: a report to the 14th Finance Commission.

INDONESIA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME LOCAL CURRENCY: INDONESIAN RUPIAH (IDR)

POPULATION AND GEOGRAPHY

Area: 1 910 931 km^2
Population: 264.0 million inhabitants (2017), an increase of 1.25% per year (2016)
Density: 138 inhabitants / km^2
Urban population: 54.7 % of national population (2017)
Urban population growth: 2.3% (2017)
Capital city: Jakarta (4.0% of national population)

ECONOMIC DATA

GDP: 3 242.8 billion (current PPP international dollars), i.e. 12 284 dollars per inhabitant (2017)
Real GDP growth: 5.1% (2017 vs 2016)
Unemployment rate: 4.2% (2017)
Foreign direct investment, net inflows (FDI): 21 465 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 32.2% of GDP (2017)
HDI: 0.694 (medium), rank 116

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Indonesia is a unitary state as provided by the Constitution of 1945 also called "UUD 1945". In 1949, a new constitution established a federal state (United States of Indonesia) that lasted only eight months. The 1945 constitution was restored, and significantly has been amended several times since, in particular during a period of *reformasi* (reformation) after the fall in February 1998 of President Suharto. Indonesia is a presidential representative democratic republic where the President is the head of both state and government. The Parliament (MPR) is bicameral, with the Council of the People's Representatives (DPR) as the lower house and the Council of Regional Representatives (DPD) as the upper house whose members are elected for five years. The authority of the DPD is limited to areas related to SNGs, more specifically "regional autonomy, the relationship of central and local government, formation, expansion and merger of regions, management of natural resources and other economic resources, and bills related to the financial balance between the centre and the regions" (article 22D of the constitution). It has no direct law-making power and its senators can only propose and issue recommendations on bills to the DPR. Each province of Indonesia elects four members to the DPD who represent the interests of their provinces.

Chapter V of the Constitution is dedicated to "local government", guaranteeing their autonomy. Article 18 divides Indonesia into provinces, which themselves are sub-divided into regencies and cities (also called "municipalities") that have their own government chosen in a general election. Article 18b of the constitution recognises the special nature of certain regions to reflect Indonesia's tremendous diversity in terms of geography (a country composed of 16 056 islands including five main islands and four archipelagos), culture and religion (726 different spoken languages, over 300 distinct ethnic groups) and socio-economic characteristics.

Despite these constitutional provisions, Indonesia remained more of a deconcentrated state than a decentralised one until 1998 when a strong decentralisation process was introduced, in association with the democratic transition. This process accelerated rapidly in response to the Asian economic crisis. There were two "big bang" decentralisation reforms in 2001 and 2005 that granted SNGs greater political autonomy to SNGs and transferred to them substantial responsibilities, personnel (two-thirds of the central government workforce was transferred to SNGs), assets and resources. Several important laws established the basis of administrative and fiscal decentralisation: the laws 22/1999 on local government – also often referred to as the Regional Autonomy Law - and law 25/1999 on revenue sharing between the central and the regional governments. These two laws were revised in 2004 through law 32/2004 on local government and the Fiscal Balance Law 33/2004. Law 32/2004 introduced local direct elections and granted additional powers and responsibilities to SNGs, giving provinces supervisory powers and strengthening their role as representatives of the central government, particularly in the area of planning and budgeting. Law 28/2009 specifies the fiscal revenues allocated to SNGs, local taxation and charges. In September 2014, the Indonesian government enacted a new Local Government Law (no. 23/2014) to replace law 32/2004, which aimed to restructure decentralisation to make the public sector more effective. The new law aims to provide clearer guidance related to the distribution of governmental functions between the central and SNGs, although it recentralises some authority back to the central level whose authority is now stronger and more assertive. Another important law was adopted in 2014, law no. 6 / 2014 ('Village Law') on villages' governance and finance. Through this law, villages are recognised as self-governing entities and have more authority and resources. Prior to the reform, villages were under control of the districts.

Since the "Village law", Indonesia has a three-tier system of subnational government, with a regional tier composed of provinces (*provinsi*), an intermediate tier composed of regencies (*kabupaten*) and cities (*kota*) and a local tier composed of villages. Each province is headed by a governor and has its own regional assembly called the Regional People's Representatives Assembly. Governors and representative members are elected by popular vote for five-year terms. Regencies and cities are both at the same level, having their own local government elected by universal suffrage for a term of five years. The legislative body is the local council of representatives while the executive is the regent in regencies (*Bupati*) and the mayor in cities (*Wali kota*). Villages (*kampung*) and groups of villages (*desa*) exist in both rural and urban areas. Their leaders are usually elected in rural areas and appointed in urban ones. A village also has two neighbourhood associations at two different levels. The central government does not have state territorial administration, except regional offices of central ministries or departments. However, the provincial governors - in addition to acting as the head of provincial government - also act as a representative of the central government in each province to carry out certain central government tasks (deconcentration).

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	83 344 villages (*desa* and *kelurahan*)	416 regencies (*kabupaten*) *98 cities (kota)*	34 provinces *(provinsi)*	
	Average municipal size:			
	83 344	514	34	83 892

OVERALL DESCRIPTION. In 2017, the subnational government structure of Indonesia, was composed of 34 provinces sub-divided into 416 regencies and 98 cities and 83 344 villages. At regional level, nine new provinces were created between 1999 and 2012. Five provinces have special status, Aceh (the Islamic sharia law as the regional law of the province), the Special Capital Region of Jakarta as the capital city, the Special Region of Yogyakarta (a sultanate that has a hereditary governor and vice-governor) and Papua and West Papua. They enjoy more autonomous powers.The population of provinces ranges from 872 000 inhabitants in (Papua Barat, 0.3% of the Indonesian population) to 46.7 million in Jawa Barat (18%). Population is distributed very unevenly. The six provinces located in the central island of Java account for 55% of the population. They include the Special Capital Region of Jakarta (i.e. the capital city), which accounts for 11.5 million inhabitants. There are strong inequalities among provinces. In 2017, the GDP per capita of the capital region of Jakarta was 13 times higher than per capita GDP in the poorest province (Nusa Tenggara Timur). Four provinces accounted for 45% of GDP in 2017.

At the intermediate level, cities differ from regencies by their demographic size and economic profile. Small regencies are home to about 6 000 inhabitants whereas the largest city has 4.8 million inhabitants (Bogor in West Java). Regencies and cities are further divided into 7 217 administrative units called "districts" managed by a civil servant appointed by the regency or the city (*Kecamatan*). The number of regencies and cities have also swelled from 303 in 1999 to 514 in 2017 in a bottom-up process. This sharp expansion, called *pemekaran* or "blossoming", was ended in 2010. Today, regency/city average size is 513 600 inhabitants, with large variations. The 2014 Village Law gave village authorities (Articles 18–21) an administration role in village affairs, social and economic development, and the empowerment of villagers. It also includes the Village Fund policy (Article 72), which allocates funding to village governments. Since 1999, the number of villages has increased by 20%. About a third have a population of fewer than 1 000 inhabitants.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Following Law 32/2004, local governments gained broad responsibilities, making Indonesia one of the largest decentralised countries in the world. Most competencies were delegated to SNGs with the central government retaining responsibility only for areas of national security, foreign and monetary policy, justice, governance and planning, religious affairs. Most responsibilities were transferred to regency/city governments while provinces were granted mainly administrative and control tasks, in particular in their "deconcentrated" role as the regional representative of the central government.

The new Local Government Law no. 23/2014 has redefined the distribution of responsibilities across all levels of government, defining exclusive responsibilities for the central government (see above), concurrent responsibilities and general affairs. It also established a list of obligatory and discretionary functions. Mandatory functions are related to basic services in six areas (education, health, public works and spatial planning, housing and residential areas, peace, public order, and the protection of society, and social affairs) and 18 other functions that are "not related to basic services". The government has developed, and refined on several occasions, minimum service standards to guide the implementation of obligatory functions for basic services. The law has shifted the authority from municipalities to provinces in several areas, such as coastal management, mining, forestry or high school education. It has also reaffirmed the authority and power of central government, also represented by the governors in the province. However, there is still no clear-cut separation between governmental responsibilities, in particular between provinces and regency/city governments, resulting in several overlaps.

In summary, provinces are mainly responsible for supervisory functions and matters that require cross-jurisdictional co-operation. However, they do not have hierarchical authority over local governments. Therefore, they perform largely co-ordinating tasks. Local responsibilities cover all major areas such as health, education, culture, agriculture, transport infrastructure, industry and trade, public works, environment, land, small enterprises, etc. The service responsibilities of villages are not clearly defined. The 2014 Village Law only provides general guidelines pertaining to these responsibilities. To perform their tasks, SNGs make use of local public enterprises. There were around 650 enterprises, including drinking water companies and marketplaces, owned and managed by regencies and cities and 108 by provinces in 2014.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	PROVINCIAL LEVEL	REGENCY/ MUNICIPALITY LEVEL
1. General public services	Provision of public administrative services including inter-regental/municipal services; Provision of other basic services that cannot yet be provided by regencies/municipalities; Population administration and civil registration; Community empowerment and village; Statistics	Provision of local public administrative services; Community and village empowerment
2. Public order and safety	Maintenance of public peace and order	Fire-fighting
3. Economic affairs /transports	Provincial economic development; SMEs policy (except for providing education, training and guidance) and inter-regental/ municipal businesses; Agricultural services; Capital investment services including inter-regental/municipal services; Provision of inter-regental/municipal manpower services; Provincial roads; Coastal management	Local economic development including responsibility for the development of microenterprises (except for providing education, training and guidance); Manpower services; Agrarian services; Provision of capital investment services; Local roads; Management of fisheries
4. Environmental protection	Protection of bio-diversity; Hazardous work; Environmental licences; Waste management; Conservation of natural resources and eco-system and national parks (but limited power on forestry)	Sanitation; Waste collection and management
5. Housing and community amenities	Provision and rehabilitation of victims of provincial disasters; Facilitation for the provision of housing for people affected by the relocation of provincial government programmes	Spatial and urban planning; Water provision; Provision and rehabilitation of victims of district or city disasters; Provision of housing for people affected by the relocation of the district or city government programmes; Issuance of building permits and housing development; Issuance of building ownership certificates (SKBG)
6. Health	Medical licences; Regulation concerning medicines and medical equipment; Food and beverage production; Provincial Referral Health Hospitals; Provincial health centres	Primary healthcare services; Small local hospitals/clinics; Local health centres
7. Recreation, culture & religion	Youth and sport; Culture	Youth and sport; Culture; Library; Archives
8. Education	Senior secondary education, including infrastructure and teachers' salaries; Vocational education; Special education service	Early childhood education; Primary and junior secondary education, including infrastructure and teachers' salaries; Non-formal education
9. Social protection	Social assistance policies and control of inter-regental/municipal social problem	Social services

INDONESIA

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT FINANCE

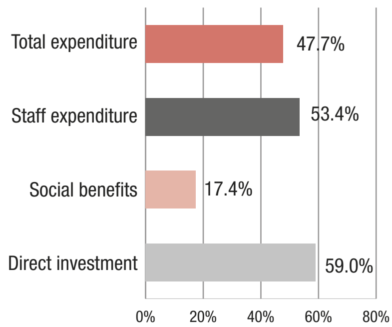
Scope of fiscal data: : provinces, regencies, municipalities and villages. At village level, the financial statistics were obtained through a Village Financial Survey, conducted on a sample basis covering about 10% of the total villages in Indonesia.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. Fiscal decentralisation is grounded in law 25/1999 on the fiscal balance between the central government and local governments, which was revised in 2004 through law no. 33/2004. This law guides the intergovernmental financial relationship between the central and local governments in Indonesia. While SNGs play a major role in public spending and have significant discretion in terms of their expenditure mix, their revenues come mostly from central government transfers, resulting in strong vertical fiscal imbalances.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**938**	**8.1%**	**100%**
Inc. current expenditure	732	6.3%	78.0%
Staff expenditure	324	2.8%	34.5%
Intermediate consumption	201	1.7%	21.4%
Social expenditure	10	0.1%	1.1%
Subsidies and current transfers	197	1.7%	20.9%
Financial charges	0	0.0%	0.0%
Others	0	0.0%	0.0%
Incl. capital expenditure	207	1.8%	22.0%
Capital transfers	0	0.0%	0.0%
Direct investment (or GFCF)	207	1.8%	22.0%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



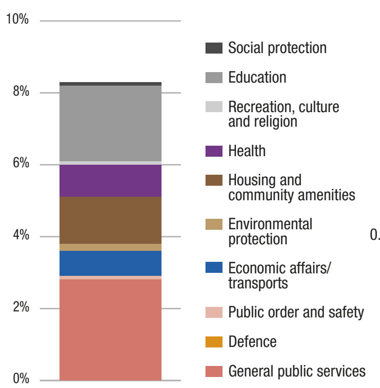
EXPENDITURE. SNG expenditure in Indonesia accounted for 8.1% of GDP and 47.7% of public expenditure in 2016. Compared to OECD averages (16.2% of GDP, 40.4% of public expenditure) this level is low in terms of GDP but high in terms of its share in total public expenditure, especially compared to the average for unitary countries (28.7%). The level of staff expenditure in public staff expenditure is quite high compared to OECD unitary countries (53.4% vs 43%). Although staff expenditure accounts for one-third of SNG expenditure, the ratio reaches 40% for regencies and cities (vs 18% in the provinces). In Indonesia, SNGs employed around 78% of total public civil servants in 2017. Regency/city governments and villages accounted for around three-quarters of SNG expenditure in 2016 (68% for regencies and municipalities and 7% for the villages). Their expenditures amounted to 6.0% of GDP and 35.2% of public expenditure. The provincial level accounted for only 2.1% of GDP and 12.6% of public expenditure.

DIRECT INVESTMENT. Public investment accounted for 3.0% of GDP in 2016 (1.8% at subnational level). Both averages are close to the average of OECD countries but it is much lower when compared to other emerging economies and Asian countries. Decentralisation devolved much infrastructure expenditure (e.g., local roads and water treatment) to SNGs. Today, SNGs in Indonesia are key investors, representing 59% of public investment (vs 20% before decentralisation), on par with the OECD average in 2016. In 2016, SNG investment stood at 22.0% of their budgets, which is higher than in the OECD on average (10.7%), confirming that investing is a major function of SNGs. However, many of these investments are not for "productive infrastructure" (public buildings for example). SNG public investment is mostly undertaken by regency/city governments: 1.4% of GDP and 80% of SNG investment, whereas investment at the provincial level accounted for 0.4% of GDP and 20% of SNG investment. This situation poses the challenge of effective co-ordination of SNG activities with national plans, such as the MP3EI (Masterplan for the Acceleration and Expansion of Indonesian Economic Development) published in 2011. The MP3EI set out a three-stage plan for Indonesia to become a developed country by 2025. However, Indonesia's National Medium Term Development Plan must be taken into consideration by SNGs in their own regional development policies. PPPs are encouraged at subnational level to leverage up the impact of public spending but they remain in gridlock in Indonesia because of inappropriate framework (which is however changing) and lack of capacities.

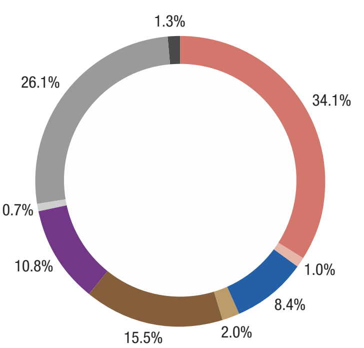
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

For SNGs in 2016, most spending occurred in the areas of general public services, education and housing and community amenities – respectively 34.1%, 26.1% and 15.5% of SNG expenditure. The high ratio of SNG spending on public administration (28% of SNG expenditure vs 17% in the OECD on average) may be due to the multitude of SNGs in Indonesia, driving administrative and related staff costs higher. It is also related to the role of the provinces, which have mostly administrative and control responsibilities. General public services accounted for 62% of their expenditure in 2016, including: housing and community amenities (13%), economic affairs and transport (9%) and health (8%). At regency/city level, the biggest spending items are education (34% of their expenditure, 2% of GDP and 56% of total public education-related spending), general public services (24% of their expenditure), housing and community amenities (16%) and health (12%). Regencies and cities are also heavily involved in housing and community amenities and environmental protection (respectively 65.5% and 55.2% of public expenditure)

% GDP



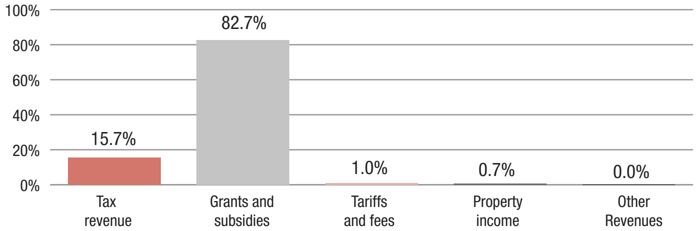
% SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**938**	**8.1%**	**55.9%**
Tax revenue	147	1.3%	10.9%
Grants and subsidies	776	6.7%	
Tariffs and fees	10	0.1%	
Property income	6	0.1%	
Other revenues	0	0.0%	

% SNG REVENUE



OVERALL DESCRIPTION. SNGs rely on two primary revenue sources to finance their expenditures: own-source revenues and intergovernmental transfers. The latter represent the bulk of SNGs resources, resulting in a high dependence of SNGs on central government funding. In 2016, 82.7% of their budget was financed by transfers from the central government (vs 37.2% in the OECD on average and 48.8% in OECD unitary countries) while tax revenues only accounted for 15.7% of their total revenues (to be compared to 44.6% in the OECD on average and 38.7% for the unitary countries) and non-tax revenues for a negligible portion. The share of SNGs in public tax revenue is three times less than in the OECD on average (10.9% vs 31.9% in 2016). In 2016, the regency/city governments and villages accounted for 72.6% of all revenues at the subnational level (5.9% of GDP), while provinces accounted for the remainder (2.2% of GDP). Provinces are mostly funded through taxes while regency/city governments and villages are almost exclusively funded through central government transfers.

TAX REVENUE. The allocation of tax revenue is regulated by law 28/2009 on Regional Taxes and User Charges. The law transferred, in particular, certain taxes from regency/city governments to provinces. As a result, provinces concentrate 73% of all SNG tax revenue, and regency/city governments account for the remainder 27%. Tax revenues represent 41% of provinces' revenue and only 6% of regency/city governments' revenue. However, overall, tax revenues are limited. SNGs were only given a low tax base and no power to collect major taxes. Central government sets the maximum tax rates, and SNGs are prohibited from collecting taxes other than those set by law by central authorities; they cannot apply surtaxes either.

The main taxes allocated to the provinces include a motor vehicle tax (annual tax on the value of the vehicle) and a motor vehicle ownership transfer tax (levied when a motor vehicle is resold). Both combined accounted for 44% of SNG tax revenue in 2016. Provincial taxes also include a fuel tax and a surface water tax. 30% of these provincial taxes are redistributed to regencies and cities. Local taxes include a hotel tax, a restaurant tax, an entertainment tax, an advertisement tax, a public lighting tax, a mining tax (non-metal and stone minerals), a parking tax, etc.

Property taxes (land and building tax, land and building acquisition tax) were only decentralised with the enactment of law no. 28/2009. Local governments started collecting them in 2011, but the central government put an end to the local collection and administration of the property tax in 2014.

GRANTS AND SUBSIDIES. Law no. 33/2004 provides instructions for the sharing of financial resources between the central government and SNGs. The amount of transfers has substantially increased as a result of decentralisation. This was especially the case in 2006 when transfers increased by almost 50%. Consequently, transfers made up about half of the central government budget (net of subsidies and interest payments; about 6% of GDP). 81% of this amount accrued to the regency/city governments and the villages in 2016. As a result, central government transfers accounted for 92% of their revenue in 2016 (vs 6% for tax revenue).

The intergovernmental fiscal transfer system, which has a strong focus on equalisation, consists of several types of grants, as follows:

- The General Allocation Fund (*Dana Alokasi Umum* DAU): the DAU is a general purpose block grant and by far the largest transfer, accounting for around half of all central government transfers. Although general and non-earmarked, half is dedicated to wages and salaries; nevertheless, there are no restrictions on the remaining portion. As per the national budget, total amount of the DAU must be equivalent to at least 26% of Net Domestic Revenue. Transfers from DAU are formula-based, consisting of a base allocation (equal to the amount of staff expenditure) and a fiscal gap allocation (which can be positive or negative) based on a difference between needs and capacity and a set of variables (level of government, population, natural resources, surface area and regional socio-economic inequality). The calculation formula has been criticised for its complexity and the role of the wage bill, which can encourage hiring more civil servants than needed.

- The Special Allocation Fund (*Dana Alokasi Khusus* DAK) became a special-purpose grant in 2016 aimed at funding responsibilities that are considered national priorities. It consists of DAK *Fisik*, mainly for financing capital expenditures, and DAK *Non Fisik*, mainly to provide additional financing for the operational cost of service delivery, (e.g., schools and health centres). It was the second most important fund in 2016 (23% of total grants).

- The Revenue-Sharing Fund (*Dana Bagi Hasil* DBH) redistributes revenues earned from taxes (land and building tax, property tax, personal income tax, tobacco) and natural resource revenues (forestry, mineral mining, fishery, oil, natural gas and geothermal). 20% of DBH from the personal income tax PPh) is allocated to SNGs. This share is divided between the province (40%) and regency/city governments (60%). It represented 13% of all funds in 2016.

- The Village Fund is a new fund, and was created by the Village Law. Both central governments and regency/city governments pay into the fund by contributing a share of their own resources and grants. The majority of the funds (90%) are to be distributed as equal allocations per village. The remainder 10% is based on a "need-based" formula. The Village Fund accounted for 6.6% of all central government transfers in 2016.

- Other funds include: 1) autonomy funds, which are special arrangements with the three regions (i.e. Aceh, Papua and West Papua); 2) a special fund for Yogyakarta; 3) regional incentive grants (DID) – which are distributed to local governments according to their performance rank by the Ministry of finance – and 4) "deconcentration funds", which provide grants directly from line ministries to SNGs to fund specific national programmes.

OTHER REVENUES. Other sources of SNG revenue include service fees for healthcare, education, cleaning, parking, waste processing, etc. User charges and fees remain a limited source of SNG revenue compared to international standards (they accounted for 14.9% of SNG revenue in the OECD. This is in large part because there is a predetermined list of regional fees and charges that is established by national laws. In addition, any new levies decided by SNGs require the approval of the central government and are subject to centrally-stipulated guidelines. SNGs also receive property income, mainly dividends from their local companies. Other revenues benefit mainly provinces and large cities.

INDONESIA

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**40**	**0.3%**	**1.1%**	**100%**
Financial debt*	4	0.0%	0.1%	10.3%

* Currency and deposits, loans and bonds

FISCAL RULES. The State Finance (law no. 17/2003) and the law on "Auditing Management and Accountability of State Finance" impose a uniform system of financial accounts, audit rules, and disclosure requirements for borrowing by all levels of government. The audit law in particular includes a performance and compliance audit in addition to the traditional financial audit, which also applies to SNGs. The State Finance Law adopted the fiscal and debt rules of the European Union by limiting the budget deficits of the central government and SNGs to 3% of their respective annual GDP (or regional GDP in the case of SNGs). The debt-to-GDP ratio (or debt/regional GDP) is set at a maximum of 60%. Each year, the central government sets a ceiling for the SNG budget deficit.

DEBT. SNGs are allowed to borrow long term but borrowing is strictly controlled. They can only borrow for capital development ("Golden Rule") subject to a set of specific conditions. SNG borrowing should be used to finance infrastructure that directly generates own-source revenue. SNG debt must not exceed 75% of the previous year's budget revenues and the debt service ratio to revenue is capped at 40%. In addition, SNGs cannot borrow more than the maximum amount determined by the central government, nor can they borrow while past loans remain in arrears. SNGs with outstanding arrears on government loans are prohibited from borrowing. A cumulative lending limit for subnational loans is set by the Ministry of Finance. Finally, SNGs are not allowed to directly borrow internationally. SNGs are allowed to raise domestic bonds. However, issuing local bonds requires permission from the Ministry of Finance as well as an unqualified audit opinion from the BPK (*Badan Pemeriksa Keuangan*), the audit commission established by the central government.

Overall, SNG borrowing levels are extremely low both as a share of GDP and overall public debt. In addition, it is mostly composed of arrears (almost 90%), with financial debt accounting for the remainder (10% of debt stock i.e. 0.04% of GDP). SNG debt is composed of loans (granted through government lending programs) and, only on occasion, through regional banks owned by local governments or other private sources, in particular multilateral institutions.

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Socio-economic indicators: World Bank // UNDP Human Development report // UN Desa // ILO // BPS-Statistics Indonesia (2018) Statistical Yearbook of Indonesia 2018.
Fiscal data: IMF Government Finance statistics // OECD (2018) Subnational government in OECD countries: key data (brochure and database).
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JAPAN

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: JAPANESE YEN (JPY)

POPULATION AND GEOGRAPHY

Area: 377 692 km^2
Population: 126.728 million inhabitants (2017), i.e. -0.1% per year (2010-2015)
Density: 335 inhabitants / km^2
Urban population: 91.5% of national population
Urban population growth: -0.1% (2017 vs 2016)
Capital city: Tokyo (29.6% of national population)

ECONOMIC DATA

GDP: 5 487.2 billion (current PPP international dollars), i.e. 43 279 dollars per inhabitant (2017)
Real GDP growth: 1.7% (2017 vs 2016)
Unemployment rate: 2.8% (2017)
Foreign direct investment, net inflows (FDI): 18 837.5 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 23.5% of GDP (2016)
HDI: 0.909 (very high), rank 19 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Japan is a constitutional monarchy and a parliamentary democracy. Japan's constitution was promulgated in 1946 and came into force in 1947. Legislative power is vested in the National Diet (*Kokkai*), a bicameral parliament composed of the House of Councillors (upper house) and the House of Representatives (lower house), whose members are directly elected by the people, for respectively six-year terms and four-year terms. Three-fifths of the members of the upper house are elected from the prefectural constituencies. The Head of Government, the Prime Minister, is elected by members of the Diet, and the Head of State is the Emperor.

The 1947 constitution established the principle of local autonomy for both residents and local public entities (Chapter 8, Art. 92) and conferred administrative power on local governments (Art. 94). The relation between the various levels of governments is stipulated in the 1947 Local Autonomy Law, which came into effect concurrently with the Constitution. Various laws relating to local autonomy have been enacted such as the Local Public Service Law, the Public Offices Election Law, the Local Finance Law, and the Local Tax Law.

Each local government has its own assembly, with members directly elected by local residents for four-years. Local assemblies have authority to approve budgets and to establish ordinances within law. In addition, administrative committees are established in education, public safety, etc. Prefectures are administratively headed by governors (chiji), while cities, towns, and villages are headed by mayors.

In Japan, the push for decentralisation started during the post-World War II period, and was viewed as a means of achieving more democratic political outcomes. The promotion of a democratic system of local government was part of the national agenda. However, the model of central-local relations put in place remained quite centralised in practice, based on the agency-assigned function system. In the 1990s, an ambitious decentralisation programme was launched, encompassing changes to local governments' functions, an increase in local authorities' autonomy, a revision of local governments' financing, and a territorial reform based on municipal amalgamations.

This process was carried out through several steps over a long period, with the support of a Decentralisation Promotion Committee set up in 1995. The first "Decentralisation Promotion Reform" (1995-2001) led to the adoption of the Omnibus Decentralisation law in 2000 - the cornerstone of the new wave of decentralisation in Japan. This law was followed by the Trinity Reform in 2004-06, which laid out the financial component of the decentralisation reform. In 2006, the Second Decentralisation Promotion Reform was launched. It supplemented the first reform and aimed at reaching similar objectives: granting further authority to local governments and rationalising their functions; rationalising the power of central government on local authorities; and consolidating local administrative systems through municipal mergers. It also considered reforming the regional administration of the central government. New sets of recommendations led to the adoption of a new set of bills, in 2008 and 2009. In parallel, reform of the prefectural level and the creation of a "*Doshusei*" Regional System were considered but have not been implemented since. Further decentralisation reforms are still on the agenda as SNGs still have limited autonomy, in particular, in relation to spending and revenue.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	1 718 municipalities *(shichouson)* and 23 special wards within Tokyo		47 prefectures *(todofuken)*	
	Average municipal size: 72 790 inhabitants			
	1 741		**47**	**1 788**

OVERALL DESCRIPTION. Japan is a unitary country with two tiers of local governments, prefectures and municipalities, with no hierarchical link. They are specified in the Local Autonomy Law as the two basic types of local authorities in Japan.

PREFECTURAL LEVEL. The prefectural level of government in Japan consists of one metropolitan district (Tokyo), two urban prefectures (Kyoto and Osaka), one district (Hokkaidō), and rural prefectures. Regionalisation plans have been considered for decades, and new regionalisation projects were proposed in the 2000s, under the term "*Doshusei*", but reorganisation has not been scheduled yet. As stipulated by the National Spatial Planning Act, regions are responsible for drawing their own regional plans, in coherence with the National Spatial Strategies elaborated at national level for a ten-year period.

MUNICIPAL LEVEL. Municipalities form the basic level of government in Japan. The municipalities are not uniform, being subdivided, in descending order, into 20 designated cities, 58 core cities, 27 "national enforcement time special cities", and 685 other cities. They also include 745 towns (*machi*) and 183 villages (*mura*). All these local government units have their own mayors, or chiefs, and assemblies. Cities with a population above 500 000 inhabitants can be given the status of designated cities (*shitei toshi*). Designated cities are divided into wards (*ku*), each of which has a chief and an assembly, the former being nominated by the mayor and the latter elected by the residents. According to the Local Autonomy Law, the 20 designated cities and the 23 Metropolitan Tokyo wards have a special status based on their population size, and they have more administrative and fiscal autonomy than the other municipalities.

Several waves of mergers have drastically reduced the number of municipalities, from 9 868 in 1953 to 1 718 today. The first wave was "*Shōwa no Daigappei*" which reduced the number of municipalities from 9 868 in 1953 to 3 472 in 1961. The objective was to reduce the number of municipalities to one-third of the original number and to attain a minimum target size of 8 000 inhabitants per municipality. A second wave (*Heisei no Gappei*) took place from 1999 until 2010, which reduced the number of municipalities from 3 232 to 1 727, based on voluntary merger policy supported by a mixture of incentives. Inter-municipal cooperation is increasingly promoted, in particular through voluntary partnership agreements that are established under the Local Autonomy Act.

As a result of these amalgamations, municipalities have grown in size, and as of 2016, 59% of Japanese municipalities had more than 20 000 inhabitants and only 13% fewer than 5 000 inhabitants, with an average municipal size of 72 831 inhabitants (vs 9 700 in the OECD on average) and a median size of 31 300 inhabitants.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Local governments in Japan have a large array of responsibilities, with an asymmetrical decentralisation system at regional and local levels. Despite no clear-cut separation, the prefectures have considerably stronger administrative powers than the municipalities. However, in many of these spheres, the central legislation often establishes uniform policies and standards for the whole country. The 1999 Omnibus Decentralisation Act abolished the former system of delegated functions ("agency-delegated functions" in which regional governors and mayors serve as regional representatives of the central government), which was in place under the 1947 Law on Local Autonomy. It increased significantly subnational autonomy and responsibilities, by revising the 475 previous laws. Overall, SNGs have both "local own functions" and "statutory entrusted functions", which remain under the supervision of the central government. According to the Local Autonomy Law, local governments are responsible for a range of functions in the fields of economic development, public infrastructure, public housing, education, social assistance policies and public health.

In addition, a network of 8 398 local public companies are active in public service delivery, especially in the sewerage (43.2% of all local public companies), water supply (22.9%) and hospitals (7.5%).

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	PREFECTURES	MUNICIPAL LEVEL
1. General public services	Communication and coordination affairs relating to municipalities	Internal administration; Family registers; Resident registrations
2. Public order and safety	Police	Fire fighting
3. Economic affairs /transports	Economic development; Public infrastructure; Prefectural roads; National highways; Harbours; Agriculture; Employment	Local roads; Local harbours
4. Environmental protection	Forest and river conservation; Environmental protection	Sewage; Waste disposal; Parks
5. Housing and community amenities	Public housing	Urban planning; Public housing; Water supply
6. Health	Public health centres	Nursing
7. Recreation, culture & religion		Leisure services; Sport; Libraries
8. Education	Upper secondary schools	Pre-schools; Elementary schools; Lower secondary schools
9. Social protection	Social assistance policies	Child welfare; Elderly; National health insurance; Ageing insurance

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: : Cabinet-Order Designated Cities, cities, towns, villages and special wards at the municipal level; Tokyo metropolitan district, Kyoto and Osaka urban prefectures, Hokkaido district, and rural prefectures at the prefectural level.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. As a unitary country, public spending in Japan tends to be very decentralised, with shares of SNG spending in GDP and in overall public spending significantly above the OECD average. The Trinity Reform, from 2002 to 2006, laid the financial basis of the decentralisation reform, by setting up three major components: the creation of a tax-sharing system between the national and subnational level, a reform of the equalisation tax (local allocation tax) and the abolishment of several national earmarked grants. "Basic Policy on Economic and Fiscal Management and Reform 2015" tended to strengthen local fiscal discipline, stating that "Local government expenditures shall also be controlled in line with the efforts by the central government". However, the level of decentralisation should not be overstated as SNGs often remain "paying agents" on behalf of the central government, implementing policies designed by the different ministries.

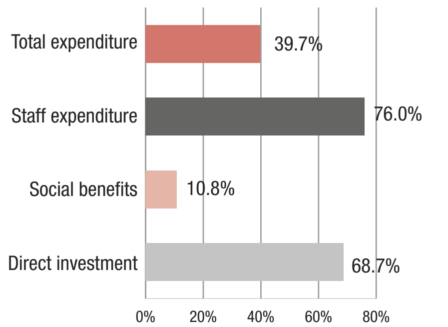
JAPAN

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**6 561**	**15.5%**	**100%**
Inc. current expenditure	5 181	12.3%	79.0%
Staff expenditure	1 761	4.2%	26.8%
Intermediate consumption	1 005	2.4%	15.3%
Social expenditure	972	2.3%	14.8%
Subsidies and current transfers	1 318	3.1%	20.1%
Financial charges	121	0.3%	1.8%
Others	4	0.0%	0.1%
Incl. capital expenditure	1 380	3.3%	21.0%
Capital transfers	268	0.6%	4.1%
Direct investment (or GFCF)	1 112	2.6%	16.9%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



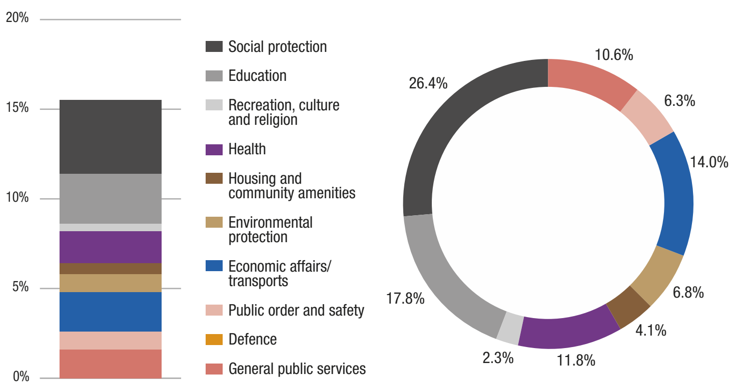
EXPENDITURE. In Japan, share of SNGs in public expenditure was in line with the OECD average in 2016. Prefectures and municipalities are each responsible for approximately half of total SNG spending. Japanese SNG share in public staff spending is particularly high compared to the OECD average (62.9% for all OECD countries and 43% for OECD unitary countries).

DIRECT INVESTMENT. Japanese local governments play a crucial role in public investment, as investment accounted for 17% of their budget in 2016, as compared to 10.7% on average in the OECD. The SNG share in public investment is noteworthy, compared to the OECD average (59%) as well as the weight in GDP, representing 2.6% of GDP vs 1.7% in the OECD. Most subnational investments in Japan are dedicated to economic affairs, as local governments are responsible for roads, bridges and harbours, among others. Indeed, infrastructure such as roads, waterfronts, sewage systems, and sea ports, which were developed during the high growth era (1955-1973), are rapidly aging. Other large categories of investment spending include environmental protection, education and housing. Yet in their mission, SNGs are often limited to a role of implementing agents of the national governments on the one hand and, on the other hand, constrained by a tight fiscal situation to focus more on projects with high returns. They are guided by Japan's National Spatial Strategy (NSS) in the areas of integrated territorial and infrastructure development. As an example of government financial support, based on Act on Development of Infrastructures for Wide-Area Revitalization, the Ministry of Land, Infrastructure and Tourism (MLIT) grants subsidies to SNG to form self-reliant wide-area blocks. SNGs create wide-area regional revitalization infrastructures development plans and promote infrastructure development to revitalize the regions through buoyant human and material traffic.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Subnational governments dominate general government expenditure in most major areas in Japan, such as social protection (child, elderly, public assistance and disaster relief), education (primary, secondary and high school), economic affairs (notably transport infrastructure) and general public services. Municipalities' prime spending areas are social welfare, general public services and economic affairs/transports. On the other hand, prefectures spend more on education and economic affairs. 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.

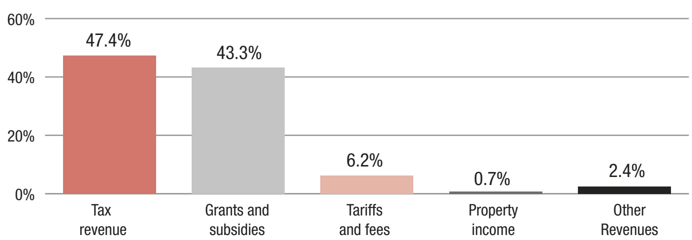
% GDP | % SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**6 562**	**15.5%**	**43.5%**
Tax revenue	3 112	7.4%	39.9%
Grants and subsidies	2 838	6.7%	
Tariffs and fees	407	1.0%	
Property income	46	0.1%	
Other revenues	158	0.4%	

% SNG REVENUE



OVERALL DESCRIPTION. SNGs still depend on central government transfers for 43% of their revenue, based on a tax sharing system established by the 2004 Trinity Reform, which is above the OECD average (37.2% in 2016). However, the share of taxes in SNG funding has increased significantly in recent years thanks to fiscal reforms (+3 percentage points since 2013) to become the first source of SNG revenues in 2016. Reforms also tend to reduce the share of earmarked grants, providing more leeway to SNGs. The degree of fiscal dependence of Japanese local governments on grants and subsidies varies across prefectures and municipalities.

TAX REVENUE. The share of SNG tax revenue in GDP and public tax revenue in Japan is higher than the OECD average in 2016 (7.1% of GDP and 31.9% of public tax revenue).
The Local Tax Law provides for 12 types of prefecture taxes and 13 types of municipal tax. Moreover, local governments can introduce new, non-statutory taxes, which are not stipulated in the Local Tax Law if they have specific needs. Yet, they represent a very small share of their total tax revenues. As of 2014, tax revenue accounted for 34% of prefectures' revenues and 33% of municipal revenue. In 2016, a tax reform was launched to correct the uneven distribution in tax sources across regions and the uneven distribution of local government corporation taxes, intended to minimise disparities in financial strength
The primary SNG tax is by far the resident tax which is a combined prefectural and municipal tax calculated on the basis of 10% of the income earned in the previous year, regardless of the amount of income. It is levied both on individuals and businesses, and in 2016, both taxes combined represented around 40% of SNG tax revenue. This system enables areas with a high concentration of businesses and high income, such as Metropolitan Tokyo, to be almost self-financing. By contrast, most of the prefectures from more isolated areas on the Japan Sea coast cannot rely only on this source of revenue.
In addition to the resident tax, prefectures also perceive local taxes including an enterprise tax (around 19% of prefectures' revenue in 2014), a local consumption tax (19%) and an automobile tax (10%). Other taxes include light-oil delivery tax, prefectural tobacco tax, etc. For municipalities, the second highest tax is the fixed asset tax (property tax on land and buildings, accounting for approximately 42% of municipal revenue in 2014), followed by a city planning tax (6%), and a municipal tobacco tax (5%).
Overall, the income tax was the primary source of tax revenue in 2016, accounting for 32% of SNG tax revenue, 15% of SNG revenue (i.e. 2.4% of GDP). The recurrent property tax was the second most important source, representing 26.4% of SNG tax revenue and 12.5% of SNG revenue, amounting to 1.9% of GDP, a level which is well above the OECD average (1.1% of GDP in 2016). The third biggest source was the business tax, amounting to 17.5% of SNG revenue, followed by the consumption tax.

GRANTS AND SUBSIDIES. Japan's intergovernmental transfer system aims at filling the gap between SNG own-source resources and their spending responsibilities, as well as alleviating fiscal inequalities among local governments.

Major central government transfers are based on the sharing of national taxes. The most important one is the Local Allocation Tax Grant (LAT), based on national tax revenues from the five major national taxes (33.1% of PIT and CIT, 22.3% of the consumption tax, 50% of the liquor tax and all local corporate tax revenues), SNGs receive between 25% and 34% of the receipts. LAT allocation is determined by local fiscal capacity and expenditure needs, and therefore no distribution is made to local revenue with base revenues exceeding their financial needs. The LAT is broken down into an "ordinary" LAT (94% of funds) and a "special" LAT (6%), dedicated to extraordinary expenses such as damages from natural disasters. For two decades, LAT funding itself has been an issue as the grant's base revenue has been inadequate to cover the local financial need. It still requires topping up from other funding sources, including the general account of the national government's budget, and debt financing co-financed at 50% by local governments. 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 a general grant.
Other transfers include, for example, funds for local revitalisation and subsidies for the Overcoming Population Decline and Revitalizing the Local Economy, and national treasury disbursements. In 2016, around 17% of all grants was for capital expenditure, a decrease of 6 percentage points since 2013.

OTHER REVENUES. Other revenues include charges and fees, which represent around 6.2% of SNG revenue and, revenues from property (sales of assets, rents, dividends) and social contributions. Japan SNGs are expected to increase their user fees (i.e. for garbage collection, etc.) in the coming years to improve their overall revenue.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**14 340**	**33.9%**	**15.3%**	**100%**
Financial debt*	13 613	32.2%	14.9%	94.9%

* Currency and deposits, loans and bonds

FISCAL RULES. The 2009 Act on Assurance of Sound Financial Status of Local Governments established new deficit and debt ratios to monitor the financial solidity of SNGs and strengthen their fiscal discipline. The "Basic Policy on Economic and Fiscal Management and Reform 2018" sets two fiscal consolidation goals for the central and local governments: a primary surplus by FY 2025 and reducing the public debt-to-GDP ratio steadily.

DEBT. SNGs may borrow freely but only to finance capital expenditure ("Golden Rule"). SNG borrowing is very high by international standards, well above OECD averages in terms of GDP (24.5% for all OECD). Yet in contrast with their high share of subnational expenditures, the share of SNG debt in total public debt is lower than the OECD average (20.7% in 2016), which can be explained by the significant level of Japanese public debt, reaching 221.1% of GDP in 2016.
SNG outstanding debt is made up mainly of financial debt (95%), the remaining coming from "other accounts payable". Financial debt is composed of loans (60%) and bonds (40%). Local bonds are funded either on the financial markets, by commercial banks or through the Japan Finance Organisation for Municipalities (JFM), established in 2009. As of 2013, 55% of local bonds were owned by prefectures, against 45% for municipalities. The Ministry of Internal Affairs and Communications drafts every year the Local Government Bond Plan in line with the Fiscal Investment and Loan Program Plan of the Ministry of Finance. The plan includes estimates of bond issuance by type and purpose. A consultation system with the central government replaced a prior approval system in 2006 for the issuance of local bonds. Before debt issuance, prefectures and municipalities must consult respectively with the Minister of Internal Affairs and Communications, and the prefecture governors, to obtain their consent. For those that can issue bonds without consent, the head of the local government must report it to the assembly.

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Socio-economic indicators: OECD // World Bank // UNDP // UN Desa // ILO // Statistics Japan.
Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // IMF-GFS Office.
Other sources of information: OECD (2017) Multi-level Governance Reforms: Overview of OECD Country Experiences // OECD (2017) Economic survey : Japan // OECD (2016) Territorial Reviews: Japan // Ministry of Finance (2016) Japan : Fiscal discipline of local governments Japanese // Council of Local Authorities for International Relations (2016) Local Government in Japan // Ministry of Internal Affairs and Communications (2015) White Paper on Local Public Finance // OECD (2015) The State of Public Finances 2015: Strategies for Budgetary Consolidation and Reform in OECD Countries // Tokyo Metropolitan Government (2013), Tokyo's Financial System // UN-Habitat (2012) Fiscal decentralisation in Japan.

KOREA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: SOUTH KOREAN WON (KRW)

POPULATION AND GEOGRAPHY

Area: 99 461 km^2
Population: 51.446 million inhabitants (2017), an increase of 0.42% per year (2010-15)
Density: 517 inhabitants / km^2
Urban population: 81.5% of national population
Urban population growth: 0.4% (2017 vs 2016)
Capital city: Seoul (19.4% of national population)

ECONOMIC DATA

GDP: 1 973.0 billion (current PPP international dollars), i.e. 38 350 dollars per inhabitant (2017)
Real GDP growth: 3.1% (2017 vs 2016)
Unemployment rate: 3.7% (2017)
Foreign direct investment, net inflows (FDI): 17 053 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 31.1% of GDP (2017)
HDI: 0.903 (very high), rank 22 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Sixth Republic of Korea is a unitary republican state. The President, elected by a national popular vote for a single five-year term, is both Head of State and Head of Government. The Prime Minister is appointed by the President with the consent of the National Assembly, who is responsible for assisting the President and directing the Executive Ministries. The country has a unicameral parliament, the National Assembly (*Kuk Hoe*), elected for a four-year term. Most of the assembly's seats are filled by election from geographical constituencies, with the remainder distributed proportionally among the various parties.

Local Autonomy has been established in the constitution since Korea's First Republic, although it has been strengthened since 1995. Local magistrates and assemblies are elected in every province, metropolitan or special city, county, and autonomous district. City or county governments appoint officials at lower levels (*eup* and *dong*).

All subnational governments have the same governing structure made up of an executive body (governor for province, mayor for metropolitan city, municipal city, county and autonomous district government) and a local council, as a legislative body. Governors and mayors are elected by direct popular vote for a four-year term. As far as council members are concerned, 17~18% are elected by popular vote and the remaining seats are occupied by proportional representatives.

The decentralisation process in Korea 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. Subnational elections for executives and legislative were introduced in 1991 and 1995, when substantial fiscal resources started being transferred to subnational governments. In 1999, a large reform of the public sector was launched including a comprehensive decentralisation programme, monitored by a Special Committee on the Devolution of Government Affairs.
In 2004, the Special Act on Decentralisation, enacted under the impulsion of the Presidential Committee on Government Innovation and Decentralisation, clarified principles and methods for decentralisation, transferred new functions to local governments and abolished special administrative agencies. It was followed by a fiscal reform in 2005 which established the "Special Account Balanced National Development".
During the following years, decentralisation was pushed further via the reinforced legal framework. The Special Act on Decentralisation, enacted in 2004, was changed into the Special Act on the Promotion of Decentralisation in 2008, and the Special Act on Decentralisation and Restructuring of Local Administrative Systems was enacted in 2013.

In 2017, the administration of Moon Jae-in included decentralisation as one of the Top 100 national tasks: "to promote well-balanced development across every region" (Goal IV), "to promote autonomy and decentralisation to realise grassroots democracy" (Strategy 1) and "to strengthen fiscal decentralisation for financial autonomy" (task 75). The "100 national tasks" programme includes measures to transfer functions of the central government to local governments and increase budgets allocated to local governments.
In March 2018, as the revised bill of the "Special Act on Decentralization and Restructuring of Local Administrative Systems" was promulgated, the Presidential Committee on Autonomy and Decentralization was set up. The constitutional amendment bill, proposed by President Moon Jae-in in March 2018, suggested adding the "Republic of Korea promotes decentralisation" in Article 1 of the Constitution, which would give local governments more autonomy. However, the vote was nullified, as a quorum was unmet. Addressing the regional imbalance between Seoul and surrounding regions is at the core of this 2017-2018 decentralisation programme. Almost half of the Korean population lives in Seoul Metropolitan Area, which accounts for 40% of national GDP.

Among the local government associations that represent the interests of local governments to the central government, there are the National Association of Governors, the National Association of Mayors, the Association of Metropolitan and Provincial Council Chairs.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	22§ municipalities		17 regional entities	
	Average municipal size: 224 742 inhabitants			
	226		17	243

OVERALL DESCRIPTION. Korea has a two-tier local government system – regional and municipal – with no hierarchical link, and a very diverse and complex structure within each level.

REGIONAL LEVEL. It consists of eight provinces (*do*), one special self-governing province (*Jeju*), six metropolitan cities (*gwangyeoksi*), one special city (Seoul Metropolitan City) and, since 2012, Sejong special self-governing city, which both have a special status. Sejong was founded as Korea's de facto new multifunctional administrative city, with a goal to achieve more balanced national development by moving administrative functions out of Seoul. Metropolitan cities combine the functions of regional and local government.

MUNICIPALITIES. The lower-level of local government includes cities (*si*), counties (*gun* mostly rural) and autonomous districts (*gu*), which reflects the "municipal annexation" process that took place in 1995. The municipal level is further divided into 3 500 sub-municipal localities: 224 eup (urban division of counties), 1 189 myeon (rural division of counties), and 2 087 dong (within cities and districts) in accordance with the 2018 Statistical Yearbook published by the Ministry of the Interior and Safety regarding Administrative Districts of Local Governments. There are very large differences in the sizes of area and population of subnational governments even among similar types of local governments. While the average size of municipalities is the highest among OECD countries, the size of sub-municipal entities ranges from 10 000 to 50 000 inhabitants.

The local government sector also comprises 17 educational local authorities (ELA) at regional level and 188 lower-levels of ELA, which are independent elected entities according to the Local Education Autonomy Act.
Local governments may establish intergovernmental corporate authorities but this form of cooperation is rarely used.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The functions of SNGs are not clearly defined by law. According to Art. 117 of the Constitution, local governments have to focus on "matters pertaining to the well-being of local residents, manage properties and may establish their own rules and regulations regarding local autonomy as delegated by national laws and decrees". The Local Autonomy Act (Article 9) distinguishes SNG functions between those delegated by the central government and those which are local by nature. It identifies six categories of SNG functions: category I: 11 functions related to the territorial jurisdiction, the organisational and managerial aspects of local governments; category II: 10 functions aimed at improving the general welfare of local residents; category III: 14 functions to foster growth in agricultural, trade and industrial sector; category IV: 15 functions related to regional development and environmental protection (construction and management of environmental facilities); category V: 5 functions to promote education (however, this falls under the responsibility of independent educational offices), sport activities, culture and art; and category VI: 2 functions concerning civil defence and safety (firefighting).

Nevertheless, a conditional clause to Article 9 stipulates that the "central government may exercise its own power and control over any function, if other laws define them as the functions of the central government". Both SNG levels have the same functions but at different scales, but regions are also responsible for vertical coordination between the national government and lower level of government. Independent national agencies manage many other areas, including fire protection and education. As a result, there is a large degree of overlap in the division of responsibilities across levels of government.

Overall, local governments have limited policy-making authority, and are usually limited to the implementation of national policies, and the Act stipulates that the central government can use its own power and control over any function. Recently, local authorities have been pressing for more authority on the local level.
Within the framework of the 2017-2018 decentralisation programme, new functions could be transferred from the central government to subnational authorities. For example, in November 2018, the Presidential Committee on Autonomy and Decentralization announced that around one-third of the country's police force is set to be transferred from the central government to regional governments over the next four years.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONS	MUNICIPAL LEVEL
1. General public services	Management of public properties and facilities	Management of public properties and facilities
2. Public order and safety		Firefighting and rescue services
3. Economic affairs /transports		Local public transport; Trade (licences)
4. Environmental protection	Environment	Environmental protection including refuse collection and recycling
5. Housing and community amenities	Housing	Land-use; Planning and development control; Local housing plans
6. Health		
7. Recreation, culture & religion	Culture	Leisure services; Sport; Libraries
8. Education	Education	Education
9. Social protection	Social welfare	Welfare services and social care

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: the municipal level comprises cities, counties (mostly rural) and autonomous districts. It is further divided into approximately 3 500 sub-municipal localities. The regional level consists in nine provinces, six metropolitan cities, Sejong Self-governing City and Seoul Capital City.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

KOREA

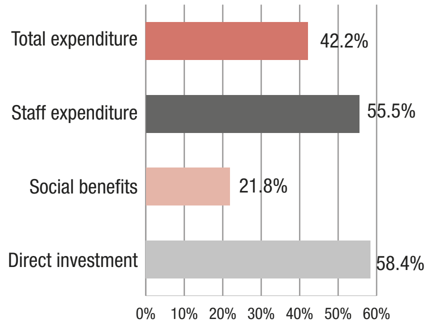
UNITARY COUNTRY

GENERAL INTRODUCTION. Despite fiscal reforms dedicated to accompany the transfer of powers and spending responsibilities to local governments, the lack of fiscal independence in the local level significantly undermines the efficacy of political and administrative decentralisation in Korea.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**5 073**	**13.8%**	**100%**
Inc. current expenditure	3 727	10.2%	73.5%
Staff expenditure	1 392	3.8%	27.4%
Intermediate consumption	697	1.9%	13.7%
Social expenditure	755	2.1%	14.9%
Subsidies and current transfers	858	2.3%	16.9%
Financial charges	24	0.1%	0.5%
Others	0	0.0%	0.0%
Incl. capital expenditure	1 346	3.7%	26.5%
Capital transfers	292	0.8%	5.8%
Direct investment (or GFCF)	1 054	2.9%	20.8%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. SNG spending has increased by 4.1 percentage points from 1995 to 2016 but has decreased as a share of total public spending (-1.7 percentage point), resulting in a mixed picture of transfers of spending responsibilities. In 2016, SNG expenditure accounted for 13.8% of GDP, below the OECD average (16.2%) but for 42.2% of public expenditure, above the OECD average (40.4%). SNGs account for more than half of public staff spending (vs 62.9% in OECD on average but 15 points above the OECD unitary country average) which results partly from the payment of teacher salaries (educational offices). The high level of expenditure also reflects the importance of social benefits that are disbursed by SNGs. Subnational social spending represents a significant share of total public social spending, higher than in the OECD on average (16.7%), especially compared to the average of OECD unitary countries (21.8% vs 10.5% in 2016). Korea is among the few OECD countries to use subnational expenditure limits; however, the country has become more inclined to rely on limits since fiscal consolidation started in 2010. This trend has slowed growth in current expenditure.

DIRECT INVESTMENT. In 2016, Korea had the highest share of general government spending devoted to investment among all OECD countries (16% vs 8% in the OECD). However, the last 2017-21 Fiscal Management Plan shifted spending priorities from economic activities to social welfare to adapt to the ageing population. As a result, infrastructure investment and R&D outlays are expected to drop respectively from 5.5% of total spending to 3.2% and from 4.9% to 4.0% over the period 2017-21.
SNG investment was also particularly high as a share of GDP (3% vs 1.7% in the OECD), while the share in overall public investment was slightly higher than the OECD average (58% vs 57% in 2016), reflecting an active role of subnational governments in public investment.
The 2013 Special Act on Urban Regeneration provided a framework encompassing national guidance, a strategic plan and an urban regeneration plans. These plans have called for more collaboration between local and national governments. The new 2017 administration strengthened the Act through a five-year Urban Regeneration New Deal which will designate 100 projects supported by an investment of KRW 1 trillion.

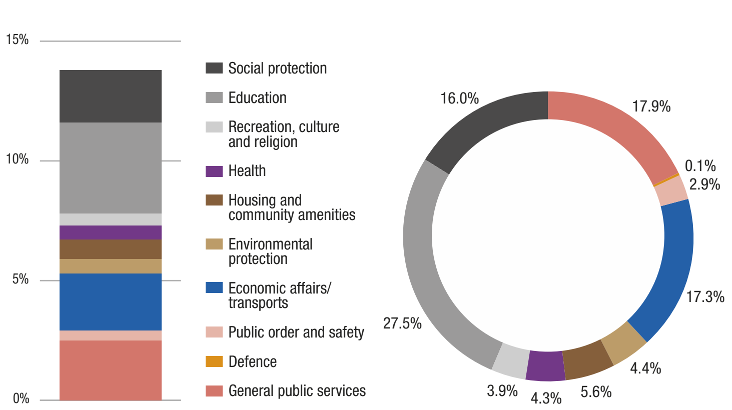
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

The top category of SNG spending is education (by the intermediary educational offices), representing 27.5% of SNG expenditure, followed by general public services (17.9%) economic affairs and transport (17.3%) and social protection (16%). SNGs are particularly active, as a percentage of total public spending, in the areas of housing and community amenities, culture and recreation and environmental protection.

However, the share of SNG spending in total public spending has been – on balance – decreasing significantly in all categories since 2013 (decrease of 17 percentage points in housing and community amenities, 22 percentage points in environmental protection, and 26 percentage points in education).

The new 2017-21 Fiscal Management Plan marks a shift in spending priorities from economic activities to social welfare. Social welfare spending has accounted for an increasing share of local expenditure, especially since 2006 when several social welfare services were transferred to subnational governments (pensions for elderly and for disabled people in 2010, children care allowance, family and healthcare services, national basic living security). Social and health expenditure is on the rise because of Korea's aging population.

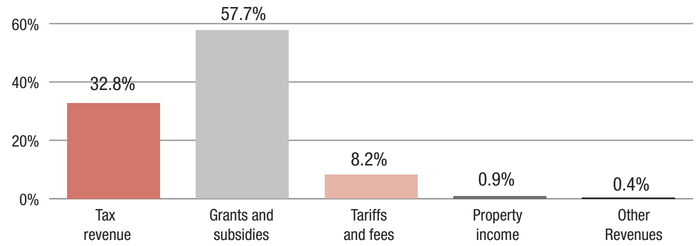
% GDP	% SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**5 255**	**14.3%**	**41.4%**
Tax revenue	1 725	4.7%	24.1%
Grants and subsidies	3 031	8.3%	
Tariffs and fees	429	1.2%	
Property income	49	0.1%	
Other revenues	21	0.1%	

% SNG REVENUE



OVERALL DESCRIPTION. 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 2016, SNGs still depended heavily on central government transfers whose share in total SNG revenue is well above the OECD average. In 2017, the Ministry of the Interior and Safety (MOIS) announced, as part of the 2017-2018 decentralisation programme, that it would increase the ratio of local tax vs national taxes to 40%-60% in the long term. Expanding the share of local taxes could however raise new challenges in terms of tax disparities. The current structure of the Korean local tax system favours urban areas. Expanding local taxes would exacerbate this situation, further increasing the revenue capacity of the urban areas, at the expense of rural areas. This would call for a review of the equalisation mechanisms.

TAX REVENUE. The tax system was reformed in 2011, in order to simplify the tax mix. The number of taxes allocated to SNGs declined from 16 to 11. Indeed, nine of these taxes are ordinary taxes and two are earmarked. Most tax rates are determined by the central government. Provincial taxes comprise ordinary taxes (acquisition tax, registration and license, leisure, and local consumption taxes) and earmarked taxes (community resource and facility and local education taxes). City and county taxes comprise ordinary taxes including inhabitant, property, automobile, local income, and tobacco consumption taxes. Metropolitan cities can levy both provincial and municipal own taxes.
On 19 December 2017, Korea enacted the 2018 tax reform bill on redistribution and sustainable growth that will amend the acquisition tax exemption clauses and reform environmental tax, among others.

GRANTS AND SUBSIDIES. Transfers from the central government to local authorities mostly include transfers from revenue sharing between levels of government, categorical grants and fiscal equalisation payments.
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 to SNGs according to an equalising formula based on assessment of standard fiscal needs and revenues. The remaining 4% is earmarked. 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 1) provide services that would otherwise be too financial onerous, 2) finance delegated tasks and policy projects and 3) provide financial assistance and compensation, among others.
The current Local Finance Equalization Scheme comprises the transfer of resources between the central and local governments (local subsidy, local education subsidy and subsidy from the national treasury) but also transfers between metropolitan cities and low-level local governments to alleviate internal fiscal disparities. Metropolitan cities give away a certain percentage of the ordinary taxes they collect to low-level local governments based on formulas and special spending needs. Apart from metropolitan cities, provinces also award unconditional grants to lower levels of local government, which are distributed based on population, tax amount collected in a jurisdiction, and the fiscal capacity of local governments.

OTHER REVENUES. Other revenues include mainly user charges and fees (8% of revenue). Revenue from property (sales of assets, leasing, dividends, etc.) accounts for less than 1% of SNG revenue.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**1 103**	**4.2%**	**7.6%**	**100%**
Financial debt*	547	2.1%	4.3%	49.6%

* Currency and deposits, loans and bonds

FISCAL RULES. According to the Local Autonomy Act, SNGs must maintain a balanced budget. Performance- based budgeting was also introduced for local governments in 2016. A Local Fiscal Crisis Alert System was introduced in 2012 to prevent local governments from being in fiscal insolvency or moratorium, which monitors seven local fiscal status which may be connected directly to fiscal crisis.

DEBT. SNGs are free to borrow to fund investment projects ("Golden Rule"). SNGs mostly borrow from the central government's public loan funds, and recently from "regional development funds", operated by the upper level of local governments. Since 2006, they have been able to issue bonds without prior approval from the central government if their debt levels are less than the maximum debt ratios set by the authorities (Local Bound Ceiling System). If not, the approval of the Minister of Government Administration and Home Affairs is required. SNG debt in Korea is low, well below the OECD average for unitary countries (8.2% of GDP and 12.0% of public debt). In 2016, half of the outstanding debt was made up of "other accounts payable" i.e. commercial debt and arrears; while the other half consisted of financial debt. The share of local bonds in SNG debt has been increasing markedly in the recent years, climbing to 29% of SNG debt in 2016 (compared to 9% in 2013). Domestic bonds include public bonds, also known as flotation bonds, compulsory bonds, and compensation bonds.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: OECD
Last update: 02/ 2019

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Socio-economic indicators: OECD // World Bank // UNDP // UN Desa // ILO // Statistics Korea
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Other sources of information: OECD (2019) Making decentralisation work: a handbook for policy makers // Im Gon Cho (2018) Fiscal decentralization in Korea // Ministry of the Interior and Safety.(2018) 2018 Statistical Yearbook // OECD (2017) Urban Transport Governance and Inclusive Development in Korea // Ahn Y. (2015) Local Autonomy And Local Finance in Korea, Korea Domestic Economic Situation and Government's Effort, KRILA // Ministry of Strategy and Finance of Korea (2014) the Budget System of Korea // Local Government Officials Development Institute (2013) Local Government and Public Administration in Korea // Junghun Kim (2013) National Mandates in Korea: Fiscal Illusion and the Irreversibility of Tax Revenue Transfers, KIPF // OECD/Korea Institute of Public Finance (2012), Institutional and Financial Relations across Levels of Government.

MALAYSIA

FEDERAL COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: MALAYSIAN RINGGIT (MYR)

POPULATION AND GEOGRAPHY

Area:330 245 km²
Population: 31.624 million inhabitants (2017), an increase of 1.4% per year (2010-2015)
Density: 96 inhabitants / km²
Urban population: 75.4% of national population (2017)
Urban population growth: 2.2% (2017 vs 2016)
Capital city: Kuala Lumpur (24% of national population)

ECONOMIC DATA

GDP: 931.3 billion (current PPP international dollars), i.e. 29 449 dollars per inhabitant (2017)
Real GDP growth: 5.9% (2017 vs 2016)
Unemployment rate: 3.4% (2017)
Foreign direct investment, net inflows (FDI): 9 512 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 25% of GDP (2017)
HDI: 0.802 (very high) rank 57 (2017)
Poverty rate: 0.3% (2009)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Malaysia is a federal country with a parliamentary democracy with division of powers and a constitutional monarchy. The country has a three-tiered system of government – federal, state and local governments. The States of Sabah and Sarawak on East Malaysia became part of the Federation in 1963, and retain since then a higher degree of local autonomy. The head of the Federal State is the *Yand Di-Pertuan*, elected in rotation every five years by and from the hereditary royal families of the members' states gathered in the Conference of Rulers (out of thirteen states of the federation, four do not have hereditary royal rulers and do not participate in the process). The state monarchs are the heads of their respective 9 monarchical states (Johor, Negeri Sembilan, Pahang, Selangor, Perak, Kedah, Terengganu, Kelantan and Perlis), while the remaining states (Penang, Malacca, Sabah and Sarawak) are governed by a State governor appointed by the federal parliament.

The legislative power is divided between the federal and the state legislatures. The federal parliament is bicameral and is made up by the lower chamber (*Dewan Rakya*) and the upper chamber (*Dewan Negara*). All members of the *Dewan Rakya* are directly elected to parliament every 5 years, while members of the *Dewan Negara* are partly appointed by the states' governors and partly appointed by the King. Elections are regularly held at the national and state levels, although there have been no elections at the local government level since they were suspended in 1965. Elections to State legislative assemblies take place every 5 years, and with the exception of one State (Sarawak), they are celebrated simultaneously with the national elections.

The Local government system is enshrined in the 1957 Constitution and comprises cities, municipalities and districts (Ninth Schedule of the Constitution). The Constitution also provides regulations for the relations across levels of government. Local governance regulations differ between the Malaysian peninsula and the territory known as East Malaysia, located on the island of Borneo (i.e. the states of Sabah and Sarawak). In the Malaysian peninsula, the 1976 Local Government Act, amended in 2006, sets out the responsibilities and financial provisions for local governments, while in East Malaysia, the main legislation regulating local governments is the 1996 Local Authorities Ordinance. The relationship between the federal and local levels is articulated through the National Council for Local Government. The Ministry of Urban Wellbeing, Housing and Local Government (MHLG), in charge of exercising ministerial oversight of local governments and providing for coordination on policy and legal issues, while since 2004, local authorities in the three federal territories are under the oversight of the Ministry of Federal Territories.

The trend in institutional reforms in Malaysia has been towards the recentralization of tasks traditionally devolved to local governments. In this respect, the federal government is promoting the privatization of certain services with the aim of enhancing efficiency in service provision. In 2017, reforms were also undertook regarding development planning with the approval of the 2nd National Urbanization Policy 2016 – 2025, which includes the preparation of development plans at the state and local levels to coordinate and implement sustainable urban development actions at the municipality level.

TERRITORIAL ORGANISATION

2018 MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
12 city councils 38 municipal councils 98 district councils		States	
Average municipal size: 205 350 inhabitants			
154		13	167

OVERALL DESCRIPTION. Subnational government in Malaysia comprises 13 states, 3 federal territories and 154 local governments. Out of the 13 states, 11 are located in the Malaysian peninsula and two in East Malaysia, (i.e. the states of Sabah and Sarawak). Local governments include 12 city councils and 38 municipal councils in the urban territories and 98 district councils in the rural territories. In addition, other agencies operate as local development authorities or corporations.

MUNICIPALITIES. There are three types of local governments in Malaysia: city councils, municipal councils and district councils. Local government elections have been discontinued since 1965 and local councillors are appointed by the state government according to the criteria stipulated by the state-level jurisdiction each local government falls under. City councils govern large urban centres, typically state administrative centres or capitals, with populations above 500,000 and annual revenue greater than RM 100 million. George Town of Penang (2.41 million inhabitants), Ipoh (675 892 inhabitants) are city councils. Municipal councils are in urban areas, possibly state capitals, with populations greater than 100,000 and annual revenues above RM 20 million. Johor Bahru (497 067 inhabitants), Malacca City (484 855 inhabitants), Kota Kinabalu (452 058 inhabitants), and Kuantan (427 515 inhabitants) are the most populous municipal councils. Municipal councils can be upgraded to cities once they satisfy the required criteria. District councils are found in the country's rural areas.

INTER-MUNICIPAL CO OPERATION. There is no mention to inter-municipal co-operation at the territorial level, nevertheless, the Malaysian Association of Local Governments is established to foster greater cooperation among its members.

REGIONAL LEVEL. There are 13 states in Malaysia based off the historical Malay Kingdoms and three federal territories acknowledged in the 1957 Constitution: Kuala Lumpur, Putrajaya and Labuan. The state of Selangor is the most populated state and with 6.38 million inhabitants, it is home to 19.9% of the country's population. It is followed by Sabah and Johor, with 3.9 and 3.7 million inhabitants respectively. Together, the three states make up 43.5% of Malaysia's population. Moreover, since 2004, federal territories are under direct authority of the Federal Territories ministry of Malaysia, who appoints the head and members of their local authority's bodies (the mayor in the case of Kuala Lumpur and the Labuan and Putrajaya corporations for the other two territories).

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The Constitution provides a framework for the allocation of responsibilities across levels of government in Malaysia (Ninth Schedule). Under the Local Government Act 2006 and the Town and Country Planning Act 1976, local governments are responsible for urban planning, sanitation and public health, among others. Local governments are also prescribed some sector specific powers and duties via the Road Transport Act 1987, the Building and Common Property (Maintenance and Management) Act 2007 and the Environmental Quality Act 1974, among others. State governments' exclusive responsibilities include the delivery of services related to slaughterhouses and electricity provision, while councils are exclusively responsible for cemeteries. Other services are jointly managed by the state and local governments, including housing and town planning, environmental and public sanitation, culture, leisure and sports and gas services. Several economic services such as agriculture, forests and fisheries, local economic development, trade and industry, and tourism are shared by the federal and the state governments.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	STATE LEVEL	MUNICIPAL LEVEL
1. General public services		Business licencing; Cemeteries
2. Public order and safety		Maintenance of peace and order
3. Economic affairs /transports	Transport; Gas services (shared); Management of slaughterhouses, agriculture and fisheries activities; Local economic development; Tourism; Trade and industry; Electricity provision	Enhancement of local economic activity; Infrastructure development;Gas services
4. Environmental protection	Forestry; Water supply; Rehabilitation of mining and eroded land	Waste collection and disposal; Sanitation
5. Housing and community amenities	Housing, accommodation and improvement trusts; Town and regional planning (except in the state's capital); Land use laws	Housing and town planning
6. Health	Public health and sanitation (except in the state's capital); Disease prevention	Public health
7. Recreation, culture & religion	Culture and sports; Heritage preservation	Cultural, sports and religious facilities
8. Education		
9. Social protection		

SUBNATIONAL, STATE AND LOCAL GOVERNMENT FINANCE

Scope of fiscal data: : state governments and local governments.	SNA 2008	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. The general Financial Provisions of local government in the Peninsula of Malaysia are enacted by Part V Section 39 of Local Government Act 1976. The Sabah local financing is under Local Governance Ordinance 1961. The Sarawak local government finance is regulated under Local Authority Ordinance 1948, amended in 1996. Section 54 gives authority to state governments to determine the form and content of local government annual financial accounting. Local governments consolidated financial accounting is available to the public, but not included in the annual Economic Report of the Treasury. Local governments are autonomous in terms of planning and managing local budgets, and their accounts are subject to annual audits conducted by the auditor general. They have the authority to collect taxes and grant permits and licenses.

A reform of the Intergovernmental Agreement on Federal Financial Relations (IGAFFR) took place in 2008, which led to the simplification and greater flexibility of the system of intergovernmental grants. In 2015, a public consultation was held in the country on tax reform, considering the revenue raising capacity of each level of government in the federal system, yet the expected tax reform was abandoned.

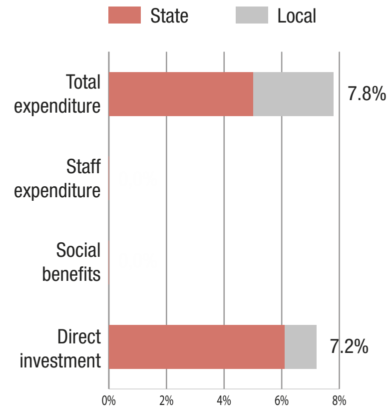
MALAYSIA

FEDERAL COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.			% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT EXPENDITURE		
	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total expenditure	670	429	241	2.4%	1.5%	0.9%	100%	100%	100%
Inc. current expenditure	438	233	205	1.6%	0.8%	0.7%	65.4%	54.4%	85.1%
Staff expenditure									
Intermediate consumption									
Social expenditure									
Subsidies and current transfers									
Financial charges									
Others									
Incl. capital expenditure	231	195	36	0.8%	0.7%	0.1%	34.6%	45.6%	14.9%
Capital transfers									
Direct investment (or GFCF)	231	195	36	0.8%	0.7%	0.1%	34.6%	45.6%	14.9%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. Expenditure remains highly centralized in Malaysia. In FY 2016/17, subnational governments spent 670 dollars PPP per capita, which corresponds to 7.8% of the total public expenditure. Local governments' expenditure corresponded to 2.8% of general public expenditure, while states' expenditure corresponds to 5%. According to CLGF, local governments' expenditure has been gradually increasing since 2014. Local governments' expenditures are mainly directed to covering for operating expenses, which represent 85% of expenditures incurred at the local level versus 15% which is devoted to development expenditure. At the State level, the allocation of expenditure between current (54.4%) and capital expenditure (45.6) is more balanced. At both levels, it is not possible to further break down the categorization of development expenses and thus the exact share devoted to capital transfers and capital expenditures cannot be specified.

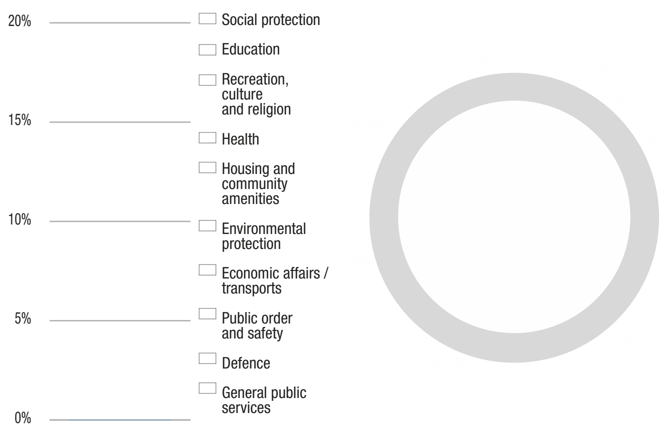
DIRECT INVESTMENT. In FY 2016, state-level gross development expenditure increased by 25.6% with respect to 2015. In particular, expenditures from the Development Fund and the Water Supply fund respectively increased by 25.4% and 38.3% with respect to the previous year. According to the Malaysia Treasury, for FY 2017, development expenditures are expected to rise at the state level by 46.5% with respect to 2016, going from approximately 8.7 to 12.7 billion ringgit (which approximately represents an increase from 6.1 to 8.9 billion dollars PPP). The main projects to be developed regard public housing, agricultural and rural development, energy and public amenities. There is no available information concerning local governments' projects.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG (OR OTHER CLASSIFICATION OR ESTIMATION)

	% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT		
	SNG	State	Local	SNG	State	Local
Total expenditure						
1. General public services						
2. Defence						
3. Security and public order						
4. Economic affairs / transports						
5. Environmental protection						
6. Housing and community amenities						
7. Health						
8. Recreation, culture and religion						
9. Education						
10. Social protection						

SNG EXPENDITURE AS A % GDP

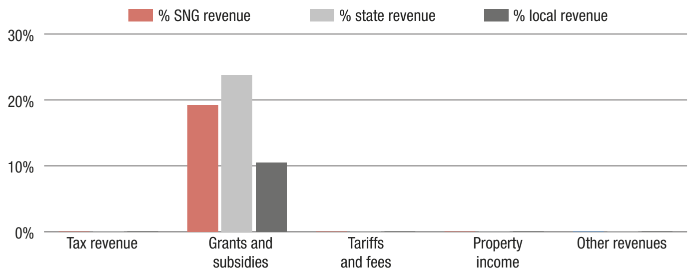
% OF TOTAL SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	% GDP			% GENERAL GOVERNMENT REVENUE (SAME REVENUE CATEGORY)		
	SNG	State	Local	SNG	State	Local
Total revenue	2.4%	1.6%	0.9%	13.4%	8.8%	4.6%
Tax revenue						
Grants and subsidies	0.5%	0.5%	0.1%			
Tariffs and fees						
Property income						
Other revenues						

% SUBNATIONAL, STATE AND LOCAL GOVERNMENT REVENUE



OVERALL DESCRIPTION. In FY 2016/17, subnational governments raised approximately 676 dollars PPP per capita, of which state and local governments respectively accounted for 65% and 35%. This amount corresponds to 2.5% of the country's GDP, which is relatively low compared to both federal and unitary countries in the region (only Cambodia reports lower figures).

States' revenues amounted to 19.63 billion ringgit (approximately 441 dollars PPP per capita), of which 76% correspond to "state-generated revenues" and 24% come from "federal grants" – as per the Treasury report. According to the Treasury, non-tax revenue coming from land premiums and royalties from petroleum and investment correspond to 53.5% of own generated revenue at the state level. Taxes (and mainly land-based direct taxes) make up the rest of states own revenues.

Local revenues may come from three sources: locally-raised revenue, transfers and loans. In FY 2016, local government revenues amounted to 10.42 billion ringgits (approximately 235 dollars PPP per capita), of which 10.5% corresponded to transfers made to local governments and the remaining 89.5% was locally-raised revenue. Locally-raised revenue includes direct taxes and non-tax revenue, such as licence payments, trade and investment profits, fines and user fees. Details of local revenues are available only at an aggregate level, under the category "own source revenues", which does not allow to discern between tax and tariffs and fees as the sources of the revenue. The total amount of locally-raised revenue corresponds to approximately 209 dollars PPP per capita. Transfers, which may be from the tax-sharing system, earmarked for specific purposes or general purpose, come from the State or Federal levels. However, in practice States do not have the capacity to financially support local governments, which rely on federal funding instead.

TAX REVENUE. Tax bases are set by central authorities, and sub-national governments have limited authority for setting rates. The larger share of taxes is levied under federal law; thereby, the federal government concentrates most of the tax receipts. The introduction of the Goods and Services Tax (GST) in 2015 at a rate of 6%, was an important step forward in developing consumption-based tax arrangement to enhance the efficiency of the tax system and widen the tax base. The GST was replaced in 2018 with the reintroduction of the Sales and Services Tax, which sets the tax rate for sales at 10% and at 6% for services, and that was firstly introduced in the 1970s. State taxes include export duties on timber (in the State of Sabah), excise duties (in the State of Sarawak), a land tax, taxes on mines, an entertainment tax, an excise duty on liquor, among other smaller sources of revenue. According to the Treasury report, state-generated tax revenue, corresponds to 47.5% of the state own revenue.

There have been several policy changes to the structure and treatment to further enhance the efficiency of the tax system at the local level. According to CLGF, municipal tax revenue includes self-assessed income tax as the main source of revenue for local authorities. It contributes 60–70% of the total revenue of the 13 city councils. According to the Local Government Act 1976 the self-assess 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. Local government financial capacities are weakened by the high rate of uncollected revenue. Formally, there is a legal provision for local governments to collect drainage and sewerage rates. However, both these services are currently being provided for by private companies.

GRANTS AND SUBSIDIES. In Malaysia, the system of intergovernmental transfers is enshrined in the Constitution.

General and specific transfers to municipalities are made by state and federal governments to local authorities. For federal grants, the MHLG is responsible for the annual grants' administration. According to the MHLG, local governments may receive five types of financial grants (1) Annual Equalisation Grant; (2) Launching Grant (3) Development Project Grant (4) Road Maintenance Grant; (5) Balancing Grant. Of the five, the most important are the Annual Equalisation Grant and the Development Project Grant, which is given by the Federal government to local governments through the state government in accordance with the States Grants (maintenance of Local Authorities) Act of 1981. Sabah and Sarawak states do not receive this grant since they fall under their own ordinance, respectively Local Government Ordinance 1961 and Local Authorities Ordinance 1996.

State government account for 89% of the total grants to subnational governments. There are three main categories of state grants from federal government: tax-sharing grants, general purpose grants, and specific purpose grants. Tax sharing grants are defined under the Article 110 of the Federal Constitution which established that 10% of revenues collected nationally from exports duties on tin, on iron and mineral ores should be allocated to the states where the mineral exploitations are carried. General purpose grants provide general-purpose funds to state governments; they are six categories, all formula-based according to population size and GDP per capita. Some have Constitutional provisions i.e. Capitation grant (article 109), Special grants (article 112c), the State Reserve Fund grants, the Contingencies fund grant (article 103). The Special grants operate as an equalization fund to the states of Sabah and Sarawak on the one hand as well as the states of Selangor and Kedah. Specific purpose grants support specific capital expenditures, as provided by the Constitution. The Economic Development Grants are the main component, intended to compensate for state inequalities and promote the development of less developed states. On average, they represent 7.8% of federal grants.

MALAYSIA

FEDERAL COUNTRY

OTHER REVENUES. State governments include royalties from petroleum, gas and forestry, sales of goods and services, dividends and interests, fees from licenses and services, property revenues. Moreover, Under the Town and Country Planning Act 1976, local governments are allowed to collect fees and charges for services rendered. Other local revenues include licence payments, trade and investment profits. Yet the treasury report from 2013 and 2016 make no mentions to those sources of revenues.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.			% GDP			% GENERAL GOVERNMENT DEBT			% SNG DEBT		
	SNG	State	Local	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total outstanding debt	124	123	1	0.4%	0.4%	0	0.6%	0.6%	0	100%	98.8%	0.2%
Financial debt*	124	123	1	0.4%	0.4%	0	0.6%	0.6%	0	100%	98.8%	0.2%

* Currency and deposits, loans and bonds

FISCAL RULES. Fiscal guidance is provided by the Medium-Term Fiscal Framework 2018 – 2020, which outlines the three-year fiscal projection and the policy initiatives required to achieve the fiscal objectives in light of the medium-term macroeconomic forecasts. The framework sets an optimal spending level for the period, taking into account the government's revenue-generating capacity and commitments, with the objective of gradually reducing the deficit level towards a near-balanced budget by 2020. Borrowing is effectively regulated by the 1959 Loan Act, the 1983 Government Funding Act, the 1963 External Loans Act and the 1946 Treasury Bills Act. In particular, the 1959 Loan Act and the 1983 Government Funding Act set the debt ceiling at 55% of GDP, which is defined as including the outstanding Malaysian Government Securities, the Malaysian Government Investment Issues and the Malaysian Islamic Treasury Bills.

DEBT. All subnational government are allowed to borrow for a period not exceeding five years. FY 2016, subnational debt corresponded to 0.4% of the country's GDP and 0.6% of the general governments outstanding debt. According to Article 111 of the Constitution, state governments, except Sabah and Sarawak, are only allowed to borrow from the Federal Government, with its prior approval. Sabah and Sarawak may borrow, under similar conditions, with the approval of the Central bank. State government loans account for 99% of SNG debt. According to the 2006 Local Government Act, local governments may, with the approval and under the conditions of the State Authority, contract loans. Within the authorities of local governments, such loans may be used for the acquisition of land, the construction of public buildings, for carrying out permanent works, for providing or maintaining plant equipment and vehicles and to pay off existing loans. Nevertheless, local governments' debt remains low, corresponding to 0.2% of total subnational debt in FY 2016.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: UCLG
Last update: 02/ 2019

www.sng-wofi.org

Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data: Ministry of Finance Malaysia (2017). 2016 Budget.
Other sources of information: CLGF (2018) Country profile Malaysia // UCLG ASPAC Cities Allience (2018) City enabling rating: assessment of the countries in Asia and the Pacific // Faezah, N., Aini, Rahida., Adelabu, S. (2017), Transparency in Malaysia Local Government Administration. The overview of Internally Generated Revenue (IGR) // Mohamed, S., (2015), Sustainable Development Agenda: The Role of Local Government in Malaysia // Osman, M., Bachok, S., Bakri, N.M., Harun, N.Z. (2014), Government Delivery System: Effectiveness of Local Authorities in Perak, Malaysia // Nooi, P.S. (2008), Decentralisation or Recentralisation? Trends in Local Government in Malaysia.

MONGOLIA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME LOCAL CURRENCY: MONGOLIAN TUGRIK (MNT)

POPULATION AND GEOGRAPHY

Area: 1 564 120 km^2
Population: 3.076 million inhabitants (2017), an increase of 1.9% per year (2010 - 2015)
Density: 2 inhabitants / km^2
Urban population: 68.4% of national population (2017)
Urban population growth: 1.7% (2017)
Capital city: Ulaanbaatar (49.4% of national population)

ECONOMIC DATA

GDP: 39.7 billion (current PPP international dollars), i.e. 12 918 dollars per inhabitant (2017)
Real GDP growth: 5.3% (2017 vs 2016)
Unemployment rate: 6.4% (2017)
Foreign direct investment, net inflows (FDI): 1 494 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 24.7% of GDP (2017)
HDI: 0.741 (high), rank 92 (2017)
Poverty rate: 6.0% (2016)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

According to its 1992 Constitution, last amended in 2001, Mongolia is a unitary country and semi-presidential republic. The legislative power is vested in the State's Great *Khural* (Parliament; also spelt *Hural*), made up of 76 members which are directly elected by universal suffrage every four years, on the basis of a first-past-the-post system. The President is the head of the state and is also elected for a four-year term by universal suffrage. The Prime minister, appointed by the President with approval of the Parliament, is the head of government (cabinet) and the leader of the majority party in the Parliament.

Following the country transition to a multi-party democracy and market economy in the 1990s, the central government of Mongolia introduced a number of policy reforms to decentralize the country's political organization and clarify the structure and functions of the different tiers of government. Mongolia has a three-tier subnational government system: *aimags* (provinces) and the capital city of Ulaanbaatar at the provincial level; *soums* and districts at the intermediate level; and *bagh* and *khoroos* at the first level of local government. Chapter IV of Constitution sets the territorial organization of the country (Article 57) and provides for the creation of autonomous subnational legislative bodies, the Citizen's Representative *Khurals* (CRK) – local assemblies – and its presidium. The governance of these subnational entities is based on the "twinning principles" of self-governance (Article 61 to 63) and state governance (Article 60). In addition, various regulations define the legal status of subnational governments: the Law on the Legal Status of Cities and Towns located in the territories of administrative divisions of 1993; the Law on Legal Status of the Capital City of 1994; and the Law on Administrative and Territorial Units of Mongolia of 2006.

At each level of subnational government, CRK members are elected directly and every four years. The Chairperson of the CRK is elected by its peers as the head of the local assembly. The executive body of the *aimags*, Ulaanbaatar, the *soums* and the districts are governors. Governors of the *aimags* and Ulaanbaatar are appointed by the Prime Minister. Each provincial governor nominates the governor at the *soum* and district level, who in turn appoints the governor at the municipal level. Formally, the CRK can make recommendations to the governor of the higher tier of government to appoint and dismiss the governor of its jurisdiction. This has recently happened in Ulaanbaatar at the end of 2018. The Prime Minister or the Governor might refuse the recommendation as provided in Article 60 of the Constitution. While the *de jure* duties and check-and-balance system appear to be clearly defined between Governors and CRKs, in practice this mechanism remains unclear and under the central government's financial and administrative strong oversight. The latest local elections took place in October 2016.
Recent institutional reforms have focused mainly on administrative rather than fiscal decentralization. Recent attempts to improve decentralization and strengthen citizens' participation in local planning have included the adoption of the Governance and Decentralization Programme in 2011, which promoted the new Integrated Budget Law (2013) and the Local Development Fund (LDF) in 2012.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	1 568 communities *(Bagh)* 152 neighborhoods *(Khoroos)*	330 regions *(Soums)* 9 districts *(Duuregs)*	21 Provinces *(Aimags)* 1 capital city	
	Average municipal size: 1 788 inhabitants			
	1 720	339	22	2 081

OVERALL DESCRIPTION. The territorial structure of Mongolia reflects the particular geographic and demographic context of the country, with a low population density in each subnational unit in comparison to the capital city, which hosts half of the population. The country's three-tier system of subnational government includes 21 *aimags* at the provincial level; *aimags* are divided into *soums* at the district level (330 in total); finally, each *soum* is subdivided into the lowest unit of self-government, the *bagh* (1 568 in total, located in rural areas). In urban areas, the capital city of Ulaanbaatar holds a provincial status defined by the Law on Legal Status of the Capital City. The capital is divided into 9 districts at intermediate level (same tier as the *soums*), divided in turn into 152 *khoroos*, or neighbourhoods, the first level of self-government in this urban area (same tier as the *baghs*). The governor at each level of subnational government is responsible for implementing territorial governance. Governors are accountable to both the central government and the governors of higher instance in their respective territories. Lastly, recent debates over local electoral systems have emphasized the growing mismatch between the size of electoral circumscriptions in rural areas and the particular concentration of population of Ulaanbaatar.

PROVINCIAL LEVEL. *Aimags* as territorial units are based on the delimitations of their former Socialist counterparts. An *aimag* consists, on average, of 18 *soums*. The number of the representatives of *aimag* assembly (CRK) ranges from 25 to 35, depending on the population size (Art. 10 of Law on Administrative and Territorial Units of Mongolia). The CRK of the capital city is composed of 45 representatives.

REGIONS AND DISTRICTS. Mongolia has 330 *soums* with an average population of 4 600 inhabitants. Most *soums* (93%) are rural and host nomadic population. *Soums*' local assemblies are made up of 15 to 25 representatives. Still at the intermediate level, Ulaanbaatar's district assemblies consist of 21 to 35 representatives, according to their population.

FIRST LEVEL. The *bagh* is historically the traditional basic jurisdictional unit of the country, dating back to the Mongolian Great Empire. Local self-governing bodies of *baghs* (rural) and *khoroos* (urban) are called General *Hurals* of Citizens, i.e., local meetings.

COOPERATION BETWEEN TERRITORIAL UNITS has been encouraged by development agencies active in the country. Inter-*soum* models have been developed in health management, and Habitat III's national report mentions other various inter-soum experiments in the provision of other services.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The Constitution defines the distribution of competences among Ulaanbaatar's government, *aimags*, *soums* and districts and their CRK (Article 62). The 2002 Public Sector Financial Management Law (PSFML) specifies core subnational government responsibilities, including local administration, environment protection, local public infrastructure facilities, sanitation and sewage, waste management, local road maintenance, and public areas. The 2006 Law on Administrative and Territorial Units defines the tasks of subnational government bodies, even though these competences are ultimately retained by the governor. Policy areas whose output and effect spill over the administrative boundary of individual units, such as education and healthcare, are shared with juxtaposing levels of governments. The balance among these institutions has witnessed various rounds of decentralization and recentralization. The administration of Ulaanbaatar, finally, has also progressively expanded the scope of services it provides, resulting in even more overlaps between different levels of subnational governance.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	PROVINCES AND CAPITAL CITY	INTERMEDIATE LEVEL (SOUM AND DISTRICT)	MUNICIPAL LEVEL (BAGH AND KHOROO)
1. General public services	Administrative and permit services (civil registration); Public buildings and facilities	Administrative and permit services (civil registration); Public buildings and facilities	Administrative services (postal services); Basic Research activities (statistical data preparation)
2. Public order and safety	Traffic signs and lights; Defence (military and civil)	Traffic signs and lights	Public order and safety; Fire protection
3. Economic affairs /transports	Local economic and social development; Support to local enterprises; Mining; Public transport (road); Road networks and facilities (provincial); Telecommunications (IT)	Local economic and social development; Support to local enterprises; Mining; Public transport (road); Road networks and facilities (local); Telecommunications (IT)	Agriculture (livestock)
4. Environmental protection	Sustainable utilization of land; Soil protection; Measures for environmental protection; Prevention from natural disaster; Parks and green areas	Sustainable utilization of land; Soil protection; Measures for environmental protection; Prevention from natural disaster; Parks and green areas; Sewerage (waste water management); Waste management (collection, treatment and disposal of waste)	Nature preservation
5. Housing and community amenities	Housing (management); Urban and land use planning; Housing (construction and renovation); Energy supply	Housing (management); Urban and land use planning; Housing (construction and renovation); Public lightning	Food supply
6. Health	Primary healthcare (medical centres); Preventive healthcare	Primary healthcare (medical centres); Preventive healthcare	Primary healthcare (medical centres)
7. Recreation, culture & religion	Sociocultural activities; Sports and recreation	Sociocultural activities; Sports and recreation	
8. Education	Secondary education; Technical education	Secondary education; Technical education	Pre-primary education; Primary education
9. Social protection			Social care and assistance

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: provinces (*aimags*), capital city *soums* and districts.	IMF GFS	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. The 1992 Constitution, the 2006 Law on Administrative and Territorial Units, the 2002 Public Sector Finance and Management Law, the 2008 General Law on Taxation and the 2013 Integrated Budget Law (IBL) set out the first legal framework for subnational government finance systems and mechanisms. Additionally, the 2006 Mineral Laws, amended in 2014, acknowledge subnational governments' capacity to establish local level agreements between local legislative bodies and the mining companies.

Local governments are empowered to collect subnational revenues from mining exploration. Provinces and districts that host extractive industries have also established subnational councils to promote transparency in the management of resources at local level. The adoption of the Law of Mongolia on Glass Accounts in 2014 was an important step forward to increase fiscal transparency. The law aims to ensure the efficient use of state and local government funds and assets, improve the transparency of decisions and actions concerning budget management and strengthen citizens' oversight through an information system. Finally, Ulaanbaatar and its nine districts have their own treasury accounts.

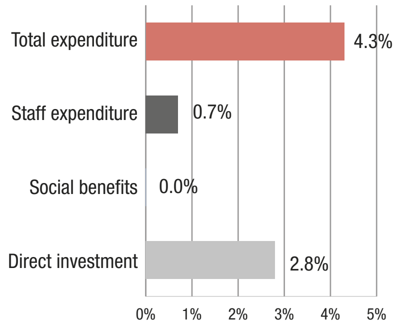
MONGOLIA

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	1 184	9.7%	100%
Inc. current expenditure	948	7.7%	80.0%
Staff expenditure	434	3.5%	36.6%
Intermediate consumption	243	2.0%	20.5%
Social expenditure	176	1.4%	14.9%
Subsidies and current transfers	94	0.8%	8.0%
Financial charges	0	0.0%	0.0%
Others	0	0.0%	0.0%
Incl. capital expenditure	237	1.9%	20.0%
Capital transfers	0	0.0%	0.0%
Direct investment (or GFCF)	237	1.9%	20.0%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. The share of local expenditures represented 25% of total public expenditures in 2016. A large proportion of local expenditures are assigned to current expenditures, and in particular staff expenditures, which account for 37% of total subnational government expenditures and 44.5% of public staff expenditure. In Ulaanbaatar, the city government's total expenditures have quadrupled between 2008 and 2011, and accounted for almost 75% of total local expenditures in 2013.

DIRECT INVESTMENT. Under the 2002 Public Sector Finance and Management Law, capital expenditures were an exclusive function of central government, with capital management partly assigned to the aimag and capital city levels and no capital expenditures assigned to the district and soum levels. With the introduction of the 2013 Integrated Budget Law (IBL), capital expenditures are now assigned to the aimag and capital city level, and capital maintenance is partly assigned to the district and soum level. Article 62 of the 2013 IBL acknowledges community participation in the local budget processes, particularly in the allocation of local development funding. In 2016, subnational government spent 237 dollars PPP per capita on direct investment. Ulaanbaatar is responsible for most of the direct investments.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

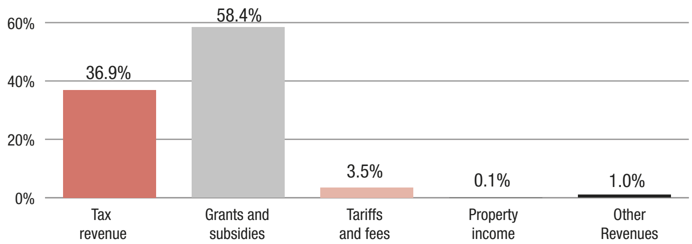
Considering the functions assigned to the subnational level of governments, the majority of local government expenditures are spent on general public services, housing and community amenities, agriculture and environmental protection, and public transportation and communication. In Ulaanbaatar, in particular, most spending is on public transportation and general administration, the remaining being spent for local services, including street lighting and cleaning, prevention of infectious diseases, land-use management and public safety.

% GDP | % SNG EXPENDITURE

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	1 109	9.1%	35.9%
Tax revenue	409	3.3%	22.7%
Grants and subsidies	648	5.3%	
Tariffs and fees	39	0.3%	
Property income	2	0.0%	
Other revenues	12	0.1%	

% SNG REVENUE



OVERALL DESCRIPTION. Mongolian subnational governments' revenues correspond to 9% of the GDP. It is made up of transfers from the central level, tax revenue, non-tax revenue. The 2013 IBL has redefined the revenue assignment. For instance, license feeing for mining, exploration of mineral resources and stamp duty became the central government's responsibilities, while user fees for water is now allocated to the *aimag*, capital city government, *soum* and district levels. Subnational governments' main source of revenue (58%) are grants and transfers, which include shared taxes and funding from the Local Development Fund. Tax revenue has been decreasing since 2003 and amounts to 37% of total SNG revenues in 2016. Total subnational government revenue accounted for 36% of total public revenue in 2016.

TAX REVENUE. As per the Constitution, taxes that are not mentioned in the 2008 General Law on Taxation can be assigned to subnational governments. The 2008 Law on Taxation provides a list of local taxes that are established by local *Khurals*, including personal income tax (PIT), income tax of individuals engaged in work and services, immovable property tax and various charges (i.e., on use of natural resources, use of natural plants, use of hunting reserves, land charges, among others). Other taxes collected by subnational governments include a "dog tax", as well as an inheritance and gift tax. Tax rates are established by the *aimag* or capital city's CRK, but require approval by the central government. In 2016, PIT represented 2.2% of GDP, 66% of SNG tax revenue and 24% of SNG total revenue, while property taxes amounted respectively to 0.4%, 13% and 5%. Since 2015, Ulaanbaatar has been assigned a special municipal tax law, i.e. the "Capital City Tax", which levies tax from bars, hotels, resorts, restaurants, alcohol and smoking products.

GRANTS AND SUBSIDIES. The 2013 IBL (Article 56) defines three types of transfers to local government: financial support transfers, revenue sharing transfers and earmarked transfers to finance delegated functions by the respective ministries. Financial Support Transfers (FST) are not earmarked and fulfil the general purpose of covering subnational budget deficits. It is formula-based on the estimated total expenditure of each local budget and annually estimated revenue collection, calculated at minimum tax rates as defined by law.

Local Development Fund (LDF) introduces a formula-based transfer. It is made up of four sources, including 25% of VAT, 5% of royalty on minerals, and donations from national and international organizations collected into a single General Local Development Fund. At least 60% of the GLDF transferred to *aimags* and the capital city must be allocated to lower tiers of government on the principle of regional equalization and a pre-set formula: one fourth according to the official level of development of *aimags*; one fourth according to the population; one fourth according to population density, remoteness from Ulaanbaatar, and the area of the *aimag*; and one fourth according to local tax amounts. LDF tends, however, to be unpredictable, as revenues from mining royalties vary from year to year and depend on macro-economic cycles. To date, there is no financial mechanism to ensure predictability in revenue allocations.

Earmarked transfers for delegated functions are defined by Article 60 of the IBL according to an agreement between governors of subnational governments and the central government.

OTHER REVENUES. Other revenues for local CRK consist of user charges such as market fees, transport fees, refuse collection fees; business permits; and charges for registration. In addition, 30% of mining royalties go directly to *aimag* from where the minerals are produced, of which one third is reassigned to the *soums*.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. The country established ceilings on the structural budget deficit, expenditure growth and public debt ratio as fiscal rules. The 2013 IBL introduces annual budget ceilings for the budget of governors, who are responsible for developing the budget proposal. Each governor submits its budget proposal to its respective CRK for approval, then submitting it to the State Central Administrative Body responsible for Finance and Budget. The National Audit Office carries out financial audits of all state entities. The establishment of a Fiscal Stability Council to oversight budget execution and ensure fiscal sustainability is currently underway.

DEBT. The 2013 IBL allows local *Khurals* to incur debt, issue loans and guarantees, contingent liabilities and manage debt. According to Article 62 of the 2013 law, *aimag* and the capital city governments can only borrow from the national treasury. Ulaanbaatar has autonomy to borrow up to 4 years as well as to issue bonds, provided it has the approval of the Ministry of Finance. The city created a Special Purpose Vehicle, the Ulaanbaatar Development Corporation (UBDC), to be able to access financing from the private sector. In general, subnational government repayments to central government lending shall not exceed the subnational governments' base revenue of the previous financial year and the total amount of the debt service shall not exceed 15% of that revenue.

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World Observatory on Subnational Government Finance and Investment

Lead responsible: UCLG
Last update: 02/ 2019

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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data: World Bank // IMF Government Finance Statistics // Unified Budget of Mongolia.
Other sources of information: UNDP (2018) Development Finance Assessment for Mongolia. Diversifying finance for sustainable development // UCLG ASPAC Cities Alliance (2018) City enabling rating: assessment of the countries in Asia and the Pacific // Munkhsoyol Baatarjav (2018) Can Mongolia's Fiscal Stability Council Improve Fiscal Discipline? Natural Resource Governance Institute // Lkhagvadorj, A. (2015) An Analysis of the New Budget Law of Mongolia of 2011 // World Bank (2013) City Finances of Ulaanbaatar, Mongolia // Lkhagvadorj, A. (2010) Fiscal Federalism and Decentralization in Mongolia // Mongolia extractive industries transparency initiative.

NEPAL

FEDERAL COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOW INCOME

LOCAL CURRENCY: NEPALESE RUPEE (NPR)

POPULATION AND GEOGRAPHY

Area: 147 180 km^2
Population: 29.305 million inhabitants (2017), an increase of 1.2% per year (2010-2015)
Density: 199 inhabitants / km^2
Urban population: 19.3 % of national population
Urban population growth: 3.2 % (2017 vs 2016)
Capital city: Kathmandu (4.5 % of national population)

ECONOMIC DATA

GDP: 79 billion (current PPP international dollars), 2 697 dollars per inhabitant (2017)
Real GDP growth: 7.5 % (2017 vs 2016)
Unemployment rate: 2.7 % (2017)
Foreign direct investment, net inflows (FDI): 196 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 34% of GDP (2017)
HDI: 0.574 (medium), ranking 149 (2017)
Poverty rate: 15% (2010)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Following the end in 2006 of a decade-long civil war, Nepal's governance framework is currently in the transition from being a Monarchy to a multiparty democratic republic. With the promulgation of the new Constitution in 2015, Nepal moved from a unitary form of government to a federal one with a strong focus on decentralization based on "cooperative federalism". The new federation has three tiers of government, namely federal, state and local, whereby powers shall be exercised pursuant to the Constitution and the state laws. The Constitution has assigned both exclusive and concurrent powers, to be jointly exercised by the federal and the state levels or jointly by all three tiers of government.

The jurisdiction of the local governments is outlined under Schedule 8 of the Constitution, which establishes that local governments are responsible for development activities and for mobilizing the necessary resources to carry out such activities. As such, the new Constitution assigns local governments a larger functional and fiscal authority. The jurisdiction of the federal government is outlined under Schedule 5, to be exercised in accordance with the Constitution and the federal law. To date some of the laws that have been enacted include the Inter-Governmental Fiscal Management Act (2017), the Employees Integration Act (2017) and the Local Governance Operation Act (2017) along with a number of local and State Acts.

Local elections took place in 2017, following a 20-year gap. The National Assembly election took place in 2018, while the State Assembly and election for the House of Representatives took place on 26 November 2017 and 7 December 2017, in two phases. State creation is entirely new for Nepal and it is therefore too early to comment on the relationship between States and local governments for now.

TERRITORIAL ORGANISATION

2016	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	276 urban municipalities *(Nagarpalika)* 460 rural municipalities *(Gaunpalika)* 6 metropolitan cities (Kathmandu, Pokhara, Biratnagar, Birgunj, Lalitpur,and Bharatpur) 11 sub-metropolitan cities		7 provinces *(Pradesh)*	
	Average municipal size: 7 450 inhabitants			
	753		7	760

OVERALL DESCRIPTION. As of 2014, prior to the administrative restructuring of Nepal, there were 75 districts, 3 914 village development committees, 6 metropolitan cities and 11 sub-metropolitan cities and 58 municipalities. During the course of 2015 and 2017, the number of municipalities increased according to the classification established by the Local Level Restructuring Commission. As a result, 7 provinces with 753 local government units were established. Any future change in the number and delimitation of local administrative units shall be made by a resolution passed by a two-thirds majority of the members of the municipality affected by the change. This change will be submitted to the state government, which will then recommend it to the Government of Nepal.

STATE LEVEL. The 7 provinces are divided into 77 districts for administrative purposes. Provinces' assemblies are still in the process of enacting budget laws and debating what their capitals and names will be. As of 2019, only two provinces had made decisions on these matters: the provinces of Karnali and Gandaki, whose capitals will be Birendranagar and Pokhara respectively.

MUNICIPALITIES. Local governments are subcategorized according to their population, resources and basic infrastructure: metropolitan cities, sub-metropolitan cities, urban and rural municipalities. The classification criteria are outlined in the Local Governance Operation Act and include minimum population and income requirements that depend on the geographical location of the local government, i.e. whether it is located in the mountains, hills or on the mainland. Municipalities must have an average annual domestic income of at least NPR 10 million (about USD 1 million) for the last five years in the Himalayan region and at least NPR 30 million (about USD 3 million) for other districts. Sub-metropolitan cities must have an average income of at least NPR 250 million (about US$ 25 million) and metropolitan cities at least NPR 1 billion (about US$ 100 million) over the past five years. For metropolitan cities, the minimum infrastructure and facilities specified in the Local Governance Operations Act include requirements such as 75% of the total length of roads should be concrete, higher education institutions, and specialized service hospitals with at least 500 beds.

INTER-MUNICIPAL CO OPERATION. At national level, a Municipal Association of Nepal (MuAN) was established in 1994 after being contemplated by the 1961 National Directive Act. Following the 2017 local elections, in September 2018 MuAN completed its General Assembly and is undergoing a revision of its Strategy Plan in order to put forward revised plans and policies.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

With the transformation to a federal system, the Constitution provided the three levels of government with five lists of powers: Three exclusive lists (Annexes 5, 6 and 7 of the Constitution), a concurrent federal-state list (Annex 8) and a concurrent federal-state-local government list (Annex 9). It is too early to compare the general principles and systems that may differ from one State to another, given that Nepal is currently in a transitional phase. States and local governments are currently drafting laws according to their areas of jurisdiction. The table below has been updated in accordance with the main areas of responsibilities delineated by the Constitution of Nepal, which are also reflected in the 2017 Local Governance Operation Act.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	PROVINCE LEVEL	MUNICIPAL LEVEL
1. General public services	State civil service and other government services; State level electricity, irrigation and water supply services; Navigation	Management of the local services; Local roads, rural roads, agro-roads; Irrigation
2. Public order and safety	State police administration and peace and order; State bureau of investigation	Town police
3. Economic affairs /transports	Intra-State trade; State highways; Exploration and management of mines; Agriculture and livestock development; Factories and industrialization	Agriculture and animal husbandry; Agro-products management; Animal health; Cooperatives and local markets management
4. Environmental protection	Use of forests and waters; Management of environment within the State	Environment protection and biodiversity
5. Housing and community amenities		Local level development plans and projects
6. Health	Health services	Basic health and sanitation
7. Recreation, culture & religion	Protection and use of languages, scripts, cultures, fine arts and religions	Protection and development of languages, cultures and fine arts
8. Education	State universities; Higher education; Libraries; Museums	Basic and secondary education
9. Social protection	Management of trusts (Guthi)	Management of senior citizens, persons with disabilities and the incapacitated

SUBNATIONAL, STATE AND LOCAL GOVERNMENT FINANCE

Scope of fiscal data: detailed financial data are not available.	Other	Availability of fiscal data: **Low**	Quality/reliability of fiscal data : **Low**

GENERAL INTRODUCTION. The Constitution has provisioned for exclusive as well as concurrent revenue assignments for all tiers of government. Article 60 defines the general principles of the distribution of sources of revenue across the three levels of governments, which are determined following the recommendations of the National Natural Resources and Fiscal Commission (NNRFC). It is also established that the federation, states and local governments have taxing power in their fiscal jurisdiction and collect revenue from such sources. In 2016, a National Urban Development Strategy (NUDS) was adopted as the framework for steering local development. In order to achieve the development objectives outlined in the NUDS, the municipal financing system was built on three components: Own Source Revenue (OSR), Inter Government Fiscal Transfers (IGFT) and the local borrowing framework, within which the Town Development Fund (TDF) plays a central role.

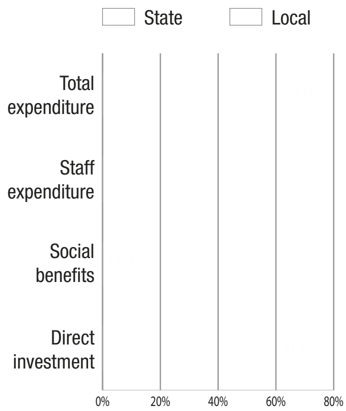
NEPAL

FEDERAL COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

	DOLLARS PPP / INH.			% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT EXPENDITURE		
	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total expenditure									
Inc. current expenditure									
Staff expenditure									
Intermediate consumption									
Social expenditure									
Subsidies and current transfers									
Financial charges									
Others									
Incl. capital expenditure									
Capital transfers									
Direct investment (or GFCF)									

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. In fiscal year 2013/14, local spending accounted for 8% of total public spending, with 72% of total local expenditure being capital expenditure and 28% being current expenditure. As a result of the vertical reallocation of public expenditure resulting from the change in the political-administrative system, at least 20% of public expenditure should be made at subnational level. Today, newly created subnational governments do not have sufficient resources to deliver the public services entrusted to them, particularly because of a lack of clarity about their authority to mobilize the necessary resources to implement their budgets.

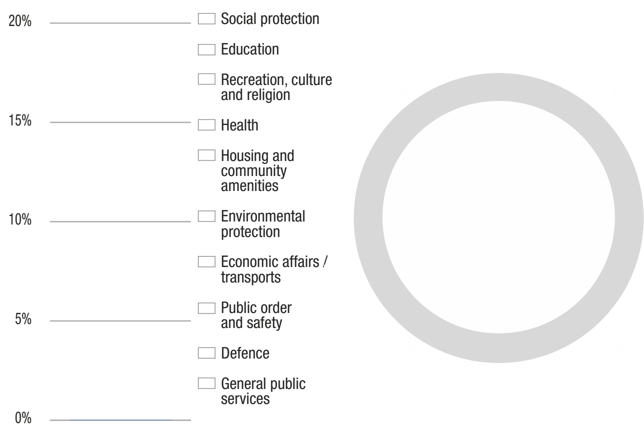
DIRECT INVESTMENT. In FY2017/2018, relevant sectoral ministries provided support for projects and programs with budget up to Rs 5 million in rural municipalities (approximately 159 000 dollars PPP), up to Rs 10 million in municipalities (approximately 320 000 dollars PPP), and up to Rs 20 million in sub-metropolitan and metropolitan cities (approximately 640 000 dollars PPP).

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

	% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT		
	SNG	State	Local	SNG	State	Local
Total expenditure						
1. General public services						
2. Defence						
3. Security and public order						
4. Economic affairs / transports						
5. Environmental protection						
6. Housing and community amenities						
7. Health						
8. Recreation, culture and religion						
9. Education						
10. Social protection						

SNG EXPENDITURE AS A % GDP

% OF TOTAL SNG EXPENDITURE

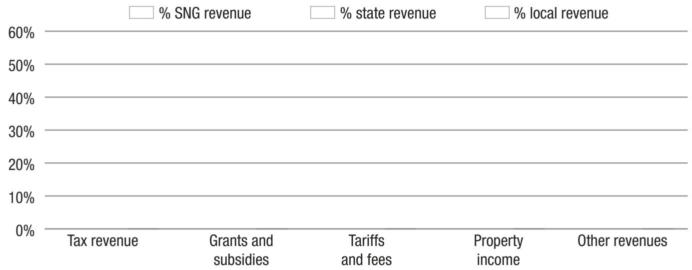


As a result of the vertical re-allocation of public expenditure, a significant portion of the total expenditure on education, housing, community affairs and health is expected to take place at the local level, while expenditure on public services and economic affairs is expected to continue taking place at the national level.

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

	% GDP			% GENERAL GOVERNMENT (SAME REVENUE CATEGORY)		
	SNG	State	Local	SNG	State	Local
Total revenue						
Tax revenue						
Grants and subsidies						
Tariffs and fees						
Property income						
Other revenues						

% SUBNATIONAL, STATE AND LOCAL GOVERNMENT REVENUE



OVERALL DESCRIPTION. Local governments' own source revenues are insufficient to meet their expenditure needs and therefore they depend heavily on grants from the federal government. According to the Intergovernmental 2017 Finance Management Act, local governments receive four types of federal grants, namely the fiscal equalization, conditional, complementary (matching) and special grants. The grants are transferred by the federal government based on NNRFC's recommendation. Despite such provisions, there is a need for additional capacity to administer revenues at the local level and there is still no policy nor guidelines in place to regulate how to do so. Given that the new structures have only recently materialized, there is limited information on the revenue collection amounts and potentials. In the future, local governments may receive transfers from state governments, but they will likely be minimal since the states will also heavily depend on federal grants. Moreover, local governments have limited access to capital markets and private sector finance for their infrastructure investment needs.

TAX REVENUE. Over the period of 2008/09 to 2013/14, the own source revenue (OSR) of the 58 municipalities that existed at that time grew at an average annual rate of 13.8 per cent and, on average, the municipalities' OSR in the period only accounted for 27% of total revenue. Taxes and fees were the main sources of municipality OSR, with local tax as the highest (47.6%) contributor followed by service charges and fees (42.4%), and property rental (7.6%). Local governments' main sources of tax revenue are house and land tax (HALT), integrated property tax (IPT), land revenue tax, entertainment tax, advertisement tax, rent tax, business tax, vehicle tax commercial video tax. The Constitution of Nepal has given municipalities the right to raise their OSR for meeting responsibilities such as drinking water supply, small electricity generation, alternative energy, local roads, and irrigation, in addition to those provided under Local Self Governance Act (LSGA). Nevertheless, an inefficient tax administration system and poor collection efficiency remain the main challenges of local governments in increasing tax revenues. According to the 2017 Intergovernmental Fiscal Management Act, the federal government is to transfer 15% of the VAT and excise duty collected to local governments and 15% to the States, as well as 25% of royalties received from the use of natural resources to local governments and 25% to States. The NNRFC has currently devised a revenue-sharing formula based on the population and demographic structure, area, human development index, efforts on revenue collection, infrastructure development and expenditure requirements.

GRANTS AND SUBSIDIES. Intergovernmental Fiscal Transfer (IGTF), the main source of funding for most municipalities, grew by an average of 29% from 2006 to 2016. Currently, the types of grants municipalities receive are both conditional and unconditional, representing 52% and 48% of total grants respectively. The unconditional capital grant comprises two systems that are (a) basic (fixed) entitlements grants, and (b) a formula-based grant based on (i) population (50%), (ii) weighted poverty (25%), (iii) surface area (10%), and (iv) weighted tax effort (15%). Performances are assessed as per indicators set in the Minimum Conditions and Performance Measures (MCPM) system. The conditional grants are allocated to States and local governments to implement specific projects commissioned by federal and State governments in various sectors including health, education, social security, agriculture, forest and environment, irrigation, energy, infrastructure. Furthermore, the latest national budgets assign complementary grants to States and local governments for projects concerning the improvement of drinking water services and river control. The NNRFC has also fixed a minimum level of grants for local governments units to enhance the feeling of federalism and their right to choose their development priorities. In general, resource transfers are often irregular and unpredictable, making it difficult for municipalities to procure and implement planned and budgeted programs in an efficient and accountable manner.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.			% GDP			% GENERAL GOVERNMENT DEBT			% SNG DEBT		
	SNG	State	Local	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total outstanding debt												
Financial debt*												

* Currency and deposits, loans and bonds

DEBT. The framework provided by the NUDS establishes that local governments may borrow funds from two main sources, the TDF and financial institutions, to meet the demand for infrastructure development. However, borrowing has not been a major source of municipal financing so far, as current borrowing represents, on average, only 0.85% of total municipal revenue (or 3% of municipal internal revenue). The TDF was set up by the 1997 Town Development Fund Act, which grants the TDF the autonomy to function as a financial intermediary institution for the development of urban infrastructure in Nepal. It is currently the only public sector organization to finance urban infrastructure and does so by applying long-term financing schemes, However, so far, the TDF has only been mobilized to finance a few urban infrastructure projects. Although there is an incentive mechanism in place to stimulate local borrowing for infrastructure development (namely, matching loans and grants), the municipal demand for TDF loans is still very low compared to the existing infrastructure financing gap. In order to achieve NUDS objectives, the 2016 Municipal Finance Framework calls for the restructuring of TDF as a full-fledged financial intermediary with a clearly defined mandate and responsibilities in funding infrastructure development.

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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal information: National Natural Resource and Fiscal Commission official website, Nepal // Budget Speech of Fiscal Year 2017/18 // National Natural Resources and Fiscal Commission.
Other sources of information: Asia Foundation (2017) Diagnostic Study of Local Governance in Federal Nepal // G. Khanal (2016) Fiscal Decentralization and Municipal Performance in Nepal // U. S. Prasad (2015) Nepal's Fiscal Federalism Model in the New Constitution: Agenda for Amendments // World Bank (2014) Local Service Delivery in Nepal.

NEW ZEALAND

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: NEW ZEALAND DOLLAR (NZD)

POPULATION AND GEOGRAPHY

Area: 267 710 km^2
Population: 4.820 million inhabitants (2017), an increase of 1.1% per year (2010-2015)
Density: 18 inhabitants / km^2
Urban population: 86.5% of national population
Urban population growth: 2.2% (2017 vs 2016)
Capital city: Wellington (8.6% of national population)

ECONOMIC DATA

GDP: 197.1 billion (current PPP international dollars), i.e. 41 109 dollars per inhabitant (2017)
Real GDP growth: 3.0% (2017 vs 2016)
Unemployment rate: 4.7% (2017)
Foreign direct investment, net inflows (FDI): 2 144.5 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 24.0% of GDP (2017)
HDI: 0.917 (very high), rank 16 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

New Zealand is a constitutional monarchy, with a unitary system of government and two tiers of subnational government. The country has a unicameral parliament, with approximately 120 members elected every three years by universal suffrage through proportional vote. The head of the government is the Prime Minister.
The country has no written constitution, and the functions and dual purpose of local governments are defined in the Section 10 of the Local Government Act 2002 as enabling "democratic decision-making and action by, and on behalf of, communities" and meeting "the current and future needs of communities". Whereas local governments are independent from the central government on political, financial and administrative levels, specific statutes may establish responsibility or accountability relationships between local authorities and central government agencies or ministers, in particular the minister of local government, supported by the Department of Internal Affairs. The Local Government Forum, an event held each spring, also facilitates intergovernmental communication.

The subnational level of government consists in 67 territorial authorities and 11 regional councils. Regional and local councils have the same structures, with members elected to represent their communities for three-year terms. Local councils are headed by mayors councils, directly elected also for three-year terms. The leader of the regional council is the Chair, who is elected by regional councillors from among their own ranks, and who can be removed from office by them. In total, the number of councillors amounts to approximately 1 600 elected members.
Many councils have second tier or sub-municipal bodies, which are also elected, and are known as community boards or local boards. Auckland has a particular situation with a governing body of 21 members that are responsible for the overall direction of the council. It shares responsibility with an additional 21 local boards that represent the interests of smaller local areas within the greater Auckland region.
New Zealand presents a singular form of multi-level governance systems, reflecting its British origins, with local government arrangements still close in nature to those in the United Kingdom or Ireland. In these countries, the central government plays a key role in driving local government reforms. Local government reforms in New Zealand were also influenced by the New Public Management movement.
Many measures were introduced in the late 1980s / early 1990s to reform local governments in New Zealand. They often aimed in particular at restructuring local authorities, increasing governance flexibility and efficiency, increasing the transparency and accountability as well as improving access and quality to local public services, rather than decentralising new functions. This led to the passing by the Parliament of a series of Acts that provided councils with more flexible powers and tools to work with and for their communities, such as the Local Electoral Act 2001, the Local Government (Rating) Act 2002 and the Local Government Act 2002 (LGA 2002). The latter was a large reform of local governments' functions. It broadened and redefined local governments' powers, roles and responsibilities, by separating policy making from policy implementation and providing SNGs with a general power of competence. A major objective of this reform was also to increase SNG accountability and the reform introduced collaborative and citizen-centred processes. The LGA 2002 has been amended a number of times since 2002, in line with the Better Local Government New Zealand reform.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	67 territorial authorities		11 regional councils	
	Average municipal size: 70 450 inhabitants			
	67		11	78

OVERALL DESCRIPTION. New Zealand has a two-tier system of SNG. In 2017-2018, there were 11 regional councils and 67 territorial authorities. New Zealand's local territorial arrangements were significantly reformed in 1989, through a strong consolidation process. Before the 1989 reform, the local government sector was characterised by high fragmentation and enormous disparities in size and activities, both at regional and local levels. At local level, there were around 800 structures that had been established for a long time, including around 200 local authorities with different statuses (counties, municipalities, independent town districts, district communities) and numerous elected "special purpose bodies" (harbour boards, catchment boards and drainage boards, etc.). As part of the 1989 reform, the number of local authorities was slashed to 74 "territorial authorities" (and subsequently to 67). The municipal reform was also a regional reform as 12 "regional councils" were created (subsequently 11). The authority over the reform process was delegated to an independent commission, the Local Government Commission, which is now the subject of a government review.

MUNICIPAL LEVEL. There are two types of territorial authorities: city councils and district councils. City councils have a population of more than 50 000 inhabitants, predominantly urban-based, while district councils have a smaller and more widely dispersed population. As of 2019, there was 12 city councils, and 55 district councils. In 2010, the regional council and seven territorial authorities, which had made up the Auckland metropolitan area, were amalgamated further to form the Auckland Council unitary authority. Following the last territorial reform, the average population size of municipalities was, as of 2017, around 70 450 inhabitants. Some 95% of councils have populations that exceed 5 000 inhabitants, and 64% more than 20 000.

Six unitary councils are territorial authorities with regional council responsibilities: Auckland Council, Gisborne District Council, Chatham Islands Council, Nelson City Council, Marlborough District Council and Tasman District Council.
The 1989 reform also created a sub-municipal level comprised of both "community boards" and "local boards". They are also elected and operate in both urban and rural areas. Both forms advocate for and represent the interests of designated communities, such as a rural community. Community boards may also undertake functions delegated to them by their councils. Currently, there are 110 community boards across the country.
As part of the consolidation of the Auckland councils in 2010 a co-governance model was created and 21 local boards established. Local boards are similar to community boards but have responsibility for a wider range of responsibilities. Government Act 2002 Amendment Bill encourages further inter-municipal co-operation and shared services between local authorities.

REGIONAL LEVEL. New Zealand has 16 regions including 11 administered by regional councils and five others that are administered by territorial authorities (city or district councils) and also perform the functions of regional councils (e.g. Auckland city, Tasman district council, Nelson City council, etc.). Population size for regions ranges from 33 000 inhabitants in West Coast to 1 696 000 inhabitants in Auckland, the average size being 212 000 inhabitants. Regional disparities in terms of GDP per capita have slightly decreased in New Zealand in recent years, after a period of widening disparities between 2007 and 2014. During this period, Taranaki – the region with highest GDP per capita – benefitted from growth in forestry, fishing, and mining activities. In 2016t, the GDP per capita of Taranaki is 1.7 higher than that of Northland, the poorest region. New Zealand has the lowest regional disparities among 30 OECD countries with comparable data, when the richest and poorest regions representing at least 20% of the population are taken into account.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The 2002 Local Government Act (LGA) redefined SNG responsibilities and greatly increased their autonomy and the scope of activities they undertake. It provided them with a general clause of competence. Previously they could only undertake activities permitted by law.
The LGA was amended in 2014, in line with the Better Local Government New Zealand reform, in order to clarify further the division of responsibilities between regional councils and territorial authorities. It aimed to encourage municipal co-operation and shared services, and to increase the efficiency of long-term and annual plans. As SNG activities must be approved through public consultation within their communities, the list of their responsibilities varies widely from one council to another.

Traditionally, the division of regional and territorial competences follows the principle of separation between responsibilities related to planning and those which are related to service provision. There is a high degree of co-operation between regional and territorial councils, which have complementary roles. Regional councils have generally no direct responsibilities for service delivery (except for Auckland and Wellington) and are primarily responsible in sectors related to environmental protection and natural environment, transport, green areas and water management (the boundaries of most regions were based on drainage basins). The responsibilities of regional councils in resource management are further detailed in the Resource Management Act of 1991, amended in 2017, which promotes the sustainable management of natural and physical resources. It does so through the control of coastal marine areas, the establishment of rules on water allocation at the regional level, soil conservation, etc. Territorial authorities generally have responsibilities related to local development and service delivery, local infrastructure and community development and amenities.
Another major component of reforms in New Zealand was a move towards greater 'corporatisation' of government-owned commercial activities, either through privatisation or the creation of public (or semi-public) corporations to carry out SNG local services.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONS	TERRITORIAL AUTHORITIES
1. General public services		Local regulations
2. Public order and safety	Civil defence in case of emergency	
3. Economic affairs /transports	Regional transport (including public transport); Harbours; Regional land management	Local land-use management; Local roads; Community development; Tourism
4. Environmental protection	Water quality; Contaminant discharge and coastal management; River and lake management; Flood and drainage control; Environmental protection; Resource management; Air quality; Pest control, Regional parks and public spaces	Sewerage; Storm water; Solid waste management
5. Housing and community amenities	Water networks management	Town Planning; Water supply; Parks and reserves; Social housing
6. Health		
7. Recreation, culture & religion		Libraries; Theatres; Concerts; Museums; Sports and leisure
8. Education		
9. Social protection		Pensioner housing

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: regional councils at the regional level; city districts, Auckland Council and Chatham Islands territory, all referred to as "territorial authorities" at the municipal level; a structured sub-municipal level made of community and local boards.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. New Zealand is among the most centralised countries in the OECD with regard to spending responsibilities, with SNG share of expenditure on par with levels found in countries such as Chile or Turkey. However, SNGs have a certain level of autonomy in terms of spending in their specific fields, as they rely less on transfers from the central government (compared with the average in OECD countries), and more largely on land property-related taxation, user charges and property income. The heavy reliance of councils on user fees and charges, however, poses challenges for the financing of long-term infrastructure and specific responsibilities (transport, culture and recreation). The Local Government Official Information and Meetings Act (1987) ensures that the population can access information about local authorities' activities, and local authorities are primarily accountable to their communities rather than to central government.

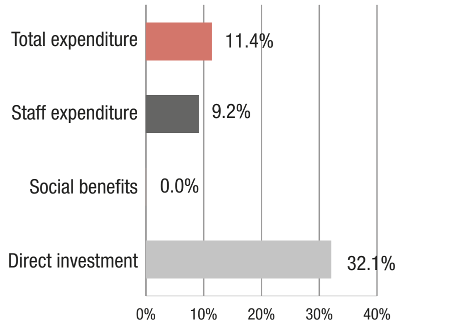
NEW ZEALAND

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**1 726**	**4.4%**	**100%**
Inc. current expenditure	1 153	2.9%	66.8%
Staff expenditure	318	0.8%	18.4%
Intermediate consumption	556	1.4%	32.2%
Social expenditure	0	0.0%	0.0%
Subsidies and current transfers	174	0.4%	10.1%
Financial charges	102	0.3%	5.9%
Others	3	0.0%	0.2%
Incl. capital expenditure	573	1.5%	33.2%
Capital transfers	68	0.2%	3.9%
Direct investment (or GFCF)	506	1.3%	29.3%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



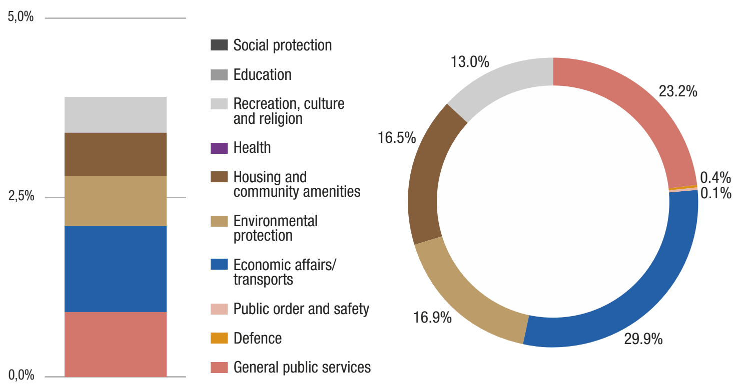
EXPENDITURE. In New Zealand, SNG spending ratios are below the OECD average both as a share of public expenditure and GDP (respectively 40.4% and 16.2% in 2016). The level of SNG staff spending is particularly low and SNGs do not play a role in broad areas such as education, social protection and health. Instead, their responsibilities cover essentially network infrastructures.

DIRECT INVESTMENT. SNGs play a significant role in public investment, especially compared to their low level of spending decentralisation. In 2016, one-third of their expenditure was dedicated to investment (roads, transport, and utilities), which represented 1.3% of GDP (vs 1.7% in the OECD unitary countries on average). Most investments, in particular in the transport sector, that have been identified as a priority investment sector by New Zealand's Government Policy Statement were co-financed through the Land Transport Fund (LTF). Historically, they have been shared equally between central and local governments. The Council of Auckland is managing the Auckland Transport Alignment Project together with the central government. Broadly speaking, infrastructure investments have lagged behind the needs stemming from rapid population growth. SNGs have little incentive to fund local infrastructure, in particular land transport and water infrastructure, as they have do not share in the windfall from local economic activity: most if not all fiscal benefits flow mainly to the central government level. To ensure the smooth running and success of the investment programmes and projects, the Government of New Zealand has celled for peer reviews (gateway reviews) since 2008. In addition, the amendment of the LGA in 2014 forces SNGs to design an infrastructure strategy that has a horizon of at least 30 years.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Economic affairs and particularly transport is the main category of SNG spending (29.9%). In this sector, SNGs contribute up to 34% of total public spending. Other major categories of SNG spending include general public services, environmental protection (including waste and waster), housing and community amenities (including water distribution) and recreation and culture. Transport and water infrastructure are, by and large, the responsibility of local governments in New Zealand, which weighs heavily on their budgets. Since 2013, the share of SNG spending dedicated to general public services has decreased, while their contribution to housing and community amenities has increased. On the other hand, New Zealand SNGs exercise no responsibilities in defence and public order, healthcare, education or social protection.

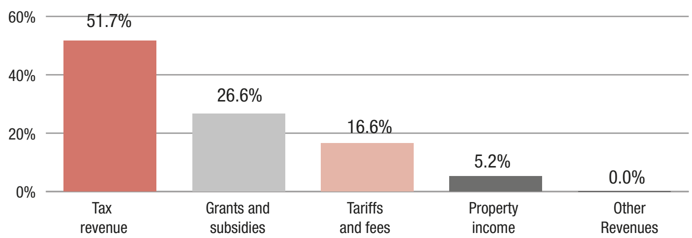
% GDP | % SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**1 695**	**4.3%**	**10.8%**
Tax revenue	876	2.2%	7.1%
Grants and subsidies	451	1.1%	
Tariffs and fees	281	0.7%	
Property income	88	0.2%	
Other revenues	0	0.0%	

% SNG REVENUE



OVERALL DESCRIPTION. While being a centralised country regarding the share of SNG in public spending and revenue, SNGs have a certain level of autonomy in terms of revenue-raising capacity. Local and regional council revenue is composed - for more than half - by own-source tax revenues, essentially land and real estate property taxes, over which they have great autonomy. Subsidies and grants represent 26.6% of subnational revenues (11.6% for territorial authorities only), and are primarily dedicated to the transport sector. Councils also rely on tariffs and fees, over which they have some discretion to set the rates and fees.

TAX REVENUE. Unlike subnational governments in many other countries within the OECD, the funding of New Zealand councils relies on a single form of tax, the property tax (85.8% of SNG tax revenue), as outlined in the 2002 Local Government Act. 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. The council determines total rates in advance annually, and this amount is allocated among ratepayers according to property values. SNGs have a large degree of discretion over this tax. Indeed, property taxes can resemble 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). Local councils may also adopt revenue strategies, which set out planned increases in council taxes for a decade. In 2016, the property tax amounted to 1.9% of GDP, a ratio which is significantly above the OECD average (1.1%).

Other minor tax revenues include a small share of the fuel tax collected by oil companies and redistributed to city and district councils. Local councils do not share revenues generated by local economic activity (such as VAT income).

GRANTS AND SUBSIDIES. More than half of grants and subsidies received by SNGs are for capital expenditure (56.5%), in line with their responsibilities, which focus on network infrastructures. The main transfer mechanism from national to SNGs corresponds to a share of the road taxes and charges raised on petrol, diesel and vehicle registration, which are earmarked for the construction and maintenance of local roads, through the intermediary of 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, through a formula based on the capital value of a district's property and on it road and public transport investment programmes.

OTHER REVENUES. Councils receive income from a diverse range of additional sources. Other revenues include a great variety of service charges and fees (swimming pool charges, parking fines and infringements, fees for issuing permits and licenses or conducting inspections, and water charges, i.e. 16.6% of local revenue).

Local councils, and more particularly regional councils, also receive property income (interest earned from investments and dividends, i.e. 5.2% of local revenue), as they often own big highly-profitable assets, such as ports. Increasingly, the Auckland Council is performing many of its activities through Council-Controlled Organisations (CCOs). To be able to meet the financing needs for transport infrastructure, some councils are currently looking at additional options for congestion pricing and road network pricing, and Auckland Council is currently proposing a motorway charge. Similarly, regional councils have been requesting to be allowed to institute a regional fuel tax, but this was repealed in 2013. Since 2017, only Auckland council is allowed to apply a regional fuel tax.

Finally, "development contributions" are widespread in New Zealand (approximately 2% of SNG revenue), which councils impose on property developers in exchange for building permits. This forces developers to contribute to the cost of new infrastructure (roads, water and wastewater infrastructure, and community facilities). LGA 2014 increased transparency for development contributions.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**2 322**	**5.8%**	**11.5%**	**100%**
Financial debt*	1 936	4.8%	13.1%	83.4%

* Currency and deposits, loans and bonds

FISCAL RULES. The Office of the Auditor General is in charge of the financial oversight of local government forecasting and use of resources. According to the LGA, SNGs must set financial strategies based on quantified limits on rates, rate increases and borrowing. Budgets must be balanced. In 2011 and 2014, new prudential requirements were introduced by Local Government Regulations (Financial Reporting and Prudence), which also introduced new benchmarks and indicators for financial management. The Local Government Act of 2002 first required councils to set, in consultation with citizens, financial strategies that include a statement describing the local authority's quantified limits on rates, rate increases and borrowing. Since 2010, councils have been required to determine, through public participation, their own fiscal limits. Those limits can be exceeded, but then councils are accountable to their residents.

DEBT. New Zealand SNGs traditionally borrow to fund capital expenditure programmes, to spread the cost of infrastructure across generations. Therefore, they must adopt "revenue and financing" policies stipulating the funding of capital expenditure as well as "liability management" policies outlining their interest rate exposure, liquidity, credit exposure and debt repayment schedule. SNGs can only borrow on the domestic financial markets, except for the Auckland Council, which can borrow in foreign currencies. The Local Government Funding Agency (LGFA) was created in 2011 by local governments and the central government. This is a debt vehicle that groups 47 member councils to issue bonds on financial markets and lend to their members at competitive interest rates. By November 2018, it had lent nearly NZD 9 billion to 59 councils, through refinancing previous loans borrowed from banks or funding new infrastructure projects.

SNGWOFI
World Observatory on Subnational Government Finance and Investment
Lead responsible: OECD
Last update: 02/ 2019
www.sng-wofi.org

Socio-economic indicators: OECD // World Bank // UNDP // UN DESA // ILO.
Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // IMF-GFS // Statistics New Zealand Local Authority Funding Statistics.
Other sources of information: CLGF (2018) The local government system in New Zealand, country profile 2017-18 // OECD (2017) OECD Economic Surveys: New Zealand 2017 // OECD (2017) Multi-level Governance Reforms: Overview of OECD Country Experiences // Ministry of Internal Affairs, Local government in New Zealand, http://www.localcouncils.govt.nz // National Council of Local Government New Zealand (2015) Local Government Funding Review.

PHILIPPINES

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: PHILIPPINE PESO (PHP)

POPULATION AND GEOGRAPHY

Area: 300 000 km^2
Population: 104 918 million inhabitants (2017), an increase of 1.6% per year (2010 - 2015)
Density: 350 inhabitants / km^2
Urban population: 46.7% of national population (2017)
Urban population growth: 2% (2017)
Capital city: Manila (12.8% of national population)

ECONOMIC DATA

GDP: 875 billion (current PPP international dollars), i.e. 8 342.8 dollars per inhabitant (2017)
Real GDP growth: 6.7% (2017 vs 2016)
Unemployment rate: 5.7% (2017)
Foreign direct investment, net inflows (FDI): 10 057 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 25% of GDP (2017)
HDI: 0.699 (Medium), rank 113 (2017)
Poverty rate: 6.1% (2015)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Philippines is a unitary republic with a presidential regime and division of executive, legislative and judicial powers. The president is elected by universal suffrage for a 6-year term as both the head of the state and the head of government. The president may run two consecutive terms. The legislative power is vested in a bicameral congress which comprises the Senate and the House of Representatives. The Senate is composed of 24 members directly elected by universal suffrage; half of the seats are renewed every three years and each senator serves a six-year term. The House of Representatives is composed of 305 members, of which 245 are elected by district via universal direct suffrage. The remaining 60 are elected via a parallel party-list representation system.

The Philippines has a high degree of political decentralization. Local government is present in the 1987 Constitution (Article X) and regulated by the Local Government Code (LGC) of the Philippines, adopted by Congress in 1991 (Republic Act No. 7160). The LGC establishes a three-tiered system of local government and makes provisions for the basic structure, roles and responsibilities of local governments in the country. The Code entailed an expansion of local governments' fiscal capacity and autonomy. A "Master Plan for the Sustained Implementation" was developed in three stages of decentralization reform: (a) formal transfer of functions (1992–93) (b) adjustment by local governments (1994–96) (c) institutionalization of the decentralized system (1997 onwards). The current political debate in the country is heading towards the acknowledgement of a more explicitly federal form of government. In December 2016, the presidency signed an executive order to prompt a consultative committee tasked with reviewing the 1987 Constitution. A draft Constitution was presented to the President in July 2018.

The Department of Interior and Local Government (DILG), within the Ministry of Interior, is in charge of overseeing local governments. Every year it awards various local governments a Seal of Good Local Governance (SGLG). A number of other national agencies are mandated by laws and regulations to monitor local performance in service delivery. Coordination among these sectorial bodies, however, is still weak. The coordination mechanism includes the Department of Finance, the Department of Budget and Management, the National Economic and Development Authority (NEDA), as well as the Commission on Audit and the Civil Service Commission.

NEDA is the main government agency in charge of preparing national development plans, providing technical assistance to local government units and preparing regional planning policies. At the level of the National Capital Region (NRC) of Metro Manila, the Metropolitan Manila Development Authority (MMDA) is the agency directly in charge of regional development, in coordination with NEDA and the mayors of the cities and municipalities included in the region. In other regions, the Regional Development Council (RDC) and Local Development Councils are formed by regional, provincial, municipal and city-level elected officials and administrative officers, in charge of coordinating formulation, implementation and follow-up of development plans.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	42 045 Villages *(Barangays)*	145 Cities and 1 489 municipalities	81 Provinces and 1 Autonomous Region.	
	Average municipal size: 2 398 07 inhabitants			
	42 045	1 634	82	43 761

OVERALL DESCRIPTION. According to the 1987 Constitution, local government in the Philippines is three-tiered and composed of 81 provinces; 1 489 municipalities (*bayan*); 145 cities; 42 045 villages (*barangays*), plus the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM) and NRC regions. The country is also composed of 7 107 islands. Each of the three levels of subnational governments is self-governing, and since the adoption of the Republic Act No. 7166 in 1991, elections for national and local officials are synchronized. Local government elections are to take place every 3 years, corresponding to midterm elections.

REGIONAL LEVEL. The country is divided into 81 provinces, each led by an elected governor and an elected provincial council. Provinces are the upper tier of subnational governments, and according to the constitution, they shall ensure that the acts of their component cities and municipalities are within their prescribed powers and functions. Local legislative power is exercised by the *Sangguniang Panlalawigan* for the province. For the central government administration, the country is structured into 14 ordinary regions plus three special regions: The Cordillera Administrative Region, the BARMM and the NRC. The latter is composed of the mayors of the 16 cities and one municipality included in the region. It is the region with the second-highest number of cities (Calabarzon has 19 cities and 123 municipalities). The Bangsamoro Organic Law (Republic Act No. 11054) adopted in 2018 and confirmed by referendum in January 2019 gave rise to the Bangsamoro Autonomous Region of Muslim Mindanao, replacing the Autonomous Region of Muslim Mindanao. It provided a new legislative framework for the region and further political autonomy from the national government. The BARMM is the only region with an elected government.

INTERMEDIARY LEVEL. Cities and municipalities are the intermediate level of local government. The mayor is the elected holder of executive power, while an elected city/municipal council holds the legislative power. The legislative power is vested in the *Sangguniang Panlungsod* for the cities and the *Sangguniang bayan* for the municipalities. Filipino cities are further categorized into three sub-categories: Highly-Urbanized Cities (35); Independent Component Cities (5); and Component Cities (105). By being above a legally-determined threshold of resident population and financial availability, Highly Urbanized Cities and Independent Component Cities are outside provincial jurisdiction and oversight. The threshold to distinguish between Component Cities and Municipalities is set at 150 000 inhabitants and at least 20 million pesos/year of local revenue.

BARANGAYS. Villages, or *barangays*, are the lowest level of local government. *Barangays* are managed by an elected official – *Barangay* Chairperson or 'captain' – and an elected village council (*Sangguniang Barangay*). The *barangays* are the closest tier of local government, and represent a neighbourhood level of governance. According to the "*Barangay* Code" (book three of the Local Government Code) they are generally composed of 50 to 100 households. Over the past few years, new regulations have promoted local deconcentration in exchange for fiscal stimuli and incentives. Consequently, the number of local governments (and Municipalities in particular) has risen notably, although the process has recently slowed down. Two *barangays* were created by decree in 2016, and ten new ones were established as a result of the fragmentation of a former one.

COOPERATION. Provinces, cities and municipalities, as well as *barangays*, may establish Memoranda of Agreement to coordinate service delivery and cooperate with their respective assets. Moreover, Local Development Councils are mandatory by law, LGC (Book I Title VI) and are composed of local government representatives of the different tiers of government component of the territory, allowing for vertical coordination in policy formulation of long and middle-term development plans and public investments.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Local government's competences, powers and resources are defined in the 1991 Local Government Code, which establishes that local government units shall exercise their powers as corporate entities to promote the general welfare and provide citizens with basic services and facilities. *Barangays*' responsibilities include agricultural support and maintenance of health centres and infrastructures. Cities and municipalities are the local governments endowed with the majority of public service provision competences and authority. These include welfare programs, waste management, construction of municipal and infrastructure facilities and transportation, among others. Provinces are in charge, for instance, of building infrastructure funded with provincial funds, upgrading tax collection mechanisms and enabling inter-municipal cooperation.

In the National Capital Region, the national agency Metropolitan Manila Development Authority holds several planning, monitoring and coordination functions and exerts regulatory and supervisory authority over the delivery of metro-wide services. These tasks, however, do not interfere with the exercise of competences by lower local government units.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	PROVINCIAL LEVEL	CITY AND MUNICIPAL LEVEL	BARANGAYS
1. General public services	Public buildings and facilities	Civil Registry; Public buildings and facilities	Maintenance of Local justice facilities (*Katarungang Pambarangay*)
2. Public order and safety	Provincial firefighting services; Traffic signs and regulation	Traffic control; Community Police	Public order maintenance (assist city and municipal authorities)
3. Economic affairs /transports	Provincial roads; urban transit systems; Employment services; Support to local enterprises and entrepreneurship; Agriculture and rural development; Regional tourism	Local roads; Park spaces; Urban transit; School transport; Local tourism; Local markets	Agricultural support services; Maintenance of barangay roads and bridges; Support satellite of public market
4. Environmental protection	Natural preservation; Soil and groundwater protection; Climate protection; Sewerage	Parks and green areas; Waste management and sanitation ; Street cleaning; Natural preservation	Support in beautification, solid waste collection and disposal
5. Housing and community amenities	Construction/renovation of housing; Housing management	Construction/renovation of housing; Water supply ; Public lighting; Urban and land-use planning; Urbanism	Maintenance of water supply systems
6. Health	Regional hospitals with Emergency Medical Systems	Primary healthcare (medical centres); Preventive healthcare	Barangay health services and day care centres; Hygiene and sanitation
7. Recreation, culture & religion	Regional museums; Cultural heritage	Sports; Libraries; Local museums	Maintenance of reading; Sports facilities
8. Education	Secondary education	Pre-primary and primary education with school district	
9. Social protection	Elderly; Disabled individuals (benefits and services)	Social care for children and youth; Support services for families	

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: provinces, cities and municipalities.	Other	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. Besides providing the basic framework of local governance, the Constitution and the 1991 Local Government Code also set out the main local government finance systems and mechanisms. Although such regulatory framework establishes the legal grounds for local governments' fiscal autonomy, most local governments – and the lower tiers in particular – still heavily dependent on mechanisms of fiscal transfers from the central government, mostly via Internal Revenue Allotment (IRA). According to the available data of the Bureau of local government finance, between 2013 and 2016, local government surplus grew by 130 percent.

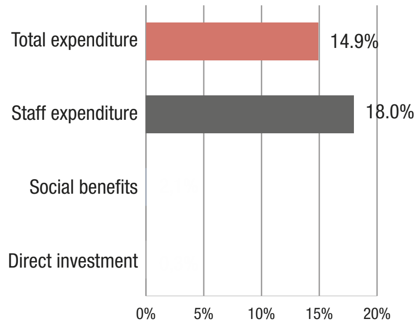
PHILIPPINES

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**240**	**3.1%**	**100%**
Inc. current expenditure	209	2.7%	87.0%
Staff expenditure	85	1.1%	35.5%
Intermediate consumption			
Social expenditure			
Subsidies and current transfers			
Financial charges	3	0.0%	1.1%
Others	16	0.2%	6.5%
Incl. capital expenditure	31	0.4%	13.0%
Capital transfers			
Direct investment (or GFCF)	31	0.4%	13.0%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



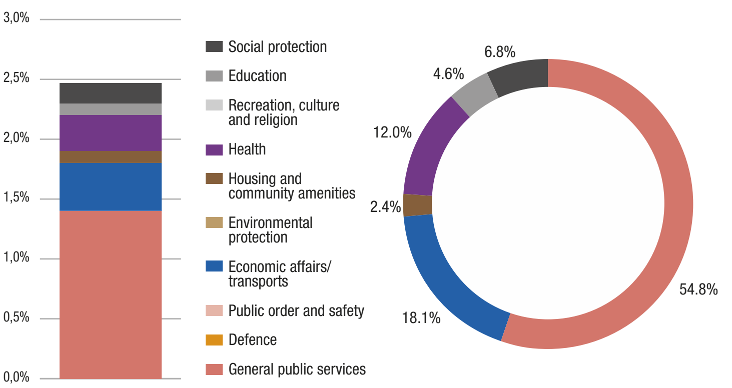
EXPENDITURE. Local government expenditure in FY2016 was mainly directed at covering current expenses, of which staff expenditure represented 35.5%. Total SNG expenditure accounted for 14.9% of general total government expenditure and 3.1% of GDP. The biggest share of SNG expenditure corresponds to cities (41.5 %) and municipalities (35.45%) – which are both at the intermediate level of government – and provinces (23%).

INVESTMENT. By law, specifically Section 287 of the Local Government Code, all subnational governments are required to allocate at least 20% of the received IRA for the development of social or economic projects. In 2016, local governments' investment accounted for 0.4% of GDP and 31 dollars PPP per capita. Moreover, in 1984, the Municipal Development Fund was created by presidential decree. It is a revolving fund, with a total of PHP 18 678 billion in 2016 allocated to ten financing lines: (i) the Municipal Development Fund Projects for revenue generating project in low income subnational governments (ii) Disaster Management Assistance Fund (iii) PPP Fund to assist LGUs finance PPP projects, (iv) Municipal Fund specific to upgrading public administration infrastructure; (v) Program Lending, specifically for provinces carrying policy reforms. In addition, the Local Government Unit Guarantee Corporation, created in 1984 by the Bankers Association of the Philippines, the Development Bank of the Philippine and other stakeholders, provides indirect lending to subnational governments and other public entities, such as water districts, to access funds from the private sector and carry out capital investment.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

In 2016, total expenditure of subnational government accounted for 2.5% of the GDP. General public services accounted for approximately 55% of total subnational public spending: municipalities spend the most for general public services (64% of their expenditure), whereas provinces and cities spent 50% and 47% respectively. Social services corresponded to 26% of subnational public spending, covering education (4.6%), health (12%), social protection (6.8%) and housing (2.4%). These are unevenly distributed between provinces, cities and municipalities. For instance, cities are the local government spending the most on education (8% of their spending) and housing (5%), if compared to provinces and municipalities (both spending a total of 2% in education and 1% for housing and community development). Moreover, 20% of provinces' expenditure go to health, food security and population control, while cities and municipalities are spending 11% and 9% for health respectively. Economic affairs (accounting for 18%) include agriculture, natural resources and environmental management, tourism, trade, and communications among others, which are for a significant part under the realm of provincial and city-level decentralized functions. In fact, economic affairs account for 23% of provinces' spending, and 17% of cities' and 16% of municipalities' expenditure.

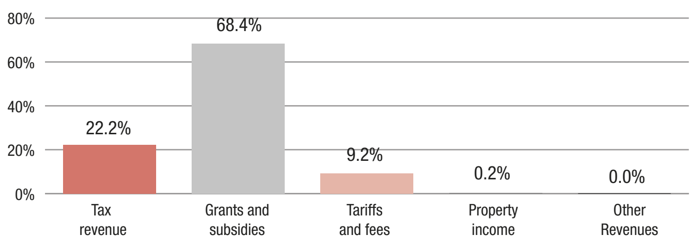
% GDP	% SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**311**	**4.0%**	**20.8%**
Tax revenue	69	0.9%	6.1%
Grants and subsidies	213	2.7%	
Tariffs and fees	29	0.4%	
Property income	1	0.0%	
Other revenues			

% SNG REVENUE



OVERALL DESCRIPTION. In FY2016, subnational government revenue represented 3.8% of GDP and 20.1% of total public revenues. Section V of the Constitution provides local governments with the powers to create their own sources of revenues and to levy taxes, fees and other charges. "Locally raised revenue", as per the national nomenclature, correspond to taxes (23.2%) and tariffs and fees (9.2%). However, most local government revenues come from fiscal transfers from the central government under the Internal Revenue Allotment (IRA) mechanism as established by section 238 of the Local Government Code. This section states that local governments should receive 40% of the total internal revenue allotment, which corresponds to 68% of subnational revenues. The IRA accounts for 93% of grants and subsidies and, by itself, represented 62% of subnational revenues. The remaining 6% of grants and subsidies came from other shares from national tax collection (at 4.6%), extraordinary grants and donations (performance Based Grant System (PBGS) (at 1.6%) and inter-local transfers (at 0.6%).

TAX REVENUE. Subnational government tax revenue is defined in the LGC Book II (titles I and II) as part of the locally-sourced revenue. It corresponds to 0.9% of the GDP. In FY 2016, the main sources of local tax revenue for local authorities are the business tax levied on business activity (accounting for 54% of SNG tax revenue and 12.4% of SNG revenue), and the property taxes levied on land and real estate (at 40% of SNG revenue) within their territory, the real estate property tax amounted to 40% of subnational tax revenue and 9.2% of local revenue.
There are a few other local taxes such as taxes paid by business to local governments (5% of subnational tax revenue) or the special education tax. All such taxes are collected at the local level. Cities are the local government unit with the highest capacity to collect revenue locally (51% of their revenue). Local governments may adjust tax rates up to 10%, once every 5 years. Moreover, the real property tax base is set by local governments through the Schedule of Market Values, which is revaluated once every 3 years. According to the Department of Finance, in 2017, 75% of provinces and 80% of cities maintained outdated market valuations. Moreover, according to the Ministry of Finance's revenue collection efficiency report published every year there is a wide gap in regards to taxing and collection capacity among local governments. The central government, together with international donor agencies, provides capacity-training programmes to local governments: the 2017 LGU Financial performance shows that effort to locally collect revenue grew by 37% between 2013 and 2016.

GRANTS AND SUBSIDIES. The design of intergovernmental transfers as defined in Book II of the Local Government Code includes four categories of grants:
The **Internal Revenue Allotment (IRA)** is the main formula-based transfer from central government to subnational governments. It corresponds to 3% of the GDP and 93% of total grants in 2016. In 2016, IRA accounted for 72% of provinces' revenue (compared to 80.5% in 2014), 41% of cities' (at 43.5% in 2014) and 73% of municipalities' (at 80% in 2014). The IRA is a revenue sharing system conceived to make sure that all local governments are provided basic revenues to fulfil the duties required by the Code: even the smallest *barangay*, for instance, is guaranteed at least 80 000 pesos per year (approx. $4 450 PPP per year). The actual distribution of funds to each local government is done according to population and area criteria and a fixed common quota (Section 284 of the Local Government Code). Based on this formula, IRA allocation increases with the creation of every new barangay and, thereby, the IRA rate increased from 2014 to 2016 and from 2016 to 2018. In FY2016, 23% of the total IRA amount was allocated to provinces, 23% to cities, 34% to municipalities, and 20% to barangays. Based on the available open government data on Internal Revenue Allotment Dependency by administrative regions in 2017, IRA corresponded to 20.2% of the National Capital Region total for the operating income. In July 2018, confirmed in April 2019, the Supreme Court, ruled against the enactment of a new Section 284 in the LGU Code. The Court recognized that, until now, national revenue was not properly collected (with regards the tax base) and allocated to LGU units. The rigid formula-based mechanism, moreover, is at risk of widening the gap between richer and poorer local communities. It is argued that such a mechanism may serve as disincentive for local governments to find alternative sources of local revenue and instead excessively rely on the transfer system.
In addition, **inter-local transfers** correspond to provinces and cities have to share a portion of their revenues with the municipalities and barangays and are restricted on the types of taxes they can collect. It accounts for 0.4% of local governments' revenue.
Performance Based Grant System (PBGS) account for 1.6% and are divided into two types of grants. First, the Capital Grant providing additional funding for subnational governments capital investments. Second, the Capacity Development Grant (CDG) that supports the poorest subnational governments to attain the needed threshold of development capacity.

OTHER REVENUES. The LGC makes specific provisions regarding the Other Revenue-Raising Powers of Local Government Units, including a list of user charges and fees to be collected by each level of government. Administrative fees and charges include market place selling fees, visitor fees and exploitation fees, among others. Property income, on the other hand, consists of property leasing and sales, as well as of income from municipal companies and public utilities.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**47**	**0.6%**	**1.4%**	**100%**
Financial debt*	46	0.6%	1.4%	100%

* Currency and deposits, loans and bonds

FISCAL RULES. As specified in the Republic Act No. 7160, Local Development Councils are required to submit to the local finance committee their local development plan and annual investment program approved during the fiscal year before the calendar for budget preparation in accordance with applicable laws. The local finance committee must use the plan to ensure that projects proposed for local funding are included in the budget. Additionally, the local government must endeavour to have a balanced budget in each fiscal year of operation. According to the Section 324 of the LGC, debt ceiling is set at 20% of the total local government revenue. According to the Bureau of Local Government Finance, between 2013 and 2016, the debt service has decreased from 4.43% to 3.71%, far from the statutory limit.

DEBT. According to Title IV of the Local Government Code (LGC), local government units may contract debt obligations to finance local infrastructure and other socioeconomic development projects in accordance with the provisions of the local development plan and the public investment programme. Local governments may secure short, medium and long-term loans from any government bank or lending institution against real estate or other acceptable securities. All local governments request a certification of Net Debt Service Ceiling and Borrowing Capacity to the Department of Finance. Since 2014, the 171 local governments affected by the Yolanda Typhoon have been supported via special requirements for certification. Since 2016, by department order, verification and validation of the certificates has been delegated to the BLGF Regional Offices. According to Section 296 of the LGC, all local government units are also authorized to issue bonds and other obligations, subject to the rules and regulations of the Philippines' Central Bank and the Securities and Exchange Commission. In 2016, subnational debt accounted for 0.6% of the GDP.

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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data: Department of Finance (2016) Consolidated Public Sector Financial Position 2009-2016 // Department of Interior and Local Government. (2016) LGUs Fiscal Data for All Provinces/Cities/Municipalities // Department of Budget and Management. (2016) Classification of the Functions of Government, FYs 2016-2018 // Commission on Audit (2017. 2016 Annual Financial Report - Local Government vol I.
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SRI LANKA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME | LOCAL CURRENCY: SRI LANKA RUPEE (LKR)

POPULATION AND GEOGRAPHY

Area: 65 610 km^2
Population: 21.444 million inhabitants (2017), an increase of 0.5% per year (2010-2015)
Density: 327 inhabitants / km^2
Urban population: 18.4% of national population (2016)
Urban population growth: 1.5% (2017 vs 2016)
Capital city: Colombo (2.8% of national population)

ECONOMIC DATA

GDP: 275.2 billion (current PPP international dollars), i.e. 12 811 dollars per inhabitant (2017)
Real GDP growth: 3.3% (2017 vs 2016)
Unemployment rate: 4.2% (2017)
Foreign direct investment, net inflows (FDI): 1 375 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 26.3% of GDP (2017)
HDI: 0.77 (high), rank 76 (2017)
Poverty rate: 0.8% (2016)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Sri Lanka is a unitary democratic republic (Constitution of 1978) with a unicameral parliament. The president, both the Head of state and Head of government, is directly elected and may serve up to 2 mandates of five years. The president appoints the prime Minister, reflecting the parliamentary majority. The 229 members of Parliament are elected through a proportional system.

In the early 80's, the country entered a period 25-year civil war, mainly opposing Tamil and Sinhalese groups over the independence of the northern and eastern regions. Devolution of powers was initially introduced through parliamentary regulation. Such "statutory devolutions" were often the result of political negotiations with ethnic constituencies. In 1980, the national government created the District Development Councils, in agreement with the Tamil constituency, thus abolishing village and town councils. District Development Councils were then abolished by the 13th amendment to the Constitution in 1988, which acknowledged Local and Provincial Councils as the two subnational tiers of government, composing a shared system of service delivery between deconcentrated sectorial agencies and local councils.

At national level, there is an important fragmentation of ministries (51 ministries in 2017) and 425 line agencies. The national government has kept a strong hold on subnational tiers. At national level, the Ministry of Local Government and Provincial Councils (MLGPC) is responsible for policy and legislation, retaining constitutional powers to intervene in subnational affairs for purposes of national planning. Monthly coordination meetings are held with provincial commissioners and organizations supporting both local councils and the national ministry for the formulation of local government policies, such as the Sri Lanka Institute of Local Governance. The MLGPC has powers to create a local council based on the recommendations of an ad-hoc committee; it may curtail or extend the term of office of any local council by one year.

Other powers of the MLGPC were transferred to the Provincial Minister of Local Government who has become responsible for supervising local councils. Provincial councils do not have legislative autonomy. They must detail the provincial implementation of the regulations voted by national Parliament through statutes. At provincial level, the chief ministers, head of the provincial executive body, organize regular conferences in which the MLGPC represents the national government. Similar meetings are held between representatives of sectoral ministries, the provincial chief secretaries, and the secretaries of the Provincial Public Service Commission. Local councils are required by law to promote social inclusiveness, civil society participation and partnership (Extraordinary Gazette, 1632/26 of December 2009). This could only be implemented with the support of external actors in some local councils.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	24 Municipal councils 41 Urban councils 276 Rural councils *(Pradeshiya Sabhas)*		Provincial councils	
	Average municipal size: 62 880 inhabitants			
	341		9	350

OVERALL DESCRIPTION. Sri Lanka has two tiers of subnational government: provincial and local councils (13th amendment of the Constitution - 1988). There are 9 provincial councils and 341 local councils. Local councils are composed of municipal councils (in average, 30 000 – 100 000 inhabitants), urban councils (in average, 20 000 – 75 000 inhabitants) and rural councils (in average 10 000 – 60 000 inhabitants). Elections to local and provincial councils are not synchronized. In addition, provincial council elections also take place at different times in different provinces.

MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION. The local government level is made up of 24 municipal councils for cities and larger towns; 41 urban councils for smaller towns, and 276 Pradeshiya sabhas covering the former villages and town councils in mostly rural areas. Local governments in Sri Lanka were originally introduced by the Urban Councils Ordinance 1939, with additional provisions outlined by the Municipal Councils Ordinance 1947 and the Pradeshiya Sabhas Act 1987. These governing laws were amended in 2014 and with the Local Authorities Elections (Amendment) Act No. 31 of 2017 already implemented in the last election of 2018. Councillors are elected via mixed electoral system composed of a ward-based proportional system (40% of elected body) and a first-past-the-post system (60%). In addition, a quota for women was implemented. Local councils are headed by mayors (in municipal councils), or chairpersons (urban councils and pradeshiya sabhas), nominated for a period of four years by the political coalition holding the majority in the council. Municipal councils are mandated to appoint overseeing standing committees on matters such as finance or housing and community development. Legislative amendments have been proposed to introduce similar provisions for urban councils and pradeshiya sabhas.

PROVINCES. As one of the main requirement of the Indo-Sri Lanka Accord, attempting to bring civil war to an end, eight provincial councils were established through the 13th amendment to the Constitution and are governed by the Provincial Councils Act, No. 42 of 1987. The Northern and Eastern provinces were merged into one (Provincial Councils Act 42 of 1987 (Section 37 1A)) until 2009. A Supreme Court decision overrode the decision, creating nine Provincial councils. The members of the council are directly elected by the citizens while executive powers are held by a governor, appointed by the president for a five-year term. A board of four ministers is appointed by the governor amongst the members of the provincial council to advise the chief minister at its head. In practice, the chief minister is the leader of the provincial parliamentary majority. By law, the Governor must act in accordance with the advice of the Board of Ministers. For administrative purposes, the nine provinces are subdivided into deconcentrated administrative units: 25 districts and 331 divisional secretariats. These secretariats – which are further sub-divided into over 14 000 *grama niladhari* divisions – coincide with the local authorities, and serve an administrative coordinating role for the central government.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The Constitution allocates powers and responsibilities between national and provincial governments: the “Provincial Council List” outlines functions under the responsibility of the provincial councils, the “Reserved List” outlines central government’s exclusive responsibilities, and the “Concurrent List” outlines the responsibilities to be exercised by either tier, acting in consultation and concurrence with each other. Despite such constitutional provisions, there is still significant overlap in the implementation of development plans, education, health, social welfare, rural development, land use and development, and local government oversight. In accordance with their governing legislation, local councils are responsible for the regulation, operation and maintenance of public health, public utility services and, in general the protection and promotion of the wellbeing of the people. They are also vested with the power to create by-laws, with the approval of the MLGPC and provincial councils, to fulfil additional responsibilities. The pradeshiya sabhas have some additional development responsibilities.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	PROVINCES	LOCAL COUNCILS
1. General public services	Statistical offices	Public facilities; Townhouses; Cemeteries and crematoria
2. Public order and safety	Police (shared with national government)	Firefighting (shared between all local councils)
3. Economic affairs /transports	Agriculture, forestry and fishery	Road management; Urban transportation (shared with provincial government); Slaughterhouses; Local economic development; Tourism and trade
4. Environmental protection		Sanitation and environmental protection; Solid waste collection and disposal
5. Housing and community amenities		Housing and town planning (shared between all local councils); Water management; Parks and open spaces
6. Health	Primary and preventative healthcare; Maintenance of medical centers; Hospitals and specialized healthcare (e.g. dental care)	Primary and preventative healthcare; Maintenance of medical centers
7. Recreation, culture & religion	Museums and libraries; Sports and leisure (all shared with local councils)	Theatre and concerts; Religious facilities (discretionary power)
8. Education	Pre-school and nursery; Primary, secondary and higher education (shared with national government); Vocational education	Vocational education (shared with provincial and national government)
9. Social protection	Family welfare services (shared with national government); Support to elderly and disabled persons; Social inclusion and poverty elimination	Support to elderly and disabled persons; Social inclusion and poverty elimination

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: : provincial councils.	Other	Availability of fiscal data: **Low**	Quality/reliability of fiscal data : **Low**

GENERAL INTRODUCTION. The Parliament has full authority over public finance (Section 148 of the 1978 Constitution). The core constitutional provisions define a centralized oversight of spending powers and revenue mobilization through: (i) Assignment of expenditure and revenue powers (Provincial List) (ii) Guarantee of the allocation of funds from the annual budget to meet the needs of the provinces; and (iii) Apportionment of such funds among the provinces on the basis of principles formulated by the Finance Commission. The design of the fiscal framework for devolution to provinces results in a significant shortfall in revenue over expenditure and there are important imbalances within and between the nine provinces, with a relative dominance of the Western province, where both the country’s capital city and economic centre are located.

The financial resources of local governments are derived from the establishment of funds specific to each category of local government and regulated by the respective constitutional laws: Municipal Fund (Section 185), Local Fund (Section 158) and Pradeshiya Sabha Fund (Section 129). Overall, municipal councils and pradeshiya sabhas collect and spend the largest share of revenue.

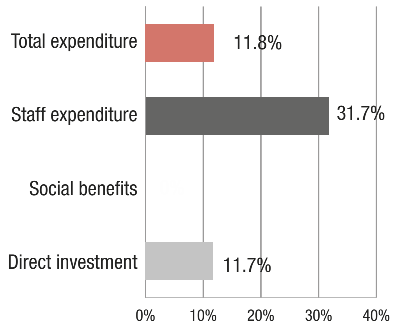
SRI LANKA

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**286**	**2.3%**	**100%**
Inc. current expenditure	246	2%	86.1%
Staff expenditure	189	1.5%	66.1%
Intermediate consumption			
Social expenditure			
Subsidies and current transfers			
Financial charges			
Others			
Incl. capital expenditure	40	0.3%	13.9%
Capital transfers			
Direct investment (or GFCF)	40	0.3%	13.9%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. The available data (reported in the table) from the Ministry of Finance's 2016 Annual Report refer to the provinces excluding the local governments/councils. Recurrent expenditure declined between 2016 and 2017, except staff expenditure, which in fact increased by 2.5% in the period. Representing nearly 70% of total expenditure, staff costs are the largest item of provincial expenditure.

As far as local governments themselves are concerned, a 2017 comparative study of their recurrent and capital expenditure in 2011 concludes that almost 80% of their revenues are spent on recurrent costs for service provision. The Monitoring Division of the MPCLG prepared a detailed Review of the financial performance of Local Authorities for the year 2017. It shows that local governments spend approximately 78% in recurrent expenditure, mostly staff expenditure (45% of total local government expenditure). In comparison, capital expenditure in 2017 represented 28% of local government expenditure. According to the review, total actual expenditure increased by 7.5% between 2016 and 2017.

DIRECT INVESTMENT. Investment of provincial councils amounts to 40 dollars PPP per capita in 2016. Among capital expenditure, acquisition of capital assets and investments in Special projects has been declining since 2015. The Central Bank of Sri Lanka highlights that capital expenditure of Provincial Councils in 2017 reached the same levels as in 2015, 0.5% of the GDP. This was mainly due to increases in Province Specific Development Projects and capital transfer to local governments, which grew by 28.1% from one year to the other.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

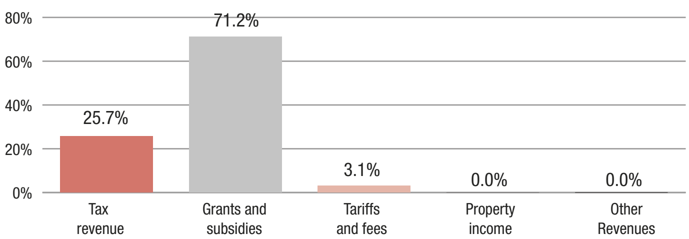
There is no information on the functional distribution of expenditures at local level. At provincial level, the Central Bank of Sri Lanka specifies that between 2015 and 2017 spending on social services increased by approximately 8%. Expenditures in economic services and provincial public administration remained stable also in absolute terms, at approximately LKR 4 billion (approximately 4 dollars PPP per capita) and LKR 18 billion (approximately 19 dollars PPP per capita), respectively.

% GDP | % SNG EXPENDITURE

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**286**	**2.3%**	**16.4%**
Tax revenue	74	0.6%	4.8%
Grants and subsidies	204	1.7%	
Tariffs and fees	9	0.1%	
Property income			
Other revenues			

% SNG REVENUE



OVERALL DESCRIPTION. According to the 1978 Constitution, local governments have the power to raise revenue as provided in the three dedicated legislative 'Acts' mentioned above. The legal framework thus empowers them to mobilize adequate revenue to provide the services they are responsible for. Shared-tax revenue is the main own source of subnational revenue: its single largest component are transfers from the general government's National Building Tax, to both provincial and local governments. Since the 1987 Constitutional Amendment, provinces have been allocated a large number of tax and non-tax revenue sources. Provinces cannot introduce fiscal measures. Thus, subnational governments are relatively constrained in terms of revenue mobilisation.
In 2016, total revenue of provincial governments represented 2.3% of GDP, approximately 286 dollars PPP per capita. In addition, according to the 2017 annual report of the Ministry of Finance, in 2016 local government revenue represented 0.5% of GDP. Provincial and local councils do not have enough capacity mobilize enough local revenue to cover recurrent expenditure. Under a constitutional provision, the national government should allocate adequate funds to cover the fiscal deficit of the provinces, in consultation with the Finance Commission. In practice, subnational governments are highly dependent on central government grants and transfers. These subsidies are divided in four categories: Block grants, Criteria- based grants, Revenue-performance grants and Province Specific Development Grants (PSDG) which together represent 71% of provincial revenue. There is a significant imbalance in local government's capacity to collect revenue in the different provinces. Approximately half of subnational revenues are collected in the Western province. High-potential sources, such as turnover taxes on wholesale and retail sales, motor vehicle license fees and taxes on mineral rights, are always levied within the limits and exemptions prescribed by Parliament.

TAX REVENUE. Subnational governments do not have the power to set direct or indirect new taxes without the agreement of Parliament. They are however in charge of tax collection and can influence tax rates. They are limited when setting the tax base, which requires the establishment of by-laws and compliance with the hierarchy of regulatory Acts. In 2010, via the Fiscal Policy Circular Nº01/2010, the Parliament abolished provincial turnover tax on wholesale and retail sales, which represented approximately half of the provincial revenue as established by constitutional provisions. It was replaced by a system of shared taxes consisting of stamp duty, 70% of motor vehicle registration fees and a fixed share of the National Building Tax (NBT).

Stamp duties on immovable property (Section 36.5 of Provincial List) as well as court fees have to be transferred to local governments. The NBT was introduced in 2009 (Act No 9 of 2009) and subsequently amended. It represents a social contribution towards the welfare of security forces and the reconstruction of communities and infrastructure facilities. One third of the funds collected go to the provincial councils

GRANTS AND SUBSIDIES. The central government allocates annual funds to provinces and local governments, through the provinces. In 2016, transfers from central to local governments, through the provinces, represented 2 dollars PPP per capita and 0.7% of general government total capital expenditure. The grant structure does not provide for equalization of fiscal capacity between provinces, resulting in significant fiscal imbalances and disparities as 6 of the 9 provinces remain highly dependent on central governments transfers. Grant decisions are made on a case-by-case basis by the Finance Commission. Of the four types of existing grants, the two main ones are the Block grant and the Criteria–based grant.The **Block Grant** represented 86% of total transfers from the central government to provincial governments, and 61% of provincial revenues, in 2016,. It is earmarked to cover recurrent expenditures. In practice, it covers the salary costs of provincial administrations. Block grants are transferred to local governments, through provincial councils to cover all their staff costs. According to CLGF, the situations are diverse: In the Pradeshiya sabhas, the total cost of salaries is covered. In Colombo Municipal Council, they cover about 50% of this cost.

The **Criteria-based grant** incorporates socio economic indicators that take into account provincial development disparities: (a) the population of each province; (b) the per capita income of each province; (c) the targeted reduction of social and economic disparities; and (d) the targeted reduction of gaps between the per capita income of each province and the highest per capita income among provinces. In 2016, these grants amounted to 1.5% of provincial revenue, for a total of 3.15 dollars PPP per capita.

In addition, the **Province Specific Development Grant** (PSDG) is the funding allocated to line ministries to be transferred to provincial councils for specific development purposes. In 2016, it accounted for 2.2% of the provincial revenue. Lastly, **Revenue-performance Grants** are provided as an incentive for provincial councils to raise revenue.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. In Sri Lanka, the Fiscal Management (Responsibility) Act (FMRA) of 2003, amended in 2013 and 2016, makes fiscal discipline mandatory. Under the current framework, at national level, the ceiling of budget deficit is set at 5% of GDP under plurennial budget framework. Likewise, debt ceiling is 60% by the end of 2020 and guarantees must not exceed 10% of GDP. Under the same rules, Provincial Council are expected to provide an Annual Financial Statement and Municipal councils and Urban councils must prepare budgets of Accumulated Reserves & Income and Expenditure Statements. According to the Asian Development Bank, the public financial management of provincial councils is independent from central government since they do not have direct responsibility for reporting their expenditure to the central government. The national deficit has never been less than 5 % of GDP over the past two decades.

DEBT. Local governments can access borrowing through local loans and development funds. The main statutory body providing this source of financing is the Local Loans and Development Fund (LLDF), established through the Local Loans and Development Ordinance No. 22 of 1916. Its objective is to provide loans to any local government at below-market rates with a focus on infrastructure development. The fund functions under the authority of the MPCLG. Its primary function is to meet the capital investment needs of local authorities and provide long-term loans at concessionary interest rates. In 2016, the central government granted a total of LKR 144 million to local governments through the LLDF (0,15 dollar PPP per capita). The LLDF is managed by a Board of Commissioners (BoC), comprising seven chief secretaries, two provincial commissioners, one member appointed by the Minister of Finance and three members nominated by the MPCLG. The Secretary of the MPCLG is the ex-officio chairperson.

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Socio-economic indicators: World Bank // UNDP // UN DESA // ILO.
Fiscal data: Sri Lanka Finance Commission.
Other sources of information: CLGF (2018) Country fact sheet Sri Lanka // Parliament of Sri Lanka (2018) Assessment of the financial management and the performance of the Public institutions, Provincial Councils and Local Authorities through a computerized information management system (The First Report of the Committee on Public Accounts) Parliamentary Publications No 35 // Finance Commission of Sri Lanka (2017) Annual Report 2017 // Ministry of Finance, Government of Sri Lanka (2017) Annual report 2017 // Finance Commission of Sri Lanka (2016) Annual Report 2016 // J. Uyangoda (2015), Local Government and Local Democracy in Sri Lanka: Institutional and Social Dimensions // Ministry of Provincial Councils and Local Governments.

THAILAND

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: THAI BAHT (THB)

POPULATION AND GEOGRAPHY

Area: 513 120 km^2
Population: 69.037 million inhabitants (2017), an increase of 0.4% per year (2010 - 2015)
Density: 135 inhabitants / km^2
Urban population: 49% of national population (2017)
Urban population growth: 1.8% (2017 vs 2016)
Capital city: Bangkok (13.7% of national population)

ECONOMIC DATA

GDP: 1 233.8 billion (current PPP international dollars), i.e. 17 872 dollars per inhabitant (2017)
Real GDP growth: 3.9% (2017 vs 2016)
Unemployment rate: 0.9% (2016)
Foreign direct investment, net inflows (FDI): 8 046 BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 23.2% of GDP (2017)
HDI: 0.755 (high); rank 83 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Thailand is a unitary country that has promulgated twenty Constitutions between 1932 and 2017. All Constitutions recognize the country's constitutional monarchy, with the King of Thailand as the Head of State. The constitutional texts have resulted in varying balances in the division of powers between the legislative (the parliament), executive (the government) and judicial (the courts) bodies. The last two Constitutions (2006 and 2014) were both drafted after the military overthrew the executive power in place. Between 2014 and 2018, the National Council for Peace and Order (NCPO), the military junta which held control over the country following the coups, concentrated both the executive and legislative powers. During this period, the legislative power was unicameral: the National Legislative Assembly of Thailand. Since 2017, the Interim Constitution re-established a bicameral legislative power (now the National Assembly of Thailand), pending the results of the general election of 2019. The lower house – the House of Representatives – should be composed of 375 members directly elected from the constituencies, plus 125 members from a smaller proportional representation share. The Senate, the higher chamber, is composed of 250 appointed members. The executive power is exercised by the government. The Prime Minister, who is also a member of the House of Representatives, is the head of government and is elected by both houses of the National Assembly of Thailand. All legislation requires the signature of the monarch to enter into force.

Decentralization reforms in Thailand took place until 2006: they were based on the principles of the 1997 Constitution and implemented through the 1999 Decentralization Plan and Process Act. More recently, the 2007 Constitution reaffirmed the principles of decentralization and guaranteed local government autonomy, especially in matters of policy formulation, administration, finance and human resources management. This notwithstanding, the implementation of these regulations has been slowed down by the instability of the country's political system. Against this backdrop, the system of multi-level governance in the country was formally defined as follows: the National Decentralization Committee (NDC) is supervised by the Prime Minister's office directly, and is meant to oversee the Department of Local Administration (DLA). The DLA, in turn, is embedded in the structure of the Ministry of Interior, and supervises a two-tiered mechanism of multi-level decentralization, which includes both the Local Administration Organizations (LAOs) and the central government's deconcentrated units operating at the local level. Ultimately, this hierarchical system is designed to preserve centralization and reduce power sharing and financial autonomy of the lower tiers of governance.

The 12th National Economic and Social Development Plan (2017-2021) acknowledges this challenging co-existence and its impact on the coordination of public service provision. Deconcentrated administrative branches are headed by officers of the Ministry of Interior, which are granted statutory authority over line ministries and departments at the provincial and district levels. This structure, however, has not prevented significant lack of coordination, vertically and across different sectors.

The 2017 Constitution also acknowledges local government (Chapter XIV) and provides a framework for their autonomy. The latest national elections were held in 2011 and then regularly postponed until March 2019: local elections are scheduled to always take place 90 days after the general elections. The Constitutional reform in 2016-2017 had a substantial impact on the distribution of powers and tasks at all levels. In particular, in 2016, the NCPO reinstated the Ministry of Interior's control over local governance. The NDC remains active only de jure. The Ministry of Interior has taken back its former role in determining national and regional spatial policies but, more specifically, it has also entrusted the Office of the National Economic and Social Development Board as the secretariat of the Regional Development Policy Integration Committee, a body in which local governments are formally represented.

TERRITORIAL ORGANISATION

2016	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	The Pattaya City; 30 City municipalities *(Thesaban nakhon);* 178 town municipalities *(Thesaban mueang)* and 2 232 sub-district municipalities *(Thesaban tambon)*		75 Provincial Administrative Organizations (PAOs) and the Metropolitan City of Bangkok	
	Average municipal size: 28 282 inhabitants			
	2 441		76	2 517

OVERALL DESCRIPTION. According to the 1991 State Administration Act, Thailand's state organization comprises three tiers of government: national, provincial and local. The central government is represented through deconcentrated entities at the subnational level in the 75 provinces. Along with the 75 Provincial Administrative Organizations, the metropolitan city of Bangkok has provincial status. The municipal level comprises all kinds of municipalities – more details provided below – as well as the administration of Pattaya City, which enjoys a special regulatory status.

MUNICIPAL LEVEL. Local government in Thailand includes a total of 2 441 municipalities. In addition, there is a sub-municipal administrative level is the Tamboon Administrative Organizations (TAOs), a mostly rural unit: to date, there are 5 333 TAOs in Thailand. Each municipality is led by an elected local council and mayor. Likewise, the 5 333 TAOs, the local body of administration in rural areas, are each led by an elected chairperson and a local council, which gathers representatives from villages. The composition of both the municipal and TAO councils varies according to the area under their jurisdiction. Municipalities are distinguished among City Municipalities (more than 50 000 inhabitants), Town Municipalities (10 000-49 999 inhabitants), and Sub-Districts Municipalities (8 000–9 999 inhabitants). The establishment of municipalities was based on the 1953 Municipality Act, while the city of Pattaya was established by the City of Pattaya Administrative Act of 1999.

PROVINCIAL LEVEL. Thailand is divided in 75 Provincial Administrative Organizations (PAOs), at the same level as the deconcentrated provinces (*changwat*). PAOs were established by the Provincial Administrative Organization Act of 1997. Since 2003, each PAO is headed by a chairperson and a provincial committee, whose members cannot be part of the legislative provincial council. The legislative provincial council is elected for a period of 4 years. *Changwats*, on the other hand, as a deconcentrated representation of the central government, are led by Governors, appointed by the national government, often via recommendation of the Ministry of Interior. Bangkok is the country's capital and largest city, with an estimated 12 million inhabitants in 2018. Since 1985, the Bangkok Metropolitan Administration (BMA) has gained provincial status (via the Bangkok Metropolitan Administrative Act) even though in this case the Governor and Metropolitan Council are directly elected by the residents.
Besides the capital city, Nonthaburi (over 270 000 inhabitants), Natkhon Ratchasima and Chiang Mai (approximately 175 000 inhabitants), Hat Yai and Udon Thani (approximately 160 000 inhabitants) are the largest cities in the country. Prior to the 2014 military coup, a process to establish new metropolitan entities, such as the metropolitan area of the Mae Sot municipality in the Tak province, or the metropolitan area of Chiang Mai, was still ongoing, but it was later abandoned in light of the political events.

SPECIAL ECONOMIC ZONES (SEZ). Since 2016, the Special Economic Zone Development Board of the Thai Government has designated three categories of special economic zones with a specific set of rules and incentives for economic development. These include the Eastern Economic Corridor, the Clustered Provinces and the Provinces bordering other ASEAN countries. Municipalities and provinces may belong to several SEZs at a time.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Under the 2017 Interim Constitution and the 12th National Economic and Social Development Plan, local governments are organized under the principle of subsidiarity and enjoy greater flexibility in terms of finance and human resources management than in the framework of the previous Constitutions. Formally, SNGs may operate jointly with, or delegate operations to, private organizations or central government agencies. Their core responsibilities are formally established by the 1999 Decentralization Act. PAOs are regulated by the 1997 Provincial Administrative Act, which establishes provincial competences including legislation matters, the preparation of development plans, assistance in development as well as the allocation of budget to lower governance levels. The responsibilities of the Bangkok Metropolitan Administration are the same as PAOs'. Local governments have been assigned functions in six areas: public infrastructure; quality of life improvement; order and security; local planning and economic promotion; environmental preservation; and cultural conservation. In 2008, a reform mandated the devolution of 359 central government functions. As of 2017, 256 of them have been assigned to local governments and can be clustered into 5 main groups: governance, infrastructure, economy and finance, social policy, and natural resource management. Yet, the central government has kept tight control over service provision by issuing regulatory acts.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	PROVINCIAL LEVEL	CITY AND MUNICIPAL LEVEL
1. General public services	Public buildings and facilities	Delegated administrative services (marriage, birth, notary, national statistics, tax collection); Public buildings and facilities
2. Public order and safety	Firefighting services (jointly with the central government); Civil protection and emergency services; Traffic lights and urban traffic signs	Firefighting services; Assistance to state government in public order and safety
3. Economic affairs /transports	Regional, city and district roads; Intra- and inter-city transport; Agriculture and rural development; Tourism; Local Commerce	Support to municipal development; Tourism; Local Commerce; Waterways and harbour maintenance
4. Environmental protection	Parks & green areas; Waste management; Street cleaning; Sewerage; Nature preservation	Street cleaning; Sewerage; Nature preservation
5. Housing and community amenities	Construction/renovation of public facilities (jointly with the central government); Drinking water distribution; Public lighting; Urban and land use planning; Urbanism	Distribution of drinking water; Urban and land use planning
6. Health	Hospitals; Primary healthcare (medical centres) and preventive healthcare	Public health promotion;
7. Recreation, culture & religion	Regional museums; Cultural heritage; Sports; Local museums; Libraries	Libraries; Cultural activities
8. Education	Secondary and higher education; Pre-primary and primary education	Pre-primary and primary education; Secondary education
9. Social protection	Elderly; Disabled people (benefits and services); Social care for children and youth; Support services for families (jointly with the central government)	Support to state government in reducing unemployment and registering of low-income families; Elderly; Social care for children and youth

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: city municipalities, town municipalities, the Pattaya City Council and the 76 provinces (including the Metropolitan city of Bangkok).	IMF GFS	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. SNG finance is regulated by the 1999 Decentralization Act, according to which SNGs are granted central government transfers and the capacity to raise local revenue from several sources. The Act also defines SNGs' powers over local expenditure and service delivery. Local government units' capacity to decide over expenditure is limited, since the central government has full control of budget allocation through the preparation and management of annual budgets via the National Decentralization Committee (NDC). There are important fiscal disparities across Thailand's SNGs, starting with the limited revenue assigned to PAOs in comparison to other tiers of government. Disparities are also important when comparing rural and urban areas. Fiscal imbalances result from

THAILAND

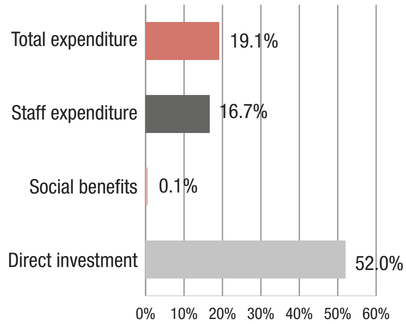
UNITARY COUNTRY

the varying capacity of raising local tax revenues and the low levels of equalization grants. In general, there is an overall significant underfunding of local service provision across the country. The national government's 12th Plan is seeking to increase LAOs' financial independence, mostly by increasing local revenue sources, deepening fiscal decentralization, revising regulation to increase the non-tax revenue base of LAOs, and enhancing local capacity for tax management.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**684**	**4.0%**	**100%**
Inc. current expenditure	411	2.4%	60.1%
Staff expenditure	184	1.1%	26.9%
Intermediate consumption	191	1.1%	27.9%
Social expenditure	1	0.0%	0.1%
Subsidies and current transfers	0	0.0%	0.0%
Financial charges	1	0.0%	0.2%
Others	34	0.2%	5.0%
Incl. capital expenditure	273	1.6%	39.9%
Capital transfers	0	0.0%	0.0%
Direct investment (or GFCF)	273	1.6%	39.9%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



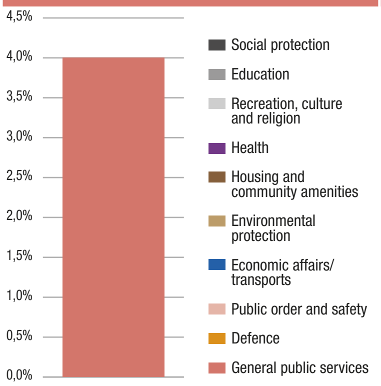
EXPENDITURE. In FY2016, current expenditure amounted to 13.5% of the total public expenditure, mainly devoted to cover staff expenditures (at 27% of SNG current expenditures) and intermediate goods consumption for service delivery (at 28% of subnational government current expenditures). According to a 2018 OECD report, SNG expenditure levels in Thailand are among the lowest in the Asia-Pacific region, with SNG expenditure accounting for 19% of total public expenditure and 4% of GDP, while the regional average of SNG expenditure corresponds to a 37.5% share of public expenditure and 11.5% of GDP.

INVESTMENT. In FY2016, SNG direct investment accounted for a significant share of SNG spending (40%) as well as total public investment (52%). Capital investments are the main budget item for PAOs, accounting for 39% of PAO total spending. Local governments can carry out investments in public infrastructure: they do so by resorting to own revenues, but most importantly by means of specific grants and transfers, which have to be consistent with national priorities and are allocated under the supervision of the national government. As part of the 12th Plan, the government aims to boost productivity in key economic sectors, such as automobile, electronics manufacturing and tourism, as well as logistics and digital industries. For this purpose, the government has launched investment promotion measures in Special Economic Zones, in particular in three coastal provinces located in the Eastern region and labelled, as mentioned above, as the Eastern Economic Corridor (EEC). The government is seeking to foster public and private investment in the EEC with an ambitious target of THB 1.5 trillion (about 10% of 2016 nominal GDP) over the 2017-2021 period.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Data by COFOG are only available for general public services. Data from previous years indicate that the main lines of expenditures for local governments are general public services expenses, housing, community amenities and education. According to a 2017 study, expenditure decentralization in Thailand is still in transition: the central government still in charge of the provision of services that are considered 'nationally public goods', such as primary education, foreign affairs and defence; local governments, on the other hand, are responsible for improving residents' well-being. Health and education spending are made under strong guidance by the national government and related ministries. While local governments have de jure full autonomy to decide how their budget are spent in order to comply with transferred functions, budgets are de facto under the supervision (and, often, the practical revision) of governors and the Ministry of Interior.

% GDP

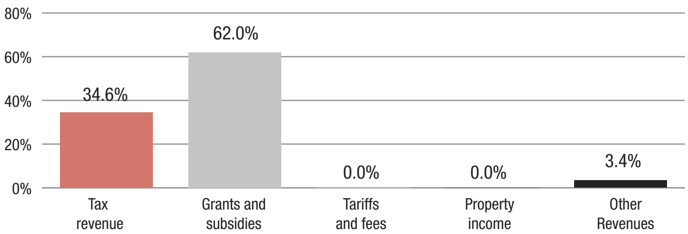


% SNG EXPENDITURE

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**703**	**4.1%**	**19.3%**
Tax revenue	243	1.4%	9.3%
Grants and subsidies	436	2.6%	
Tariffs and fees			
Property income			
Other revenues	24	0.1%	

% SNG REVENUE



OVERALL DESCRIPTION. Local revenues correspond to 19.3% of total public revenue, corresponding to 703 dollars PPP per capita. Chapter XIV of the 2017 Constitution establishes provisions for the central government to support local governments when setting up their allocation mechanisms for tax and revenue. In 2016, tax revenue (both own and shared) represented 34.6% of total local revenue. Previous regulation and the interim Constitution require that the state budget support local governments in carrying out their functions. In 2016, grants and subsidies from the national level were the largest source of income for LAOs, representing 62% of local governments' revenue. There are significant imbalances in local government revenue, due to a combination of both population differences and fixed tax bases, which are not matched with proper fiscal equalization systems. Among LAOs, cities and towns (in particular Pattaya City) have generally been able to collect own revenues effectively. Furthermore, PAOs have lower revenues and budget available, if compared to LAOs, due in particular to the lack of specific responsibilities allocated to their jurisdiction.

TAX REVENUE. Local tax revenue in Thailand amounts to 9.3% of total tax revenues, which corresponds to one of the lowest shares of local tax rates on total tax in the Asia-Pacific region. A 2017 study confirms that local governments access both locally-levied and shared tax revenue.

Locally-levied taxes, for TAOs, municipalities and special local governments, include: property taxes (5.6% of SNG revenue and 16.2% of SNG tax revenue), signboard taxes, and slaughterhouses and bird nest collection taxes. PAOs (including the Metropolitan City of Bangkok) are assigned tax revenue from retail sale of tobacco, gasoline and hotel rental. In total, 16% of total tax revenues (0.2% of GDP) perceived by local governments are locally levied. It is worth noting that a new Land and Building Tax Act came into force in March 2019, replacing previous regulation which only applied to revenues from renting or leasing out properties. The new property tax will grant local governments the power to collect taxes on land and buildings located in their jurisdiction.
Shared taxes. The larger share of tax revenue received by local governments is part of transfer mechanism. The Fiscal Policy Office of the Ministry of Finance determines the financial revenue share of the national tax to be allocated to SNGs. SNGs have no say in determining shared tax rates. Revenue allocation is determined by the locality in which the tax was collected and through a per-capita formula. This occurs with both municipalities and special local governments. De jure, this amount includes a one-ninth share of the VAT collected in the province (in 2016, 9.4% of SNG revenue), a 10%-share of nationally-levied taxes on specific business and alcohol (excise taxes correspond to 8.1% of SNG revenue), and the tax on petroleum and minerals, which is shared among all tiers of local governments, including PAOs. Lastly, PAOs have the power to collect motor vehicle taxes.

GRANTS AND SUBSIDIES. Three types of grants are used in Thailand: the tax-sharing system described above; general purpose grants; and conditional grants. In 2016, central government grants, excluding shared taxes, accounted for 62% of SNG revenue. These are allocated under strong control by the central government.

General-purpose grants are transferred to local governments to cover for the difference between basic services expenditure and local governments own revenues (excluding, of course, grants). Allocation criteria have evolved over time. For PAOs, the criterion is the previous financial year. For other local governments, the formula is based on per-capita expenditure in basic services, and 5% of the total general purpose grant is reserved as a deficit grant. General-purpose grants do not factor in the difference in revenue raising capacities between local governments, which hinders their ability to reduce territorial inequalities. Since 2007, general purpose grants have aimed at strengthening local government finance and reach the threshold of 25% of general government revenue, as required by law. In 2016, the objective was changed to 35%: the mismatch with the actual share of SNG revenue on the national total 19.3%) remains significant. In addition, parts of the general grants are earmarked for specific local activities in social, education and public health policies, under guidance of the Prime Minister Office's Department of Local Administration (DLA). LAOs are not required to record these general- specific grants on annual budget, which makes disaggregation unavailable.
Conditional grants are given out to finance public services that are high on national priorities. According to a 2017 study, specific grants are aiming for infrastructure investment for public services (such as water provision to villages) and projects that have been prioritized by the central administration. Other purposes such as education and health, while specific grants might be cross subsidized with general specific grants and therefore reported under general purpose grants.

OTHER REVENUES. According to the 2013 assignment of revenue, no tier of local government has the power to collect fees and fines. Local governments, except PAOs, collect user charges for public transportation. In addition, TAOs perceive revenue from underground water fees, royalty fees for forestry and fishery.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**302**	**1.9%**	**4.5%**	**100%**
Financial debt*	160	1.0%	2.7%	53%

* Currency and deposits, loans and bonds

FISCAL RULES. The Thai government has established ceilings on public debt and debt service, which require that public debt do not exceed 60% of GDP, and that debt service do not exceed 15% of total expenditures. While fiscal rules for SNGs are described in the various guidelines provided by the Ministry of Interior and fall under the scrutiny of the Office of the Auditor General, this often results in the Ministry overriding local governments' budget decisions in order to align them with national priorities.

DEBT. Article 28 of the 1999 Decentralization Act establishes that Thai municipalities may borrow from ministries or other legal persons. They can contract loans with foreign organizations and issue bonds with the approval of the Council of Ministers. Between 1997 and 2011, local governments also borrowed from the Local Development Fund. one specific to each type of local government. Since 2011, the Ministry of Interior has been discouraging local governments from contracting debt. In 2015, SNG financial debt accounted for 11% of SNG debt, representing 2.4% of total public debt and 1% of GDP. Up to March 2018, local governments had been allowed to borrow for three purposes: (1) to carry out investment projects, (2) to restructure debt, and (3) to manage local government pawnshops with the approval of the central government. Approval is subject to local governments providing a financial plan and following a standard accounting system. Debt is limited to 10% of local governments' revenue. In addition, the BMA and Pattaya City are authorized by law to issue municipal bonds, subject to clearance from the Ministry of Interior: despite positive ratings, the lack of tax revenue has been one of the major hindrance for bond issuance.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: UCLG
Last update: 02/ 2019
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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data: IMF-GFS // OECD Revenue Statistics
Other sources of information: Arif, A.Z.M, Fleischer, L., Bogiatzis, A., Asada, H., Colombo, A., Zougbédé, K. (2018) Enhancing governance in Thailand, OECD Economics Department Working Papers // OECD (2018) Multidimensional review of Thailand vol. I: Initial assessment, and vol. II: In-depth and recommendations // Varanyuwatana (2017) Fiscal Decentralization and Intergovernmental Transfer in Thailand // Krutchon, T. (2015). Conceptual Framework of Decentralization Policy: A Case of Local Government in Thailand // Krueathep, W. (2004) Local Government Initiatives in Thailand: Cases and Lessons Learned, Asia Pacific // FIDH (2016) Roadblock to Democracy: Military repression and Thailand's draft constitution // UNDP (2009) Improving the Local Administrative Structure; Nidhiprabha, Bhanupong. (2015) Lessons from Thailand's Fiscal Policy. Asian Economic Papers.

VIETNAM

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: VIETNAMESE DONG (VND)

POPULATION AND GEOGRAPHY

Area: 330 967 km^2
Population: 95.540 million inhabitants (2017), an increase of 1.1 % per year (2010-2015)
Density: 289 inhabitants / km^2
Urban population: 35.2 % of national population (2017)
Urban population growth: 3% (2017)
Capital city: Hanoï (4.5% of national population)

ECONOMIC DATA

GDP: 647 billion (current PPP international dollars), i.e. 6775 dollars per inhabitant (2017)
Real GDP growth: 6.8% (2017 vs 2016)
Unemployment rate: 2.1% (2017)
Foreign direct investment, net inflows (FDI): 14 100 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 23% of GDP (2017)
HDI: 0.694 (medium) rank 116 (2017)
Poverty rate: 2% (2016)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Vietnam is a unitary and unicameral socialist republic. As per the 2013 Constitution (Article 4), the Communist Party of Vietnam, the only political party, is the "leading force" of the State and society, while the National Assembly (Chapter V) is formally the highest organ of state power. This legislative body is composed of 498 members directly elected for a five-year term and has the mandate to elect the State President and Vice-President, the Prime Minister, the Chief Justice of the Supreme People's Court, the Head of the Supreme People's Procuracy, the President of the National Electoral Council, and the Head of the State Audit. Besides this establishment, the Vietnamese Fatherland Front is the centrally-organized, constitutionally-acknowledged political base of the "people's administration"; and is charged with "representing and protecting the lawful and legitimate rights and interests of the People", in the terminology adopted by the Constitution.
The country has a three-tiered subnational government system, composed of provinces, districts and communes. It has existed since 1945, and its nature was further defined in the 1959 Constitution. The current multi-level governance framework builds on the provisions of the 1992 Constitution, the 1994 Laws on People's Councils and People's Committees and the 1996 State Budget Law (SBL), which formalized fiscal arrangements between tiers of government. These provisions were further formalized in the 2002 SBL and later updated in 2015 SBL as well as in the renewed 2003 Laws on People's Councils and People's Committees. The new legal framework established Peoples' Councils and Committees, with devolved administrative powers, at all administrative levels. It more specifically gave additional fiscal responsibility to the provincial Council and Committee over commune and districts (i.e., a form of recentralization).

Chapter IX of the 2013 Constitution acknowledges a dual system of legislative bodies, the People's Councils, and executive bodies, the People's Committees of Local Governments, and formally distinguishes territorial divisions ("Administrative units" in Article 110) from local government ("Local Administration levels" in Article 111). This distinction implies that local governments exist at each level of administrative units but do not necessary adopt the same structure. According to the constitutional provisions, the Vietnamese Fatherland Front has committees at all levels of administrative division: the Chairmen of the committees participate in the corresponding People's Council and Committees. Local governments report to the National Assembly, the Vietnamese Fatherland Front Committee and the line ministries, in particular the Ministry of home affairs in charge of state administration, local government organization and administrative reforms.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	8 978 communes *(xã)*, 1 581 wards *(phường)* and 603 commune-level towns *(thị trấn)*	546 rural districts (Huyện), 49 urban districts (quận), 51 district-level towns *(Thị xã)* and 67 provincial cities *(thành phố trực thuộc tỉnh)*	58 provinces (tỉnh) and 5 centrally-run cities *(thành phố trực thuộc trung ương)*	
	Average municipal size: 8 511 inhabitants			
	11 162	713	63	11 938

OVERALL DESCRIPTION. Article 110 of the Constitution states that the country is organized with a three-tier local government system: provinces, districts and communes. The 2015 Law on the Organization of Local Administration distinguishes (Article 4) between rural and urban local governments, described in Chapters II and III respectively. Rural local governments include 8 978 communes, 546 rural districts and 58 provinces. Urban local governments include 1 581 wards and 603 commune-level towns (townships), 49 urban districts, 51 district-level towns and 67 provincial cities, as well as five cities (Can Tho, Da Nang, Ha Noi, Hai Phong, Ho Chi Minh City) whose administration is still controlled by the national government.

COMMUNES AND DISTRICTS. The new Constitution does not promote a common definition of local self-government structures. According to the 2015 Law on the Organization of Local Administration, People's Councils are the elected local legislative body, which elects the People's Committee (executive body) at the same level. The composition of People's Councils varies depending on the nature of the jurisdiction, consistently with topographic, demographic and economic features. There is no mention of inter-municipal cooperation. Yet, both wards and townships have the duty to cooperate with competent agencies or organizations in the implementation of urban infrastructural development plans and service provision within the boundaries of their jurisdiction.

PROVINCES. The structure of provinces follows the same dual system and varies according to similar provisions as the Communes and districts. The National Assembly holds the power to establish, merge, divide or adjust the boundaries of provinces and centrally-run cities. Rural provinces are requested by law to cooperate with central and local state agencies, providing an economic connection among regions and ensuring the consistency of national policy altogether. A planning department in provincial Committees is in charge of vertical coordination with lower tiers of government. A regionalizing reform proposal, adding a fourth tier with three regional governments, was rejected in 2013.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The Constitution, the Laws on Organization of Local Administration and the State Budget Laws compose the main legal corpus establishing the duties of local governments. The legal framework of local government was initially established by the1996 Ordinance on the Specific Tasks and Powers of the People's Councils and People's Committees, as well as the 1996 State Budget Law. Both were revised in 2015 and effective since 2017. Both establish a clearer set of rules for the asymmetric allocation of resources and devolution of power. Provinces also have the autonomy to both allocate functions and determine the fiscal relationship with districts and communes within their jurisdictions. While the Constitution regulates the principles of division of competences (Article 11), assignment of powers to the local administration (Article 12), decentralization of powers to the local administration (Article 13), and authorization of state administrative agencies in localities (Article 14); many functions still overlap and devolved powers at commune and district level are not matched by adequate funding.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	PROVINCIAL	DISTRICT AND COMMUNES LEVEL
1. General public services	Public buildings and facilities	Civil registry; Public buildings and facilities
2. Public order and safety	Regional police; Regional firefighting services	Municipal police; Urban traffic signs; Municipal firefighting service
3. Economic affairs /transports	Regional roads, railways, airports and ports, inter-city and regional railway transport, pupils' transports; Employment services; Support to local enterprises and entrepreneurship; Agriculture and rural development; Regional tourism	Local road; Local ports; Urban transports; Pupils transport; Local tourism
4. Environmental protection	Nature preservation; Soil and groundwater protection; Climate protection; Sewerage.	Parks and green areas; Waste management; Street cleaning
5. Housing and community amenities	Construction and renovation	Construction and renovation; Distribution of drinking water; Public lighting; Urban and land use planning; Urbanism
6. Health	Regional hospitals	Primary healthcare (medical centres); Preventive healthcare
7. Recreation, culture & religion	Regional museums; Cultural heritage	Sports Libraries; Local museums
8. Education	Secondary education	Pre-primary and primary education
9. Social protection	Elderly and disabled people (benefits and services)	Social care for children, youth and elderly

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: : provincial, district and communal levels.	Other	Availability of fiscal data: **Low**	Quality/reliability of fiscal data : **Low**

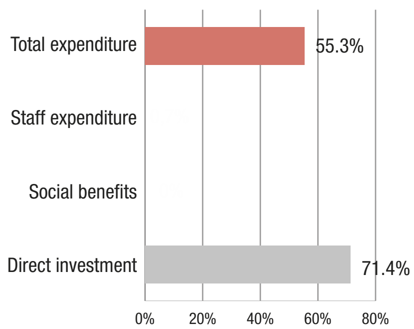
GENERAL INTRODUCTION. In Vietnam, decentralization was marked by evolving distribution of fiscal responsibilities and autonomy to local governments, and in particular to Provincial Councils. The 2002 State Budget Law (SBL) had set, for more than ten years, relevant spending assignments of local governments, as well as a framework of limited autonomy over sources of revenue. The National Assembly remains the highest authority over the state budget's composition and allocation to line ministries and local governments (Article 15). Despite improvements in giving public access to general government financial accounts per categories, there is no clear information on the fiscal relationship between provinces, districts and communes. The SBL was revised in 2015 and entered into force in this new form in 2017. Vietnam is an ODA top receiver worldwide. Local government's ability to access this source of revenue is also regulated by the latest SBL update. This is part of a reform process concurrent with Vietnam's graduation to lower-middle income country with decreasing access to concessional borrowing that the country will reform its debt management.

There are also important asymmetries among local governments and, in particular, among provinces. Provinces and centrally-run cities are allowed special financial mechanisms. These mechanisms and the legal framework supporting them build on the pilot experience of the Ho Chi Minh Investment Fund for Urban Development. In 2007, this model was standardized by Decree 138 of 2007 and expanded to all Provinces. In 2018, 36 of the 63 provinces had some form of specialized financial institution, whose purpose is to invest in urban and economic infrastructure projects.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**982**	**15.6%**	**100%**
Inc. current expenditure	714	11.3%	72.7%
Staff expenditure			
Intermediate consumption			
Social expenditure			
Subsidies and current transfers			
Financial charges			
Others			
Incl. capital expenditure	268	4.3%	27.3%
Capital transfers			
Direct investment (or GFCF)	268	4.3%	27.3%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



VIETNAM

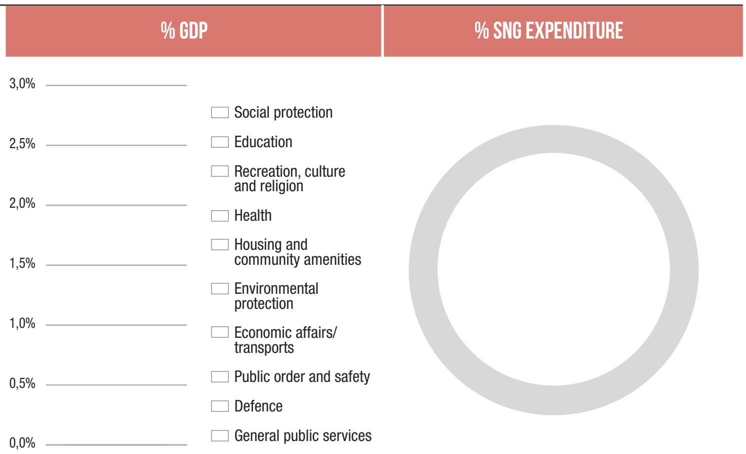
UNITARY COUNTRY

EXPENDITURE. According to estimates based on data from the Ministry of Finance, local government expenditure accounted for 15.6% of GDP and 54.2% of total public spending in 2016 (approximately 982 dollars PPP per capita). This is relatively high compared to the global average (at 23.9% in 2013) and even more when considering the trends in Vietnam's neighboring unitary countries. The 2002 SBL also specifies that upper-level budgets can provide targeted additional allocations to support lower-level budgets. This gives leeway to Provincial Councils to transfer money to other subnational tiers of government. Overall, most of the expenditure assignments of local governments are shared which results in overlaps and loss of accounting.

DIRECT INVESTMENT. The share of local government in total public investment is particularly high in Vietnam, accounting for 71.4% in 2016. Subnational investment amounted to 4.3% of GDP, which is also high by international standards. This datum is among the highest in the South-East Asia region. Over the past decade, Vietnam has experienced an important increase of public investment, particularly at subnational level. In Vietnam, public investment includes ODA funding, which has been an important financing source. Within the framework of the 2002 SBL, Provincial Councils have gained even more autonomy in allocating capital funds. In addition, Article 35 of the 2002 SBL grants communes, townships and cities the power to mobilize, within their jurisdiction, revenue for infrastructure investment from organizations or individuals. It also sets spending tasks in infrastructure investment for public schools, lighting, water supply and sewage, urban traffic, and other public welfare construction works. In 2015, direct investment represented about 40% of Provincial Councils' budgets in the country. In addition, the 2014 Law on Public Investment clarifies the duties of the Chairman of the Provincial People's Committee in coordination, approval of and reporting on the investments undertaken by local governments. This aims to improve transparency in terms of capital spending and budgeting, as well as for the overall public management of local governments' initiatives. This piece of regulation, however, is currently under revision.

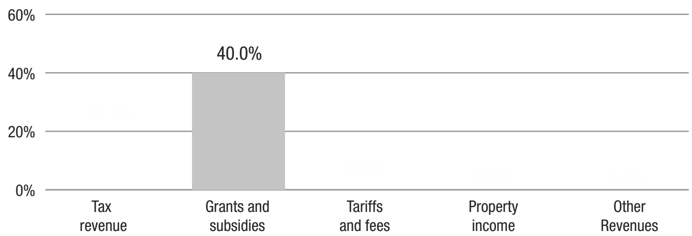
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

According to a 2018 AFD study, the local government's share of public spending is particularly high in education (more than 80% of total public spending in the same category), healthcare (80%), economic services and public administration (no data). This figure is generally higher than in other developing countries, but autonomy in terms of resource allocation is concentrated at the level of provinces and still under important guidance of central government.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**706**	**11.2%**	**45.8%**
Tax revenue			
Grants and subsidies			
Tariffs and fees			
Property income			
Other revenues			



OVERALL DESCRIPTION. In 2016, local government revenue was estimated at 45.8% of total public revenue i.e. 11.2% of GDP. The cities of Hanoi's and Ho Chi Minh City's account for about 43% of all local governments' revenue. While institutional reforms have sought more fiscal autonomy for local governments, these are still highly dependent on transfers from central government. These include tax sharing systems calculated on the basis of provincial financing needs. The sharing rates are approved by the National Assembly for a three- to five-year period. Shared taxes include: VAT, Personal Income Tax, excise tax on domestic goods, CIT and an environment protection tax.

In terms of own revenue sources, a list is provided in Article 32 of the 2002 SBL. The main sources of own-revenue are land-use levies and lotteries which are fully assigned to the local level. Lastly, article 34 of the 2002 SBL requires the provincial People's Councils to allocate sources of revenue to each subnational level of budget.

TAX REVENUE. Local government tax revenue is collected via a tax-sharing system and taxes fully assigned to local governments.

The proportion of **Shared taxes** retained by each province is determined for a period of 5 years (the Stability period) on the basis of the provincial financing needs, meaning that poorer provinces will retain a higher proportion. For the 2017-2020 period, 47 provinces will retain full amount of the shared taxes. Thereby, the 16 other provinces are allowed to keep a portion of the shared revenue. In the last three Stability periods (2007-20010, 2011-2016 and 2017-2020), the share of major cities such as Hai Phong and Da Nang has decreased from 90% to, respectively, 78% and 68% of the shared taxes collected in the province. In comparison, the sharing rate of both Ha Noi and Ho Chi Minh City decreased from the 2011-2016 to the 2017-2020 Stability Period. This varied, respectively, from 42 to 35% and from 23 to 18%.

Own taxes revenue is mainly composed of the tax on non-agricultural land use (i.e. Land and housing taxes) which represents 0.04% of the GDP. In addition, other taxes account for an even smaller share of the GDP, these include: (1) Tax on use of agricultural land; (2) Natural resources tax, excluding taxes on petroleum activities; (3) License tax; (4) Tax on transfer of land use rights.

GRANTS AND SUBSIDIES. Fiscal transfers from the central government remain the key and major source of revenue for the subnational level. In 2015, this accounted for about 40% of total local revenue. Communes and townships are entitled, by law, to at least 70% of revenues from tax on transfers of land-use rights, land and housing taxes, license tax on individuals and individual households, tax on use of agricultural land collected from households, and registration fees for land and housing. Townships and urban districts are entitled to at least 50% of revenues from registration fees, excluding registration fees for land and housing. Lastly, Provincial Councils decide the percentage of revenue to be shared between tiers of local governments' budgets. There are two types of intergovernmental transfers: balancing transfers, and targeted transfers to implement specific national priorities.

Balancing transfers are unconditional, formula-based, budget transfers from the central government. The rate is approved by the National Assembly, according to the same schedule and method as the shared tax rate: 5-years, without taking into account inflation. In the 2011-2016 period, 50 provinces received balancing transfers from the central government. The redistribution system has an equalizing mechanism that reduces fiscal imbalance between provinces and across districts. In 2015, it represented half of central governments transfers to local governments.

Targeted transfers are used for projects financed by external funds (e.g., ODA funds under PPP models, according to the 2002 SBL) and implemented by local governments under an on-grant mechanism. In 2015, it represented the other half of central governments transfers to local governments. Between 2011 and 2015, 61 target transfer schemes were in place, as partial support to relevant projects and 16 National Target Programs (NTPs). According to the World Bank, during that period approximately 56% of funding for all NTPs came from central authorities, and 26% from local governments. Local governments could only access the funds through the central government's decision. This includes, in addition, the 21 Special target programmes that will be implemented in the 2016-2020 period. These are capital investment projects proposed by Provincial Councils in consultation with the central government. In this specific case, local government can access ODA funding, based on the new provision from the 2015 SBL, via an on-lend mechanism.

OTHER REVENUES. Starting in 2017, local governments were granted additional autonomy in setting fees and charges by the Article 32.1 of the 2015 SBL and the 2015 Law on fees and charges. This includes, but is not limited to, fees on forest preservation, fees for assessment of environmental impact of projects and environment protection, including wastewater discharge, irrigation and the use of underground, surface and seawater; use of infrastructure, service and public utilities; use of roads and street pavements; fees for tours of scenic beauties, historical remains, cultural facilities, museums and libraries; fees for assessment and issuance of certificates for sports facilities; fees for land use rights certificates; and other charges for state administration relating to rights and obligations of citizens.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**92**	**1.5%**	**2.3%**	**100%**
Financial debt*	92	1.5%	2.3%	100%

* Currency and deposits, loans and bonds

FISCAL RULES. Until 2017, the 2002 SBL established that local government must follow a balanced budget rule. The golden rule states that local government outstanding debt stock cannot exceed 30% of local government budget's total capital investment (Article 8, 2002 SBL). Debts are guaranteed by the central government and the National Assembly determined a 65% of GDP public debt threshold. The centrally-run cities of Ho Chi Minh City and Ha Noi were allowed by the National Assembly to reach up to 90% and 70% of their revenue respectively (by-law, debt stock limit is 60% of their retained revenue). Similarly, Hai Phong and Da Nang were authorized to borrow within a 40% debt ceiling. The 2016 national government debt reached 63.7%, which left little formal room for local governments. The public debt management law of 2017, in line with the 2015 SBL, acknowledges local government budget deficit and adds several conditions for local governments to manage the risk of local debt portfolios, based on the repayment capacity, and forbids overdue debts.

DEBT. The State Budget Law regulates local governments' borrowing. Under the control of the central government, local governments, mostly Provincial Councils and centrally-run cities, can issue bonds and borrow from other domestic sources to fund provincial budget deficits and repay outstanding debt. Since the 2015 SBL, on-lending is included in the local government debt stock limit and local government can access, via on-lending, government's foreign loans and ODA. Local government debt accounted for 1.5% of GDP (including on-lending) in 2016, and around 2.3% of total public debt. This is expected to rise considerably in the next 5 years, as poorer provinces will rely more on on-lending funds. In 2016, bond issuance weighted for 39% of total local debt. Decree 01/2011 provides the framework for municipal bonds issuing, which must be approved by the Ministry of Finance. Decree 52/2017 is the first to regulate on-lending, clarifying the role of local governments and the coordination between subnational departments of finance and, particularly, planning and investment departments. In 2016, the total outstanding debt of municipal bonds was VND 25,234 billion (approximately 35.6 dollars PPP per capita). Only seven provinces issued municipal bonds, Ho Chi Minh City has a more diverse set of instruments available. Regarding loans, only the provinces of Hai Phong and Dong Nai access to commercial banks loans. These account for 2% of total local government debt in 2016, while 61 provinces were able to borrow to the Vietnamese Development Bank, which accounted for 32% of total local debt.

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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal information: Ministry of Finance // AFD (2018) Local Governments' Access to Finance in Vietnam.
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ARMENIA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: ARMENIAN DRAM (AMD)

POPULATION AND GEOGRAPHY

Area: 29 740 km^2
Population: 2.930 million inhabitants (2017), an increase of 0.3 % per year (2010-2015)
Density: 98.5 inhabitants / km^2
Urban population: 63.1% of national population
Urban population growth: 0.2% (2017 vs 2016)
Capital city: Yerevan (36.9% of national population)

ECONOMIC DATA

GDP: 28.3 billion (current PPP international dollars), i.e. 9 668 dollars per inhabitant (2017)
Real GDP growth: 7.5 % (2017 vs 2016)
Unemployment rate: 17.8 % (2017)
Foreign direct investment, net inflows (FDI): 250 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 17.3 % of GDP (2017)
HDI: 0.755 (high), rank 83 (2017)
Poverty rate: 1.4% (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

According to its Constitution, adopted in 1995, Armenia is a unitary state. Amendments to the Constitution in 2015 changed the form of government from a presidential republic to a parliamentary one. The legislative power is vested in a unicameral Parliament, the National Assembly, which consists of at least 101 representatives elected by proportional suffrage for five years. The new Constitution also provides for the allocation of four seats in the National Assembly to representatives of national minorities, one each from the country's Assyrian, Kurdish, Russian and Yezidi communities. The President of the Republic is the head of the state and is elected by the National Assembly for a non-renewable term of seven years. The President appoints as Prime Minister the candidate nominated by the parliamentary majority in the National Assembly. The Prime Minister is the head of the government.

The 1995 Constitution of Armenia recognizes communities (or municipalities) as local self-governments and states the principle of local autonomy. Following the adoption of the 1995 Constitution, the 1995 Law on Local Self-Government was adopted, and granted local self-government bodies greater power in terms of decision making, budget formulation, and control of public property. The 1995 Law is based on the European Charter of Local Self-Government, ratified by Armenia in 2001. Local self-government bodies were established in 1996. Since then, several laws and legal acts have been established, including the 2008 Law on Local Government in Yerevan City, which gave greater autonomy to Yerevan government bodies, shifting from an appointment system to an election system for the capital's mayor. Local elections are regulated by the national Electoral Code.

The country is administratively divided into 10 regions (*marzes*), which are deconcentrated executive bodies of the central government. The regions are headed by a governor, appointed by the central government. The governor is in charge of implementing the government's regional policy, supervising the local governments' activities and acting as liaison between the central and local authorities. The Ministry of Territorial Administration of the Republic of Armenia is responsible for the implementation socio-economic programs in the administrative regions and the development and reforms of local self-government sector.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	Municipality/community (*համայնք / zhoghovum*)			
	Average municipal size: 5 848 inhabitants			
	502			502

OVERALL DESCRIPTION. Armenia is structured under a one-tier local government system, made up of 502 municipalities (or communities), including the city of Yerevan. Since 2013, the national government has undertaken an administrative-territorial reform, aiming at promoting mergers of small communities and increasing the efficiency of self-governance and public services provision. As a result, in 2016, 118 former communities were amalgamated in 15 new communities. The total number of communities was reduced by 11.5% if compared to pre-reform. Overall, the process of municipal amalgamation has resulted in a decrease in the number of local self-governments from 793 to nearly 500 by early 2018.

MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION. Municipal self-government can be categorised as urban and rural. The average size of urban municipalities (excluding Yerevan) is 15 500 inhabitants and the largest cities, excluding the capital city, are Gyumry (117 700 inhabitants), Vanadzor (82 200 inhabitants), Abovyan (44 400 inhabitants), Armavir (28 900 inhabitants) and Artashat (20 700 inhabitants). The average size of rural municipalities is 1 460 inhabitants. In addition, there are smaller villages at sub-municipal level, which are not self-governing. All municipalities, including Yerevan, are governed by the Council of Aldermen and the Mayor. The members of the Aldermen Council are elected by universal suffrage. The number of councillors varies from 5 to 21 members depending on municipal size. The councillors elect the mayor among them, for a five years' term.

Since the adoption of the 2008 Law on Local Government in Yerevan City, the capital city has shifted from a deconcentrated unit of government (*marz*) to an elected local self-government body. The Yerevan Council of Aldermen comprises 65 members elected by a proportional electoral system for four years. Yerevan city is now divided into 12 administrative districts.

Inter-municipal cooperation is promoted by the Constitution itself, as well as by the Law on Local Self-Government (adopted in 1996, amended in 2002). Besides municipality merger and consolidation, the central government has also promoted inter-municipal cooperation. The adoption of a law on Inter-Municipal Unions creates the conditions for the central government to establish inter-municipal unions on its own initiative, thus delegating state competences to municipal unions and hopefully increasing the accessibility of public services.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Functions of local self-government bodies are stipulated by the Law on Local Self-Government and the Law on the Budgetary System of Armenia. Responsibilities of local state administrations are regulated by the Presidential Decree on State Governance in Armenian Regions. Local self-government responsibilities are divided into own competences (divided into mandatory and optional ones) and delegated competences, which may also include some central government functions. For instance, Yerevan performs the function of primary and secondary education as a delegated responsibility, receiving funds from the central government. Although legislation provides that municipalities are responsible for matters that are of local interest, there is no clear definition of local authorities' competences and delegated powers. Most local services are managed by the central level.

There is no regulated distribution of resources and competences according to criteria of size or population. All local governments share the same competences. Inevitably, the scope of actually performed functions varies significantly across municipalities in accordance with their fiscal capacities. Thus, poorer municipalities rely on the deconcentrated bodies of the central government for service provision.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPAL LEVEL
1. General public services	Administrative services (civil registry, etc.); Public buildings and facilities
2. Public order and safety	Municipal police; Urban traffic signs
3. Economic affairs/transports	Local road; Park spaces; Local ports; Urban transports; Pupils transport; Local tourism
4. Environmental protection	Parks & green areas; Waste management; Street cleaning
5. Housing and community amenities	Construction/renovation; Provision of drinking water; public lighting; Urban and land use planning; Urbanism
6. Health	Primary healthcare (medical centres); Preventive healthcare (mostly maintenance of hospital and ambulances buildings)
7. Recreation, culture & religion	Sports; Libraries; Local museums
8. Education	Pre-primary education; Maintenance of school buildings; Primary and secondary education (delegated responsibility of Yerevan city)
9. Social protection	Social care for children and youth; Support services for families

SUBNATIONAL GOVERNMENT FINANCE

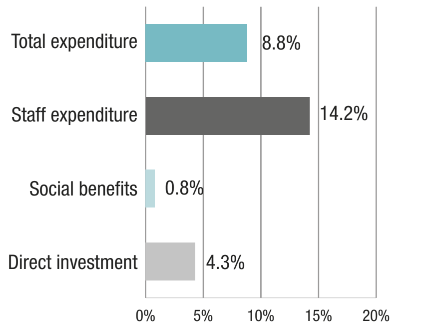
Scope of fiscal data: municipalities.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. Municipal finance is governed by the Tax Code, the national law on the Budgetary System, the Law on Local Duties and Fees. Local taxes are established by the National Tax Code and include the real estate tax and the vehicle property tax. The national law on the Budgetary System provides that shares of national taxes may be attributed to municipal governments in accordance with the State Budget Law for the coming year. According to the "Republic of Armenia Government's 2017-2022 program", the main priorities in budgeting and financial management at the community level are the introduction of program budgeting methodology in municipalities as well as the increase in the share of own income in local government revenues.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**225**	**2.6%**	**100%**
Inc. current expenditure	213	2.4%	94.7%
Staff expenditure	41	0.5%	18.1%
Intermediate consumption	40	0.5%	17.9%
Social expenditure	6	0.1%	2.5%
Subsidies and current transfers	88	1.0%	38.9%
Financial charges	0	0.0%	0.0%
Others	39	0.4%	17.3%
Incl. capital expenditure	12	0.1%	5.3%
Capital transfers	n/a		
Direct investment (or GFCF)	12	0.1%	5.3%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



ARMENIA

UNITARY COUNTRY

EXPENDITURE. The share of local expenditures corresponds to 8.8% of general government expenditures and to 2.6% of the national GDP, although municipal competences are theoretically quite significant. The major item of expenditure by economic classification is "subsidies and current transfers". These transfers are lump-sum funding provided to municipal institutions. General government's main expenditures are generally personnel wages, which together with administrative staff, wages of municipal institutions' personnel, account for more than 50% of total expenditures. After a slow increase following the establishment of the Armenian local government system, these ratios have remained stable since 2011.

DIRECT INVESTMENT. The share of capital expenditures in total municipal expenditure dropped from 12.3% in 2012 to about 5% in 2016. This can be explained by the fact that the central government has centralized capital expenditures on local infrastructure, shifting them from municipal to state-controlled local administrations (*marzes*). This is in line with the "Republic of Armenia Government's 2017-2022 program" adopted in 2017, which reflects the central government's vision for the coming years with respect to the implementation of capital investment programs to reduce disparities in the socio-economic development of communities and *marzes*.

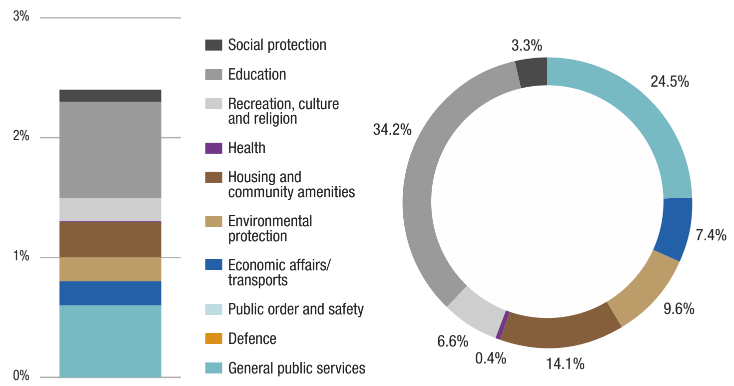
Most municipalities' capital expenditures are thus dedicated to small capital repairs. Capital expenditures in Yerevan, on the other hand, are still funded through targeted capital grants from the central government.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Education (34.2%), general public services (24.5%), housing and community amenities (14.1%), environmental protection (9.6%) are currently the key sectors of local government expenditure. Expenditures in the education sector also include construction and maintenance of schools and kindergartens.

However, it is noteworthy that Yerevan's expenditures amount to about 60% of total municipal expenditures and that therefore, average figures of subnational expenditure are not as representative as they would be if expenditure was more uniformly distributed across local governments. Though the ratio of municipal governments in total GG spending appears to be stable, the composition of local expenditures has been changing over time and nowadays the main resource-intensive competence is the provision of pre-primary, primary, and secondary general education.

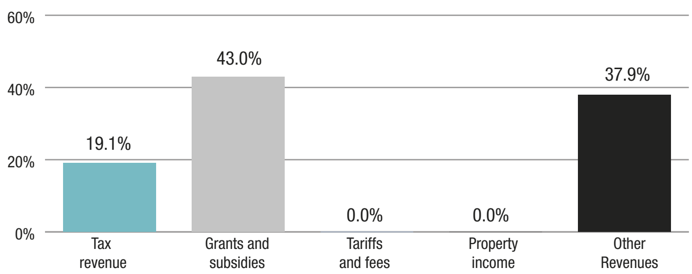
% GDP | % SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**223**	**2.5%**	**10.7%**
Tax revenue	43	0.5%	2.2%
Grants and subsidies	96	1.1%	
Tariffs and fees			
Property income			
Other revenues	84	1.0%	

% SNG REVENUE



OVERALL DESCRIPTION. Taxes, state duties, charges, transfers and other revenues, such as land and property rent, contribute to local revenues at large, but local governments do not enjoy local fiscal autonomy yet. The share of local revenue relative to national GDP remains very low (2.5%). Armenian municipalities have limited resources and rely mostly on intergovernmental transfers, amounting to 43% of SNG revenue in 2016. Moreover, there exist important territorial differences in fiscal capacity and Yerevan alone accounts for more than half of total local revenues.

TAX REVENUE. Local taxes constitute 19% of total local revenues and are determined by the central government. Municipalities can, on own initiative, raise real estate and vehicle taxes' rates by up to 10%.

Almost 82% of local tax revenues come from property taxes from buildings, structures and vehicles. Local self-government units can set tax reliefs for property taxes up to 10% of planned local budget revenues for the year, including tax allowances and tax credits. According to national legislation, local governments can also retain shares from personal and corporate income taxes, but this is not yet effective in practice.

GRANTS AND SUBSIDIES. Around half of municipality revenues are constituted by grants, which are predominantly current transfers. These include capital grants and equalization grants, designed to compensate new charges and expenditures elicited by the devolution of powers. The total amount of equalization transfers is guaranteed up to 4% of the consolidated budget revenues for the previous fiscal year. Nevertheless, targeted central government grants for the implementation of delegated powers are only provided to Yerevan.

In 2016, the adoption of a new law on Financial Equalization defined concepts and principles of financial equalization, as well as calculation and allocation procedures for the subsidies granted according to the equalization criteria. The law is going to enter into force in 2019.

In addition, the central government introduced in 2018 a new capital grant program aiming at providing subventions to finance capital infrastructure development at the municipal level (amounting to AMD 500 million, i.e. 0.9 dollar PPP per capita). Lastly, local governments also receive a share of environment-related mandatory payments from the central government.

OTHER REVENUES. Local charges and fees and similar revenues make up a large part of local revenues, as set and regulated by separate regulatory instruments on local charges and fees. Local governments keep user charges, from both delegated services (e.g., civic acts, notary services) and local services (e.g., charges for local transportation, construction, entertainment and lottery, etc.). They also collect local fees and revenues from local property leasing. Local community councils have a certain degree of power regarding setting charge/fee rates for different services.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. The law on the Budgetary System states that Armenian municipalities must prepare a balanced budget which covers both operating and capital expenditures and revenues. Municipal budgets may include a contingency fund to finance unplanned expenditures, interests on borrowings and capital investments. This fund may not exceed 30% of the total budgeted revenue of the municipality for the given fiscal year. Furthermore, municipal budgets must be public and accessible. After adoption of the municipal budget by the municipal council and the regional governor, the mayor must submit the budget to the field treasury of the Ministry of Finance and Economy. The implementation of the municipal budget is overseen by the municipal council and/or a specialised audit company, as well as the National Assembly and the central government.

DEBT. Armenian local governments may borrow for investment purposes, although with prior approval of a designated national agency. Borrowed amounts plus debt servicing costs cannot exceed 20% of the amounts allocated for capital expenditure. Municipalities can proceed to a new borrowing only after paying back previous loans. Yet in practice, only a few communities have capacities to borrow. To cover their deficit, municipal governments can borrow from the central government funds. The law on Municipal Bonds is under consideration by the National Assembly. This law will regulate procedures regarding the issuing and allocation of municipal bonds.

In 2016, municipalities received no loans from external sources. Similarly, in the reported period, no rules of procedure regarding the issuing and allocation of municipal bonds were adopted and municipalities have not issued any bonds meanwhile.

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Socio-economic indicators: World Bank // UNDP // UN DESA // ILO.
Fiscal data: Finance Statistics of Armenia 2017.
Other sources of information: Communities Finance Officers Association (2018) Local Self-Government in Armenia Report (2017) // OECD, UCLG (2016). Subnational Governments around the world: Structure and finance // Statistical Committee of Armenia (2016) The Demographic Handbook of Armenia // Congress of Regional and Local Authorities (2017) Information report on the elections to the Council of Elders of the City of Yerevan, Armenia (14 May 2017) // The Government of the Republic of Armenia (2017) Government Programme 2017-2022 // International Monetary Fund (2019). IMF Country Report No. 19/33 of The Republic of Armenia.

AZERBAIJAN

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: MANAT (AZN)

POPULATION AND GEOGRAPHY

Area: 86 600 km^2
Population: 9.854 million inhabitants (2017), an increase of 1.3 % per year (2010 - 2015)
Density: 114 inhabitants / km^2
Urban population: 55.3% of national population
Urban population growth: 1.6% (2017 vs 2016)
Capital city: Baku (23.2 % of national population)

ECONOMIC DATA

GDP: 172 billion (current PPP international dollars), i.e. 17 398.2 dollars per inhabitant (2017)
Real GDP growth: 0.1% (2017 vs 2016)
Unemployment rate: 5% (2017)
Foreign direct investment, net inflows (FDI): 2 867.5 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 23.6% of GDP (2017)
HDI: 0.757 (high), rank 80 (2017)
Poverty rate: N.A.

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

According to the Constitution adopted on 12 November 1995, Azerbaijan is a unitary republic with a presidential form of government. Executive power is held by the President, who is directly elected for five-year terms. The President is the Head of State, and in agreement with the Parliament, appoints the Prime Minister, who is the Head of Government. Legislative power is vested in the unicameral Parliament (*Mili Majlis*), composed of 125 members who are directly elected for five-year terms. Parliament membership is not based on regional or local considerations. The *Mili Majlis* has authority over the promulgation of constitutional laws, acts and orders within its jurisdiction, giving the vote of (no) confidence to the Cabinet of Ministers, the Prime Minister's appointment and the approval of the state budget. Moreover, the *Mili Majlis* has the responsibility to appoint the nine judges of the Constitutional Court (following the President's recommendation).

Decentralization is acknowledged in the Constitution, according to which, local government in Azerbaijan is exercised both through local bodies of state administration and through municipal governments. Section 4 of the Constitution recognizes municipalities' right to local self-government and the principle of their autonomy. Municipalities were created in 1999, following the approval in the same year of the laws "On the Status of Municipalities", "On Municipal Servants" and "On Municipal Elections". The normative framework of local self-government is still in the process of further development and improvement and after the year 2000, new laws were enacted with the objective of regulating local governments, including the Laws "On Joint Activities, Unification, Division and Liquidation of Municipalities" and "On Management of Municipal Lands". In the Nakhchivan Autonomous Republic (NAR), municipalities are regulated in accordance with the Constitution of the Nakhchivan Autonomous Republic and the decisions of the Cabinet of Ministers of the Nakhchivan Autonomous Republic. Presently, there are over 20 laws which regulate different aspects of local self-government. The national government begun in 2009 a process of municipal amalgamation, reducing the number of municipalities by 40%. The latest amalgamation process took place in 2014, entailing a reduction in the number of municipalities from 1718 to 1607. Besides mergers and consolidation of municipalities, no other reforms are envisaged for the future. Conversely, the central government and its territorially-decentralized entities have increased administrative supervision over municipalities and self-government bodies.

Local bodies of state administration are regulated by the 1999 Constitutional Provision on Local Executive Authority, which addresses the activity of local state administrations, their structure and the eligibility requirements of the local administrations' heads. Relations between the municipalities and local state administrations are only vaguely described in current Azeri legislation. There are no explicit standards for the division of authority in current legislation and the topic is not mentioned in the Constitution. With respect to the relationship between the municipal and national levels, the Centre for the Work with Municipalities and a special department of the President's Office coordinate and oversee the national government's relationship with local governments.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	73 city, 147 settlement and 1387 village municipalities *(Bələdiyyə)*		The Nakhchivan Autonomous Republic *(Naxçıvan Muxtar Respublikası)*	
	Average municipal size: 3 700 inhabitants			
	1 607		1	1 608

OVERALL DESCRIPTION. Local government in Azerbaijan comprises both deconcentrated local state administrations, representing the national government at the local level, and elected municipal governments. Organs of local executive power and organs of local self-government are not subordinated to each other and their powers are not intermingled or overlapping. Azerbaijan's largest cities are Baku (with 2 204 thousand inhabitants), Gyandja (with 330 thousand inhabitants), Sumgait (with 300 thousand inhabitants), Khyrdalan (with 97.2 thousand inhabitants) and Shirvan (with 78.1 thousand inhabitants). With the exception of Khyrdalan, the countries' largest cities do not have the status of municipality. They do not have elected representative bodies and their executive governments are centrally appointed.

MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION. There is one-tier of elected municipal governments in Azerbaijan, including those located in Nakhchivan Autonomous Republic. Municipalities may be classified as cities, settlements or villages according to the number of permanent residents, which also determines the number of members that the local council may have. There is no hierarchy among municipalities irrespective of the status of the administrative-territorial units within which they are located, their fiscal capacity and number of people living in their territory. Article 142 of the Constitution stipulates that municipal councils are elected every 5 years. The elected members to the representative municipal body then elect the municipal Chair amongst the council members.

The Constitution promotes inter-municipal cooperation. The main legal framework for inter-municipal cooperation in Azerbaijan is the Law "On Joint Activities, Amalgamation, Splitting and Liquidation of Municipalities". However, no inter-municipal cooperation examples exist based on the mentioned form of agreement.

INTERMEDIARY LEVEL. 11 cities (including the capital city of Baku) are governed by state deconcentrated entities at territorial level. Heads of executive power in cities and districts (*rayon*) are appointed by and accountable to the President. They represent the national government in local territorial units. These heads then appoint their own persons or representatives in the villages and settlements located within their boundaries.

The two biggest cities, Baku and Ganja, are subdivided into districts. The capital city of Baku is divided into 12 administrative districts (*rayon*) and 48 rural settlements. The president appoints the head of Baku and the heads of all districts (*rayon*). District or settlement bodies of local executive authority are subordinate to the city executive authority. The Autonomous Republic of Nakhchivan is subdivided into 7 administrative districts. Their executive governments are appointed by the Nakhchivan central government.

REGIONS. There are 66 regions in Azerbaijan. Each region is comprised of one central city with the same name and a different number of settlements and villages. Regions have centrally appointed executive committees. The Nakhchivan territory enjoys a special status as an Autonomous Republic. As an exclave in Armenian territory, it does not have a common border with mainland Azerbaijan. The Nakhchivan Autonomous Republic has its own Constitution, which is however hierarchically subordinated to Azerbaijan's National Constitution as a source of law. The Chief executive of Nakhchivan Republic is elected by members of Nakhchivan Parliament.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

According to Article 144 of the Constitution, local councils are responsible for the establishment of local taxes and duties, the adoption of the local budget and the implementation of programs for the development of the local economy and social protection. Municipalities' competences are established in more detail by the national law "On the Status of Municipalities". The responsibilities of municipalities in the Nakhchivan Republic are outlined in Constitution of the Nakhchivan Autonomous Republic. While the regulation on municipalities provides for a whole range of municipal competencies, municipal governments only perform a limited set of tasks. The actual scope of local self-governments' competences across the country remains, thus, quite unclear. The role of self-government elected bodies is marginal in the system of public government. Although they are in charge of approving municipal budgets, the division of powers between municipalities and local executive bodies are not regulated by explicit legal mechanisms.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONS (NAKHICHEVAN AUTONOMOUS REPUBLIC)	MUNICIPAL LEVEL
1. General public services	Administrative services; Public buildings and facilities	Administrative services; Public buildings and facilities
2. Public order and safety	Public order and safety	
3. Economic affairs/transports	Economic affairs; Transports	Park spaces; Urban transports
4. Environmental protection	Environment protection	Parks and green areas; Waste management; Street cleaning
5. Housing and community amenities	Housing and community amenities	Distribution of drinking water; Public lighting; Urban and land use planning
6. Health	Health (joint with the central government)	
7. Recreation, culture & religion	Recreation, culture and religion	
8. Education	Education (joint with the central government)	
9. Social protection	Social protection (as a supplement to the central social policy)	Social programs

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: all municipalities and the government of Nakhichevan Autonomous Republic.	SNA 2008	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. The Constitution of Azerbaijan empowers the municipal councils to impose local taxes and levies, to approve local budgets and to possess, use and dispose of municipal property. The 1999 Laws "On the Status of Municipalities" and "On bases of Finance of Municipalities" contain detailed rules on the "economic basis of local self-government" and specify the financial resources of municipalities, the conditions of their economic activity and their financial and economic management rights. The 2002 Law "On the budget system" of Azerbaijan guarantees the independence of municipalities with regard to preparing, approving and spending their own local budgets and enshrines the key principle that legislative and executive authorities must not interfere with the budget activities of the municipalities. However, despite the formal guarantees of the economic basis of local government autonomy, Azerbaijan's municipalities are in an extremely weak financial position.

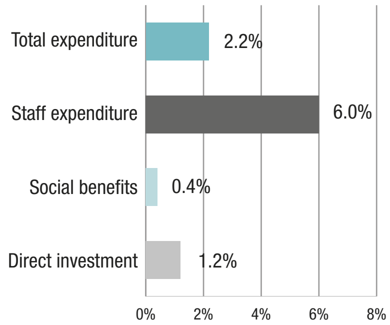
AZERBAIJAN

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2015	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**144**	**0.8%**	**100%**
Inc. current expenditure	117	0.7%	81.1%
Staff expenditure	41	0.2%	28.1%
Intermediate consumption	18	0.1%	12.1%
Social expenditure	5	0.0%	3.4%
Subsidies and current transfers	3	0.0%	1.8%
Financial charges	0	0.0%	0.0%
Others	52	0.3%	35.7%
Incl. capital expenditure	27	0.2%	18.9%
Capital transfers	0	0.0%	0.0%
Direct investment (or GFCF)	27	0.2%	18.9%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)

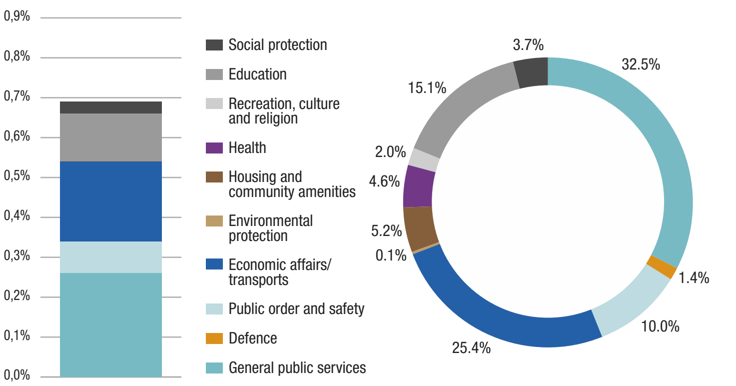


EXPENDITURE. Municipal governments' expenditures are marginal, representing 2.2% of the total public expenditure in the country. Such level of local expenditure is very low compared to other countries of the region, even to the countries with a similar scope of local governments. 81% of expenses incurred at the subnational level are devoted to current expenditures, of which 28% are used to pay for personnel expenses. Approximately 1% of subnational expenditures correspond to direct investment in capital expenditure.

DIRECT INVESTMENT. Municipalities do not incur capital investments. It is the central government that invests directly in local property via deconcentrated local executive governments. Or often, the government imposes mandates on local entrepreneurs to invest in municipal property (when not too large or too expensive). The NAR, in contrast, invests significantly (19.3% of total expenditures). These investments seem to be made out of own resources as the budgetary reporting does not indicate that the NAR receives earmarked capital transfers. In 2015, government finance statistics reported negative direct investments at the municipal level which indicates negative change in inventories and depreciation of municipal property.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

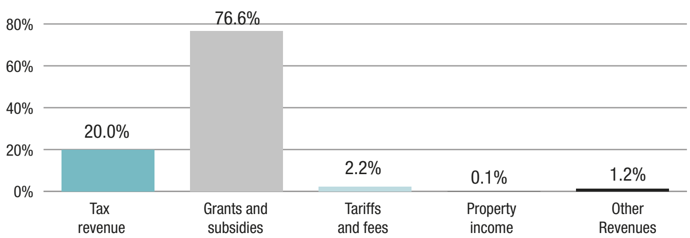
The largest expenditure line both for the NAR and for municipalities corresponds to the provision of general public services (31.9% and 42.3% respectively). The next most important expenditure lines for the NAR are economic affairs/transports (25.6%) followed by education (16%), while in municipalities, housing and community amenities represent the second largest expenditure (29.9%), followed by economic affairs / transports (22.0%). For the NAR, expenses in security and public order correspond to 10.6% of the republic's total expenditures, while health and social protection make up for 4.9 and 3.6% of expenditure, respectively. For municipalities, social protection plays a more important role and amounts to 5.0% of municipal expenditure, while the share of such expenditure devoted to environmental protection corresponds to 0.8%.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2015	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**129.3**	**0.7%**	**2.1%**
Tax revenue	25.8	0.1%	0.9%
Grants and subsidies	99	0.6%	
Tariffs and fees	2.8	0.0%	
Property income	0.2	0.0%	
Other revenues	1.5	0.0%	

% SNG REVENUE



OVERALL DESCRIPTION. The Law "On bases of Finance of Municipalities" defines the sources of income for the local budget, which include fiscal, non-fiscal and transfer sources of revenue. Tax revenues constitute 48% of total municipal revenues and only 18% of NAR revenues. User charges, fees and property income represent a major source of revenues for municipalities (31%) while they are negligible for the NAR. The major source of NAR revenues are grants

(80.1%), while the share of grants in municipal revenues is smaller (21.6%). The reason is that NAR is assigned with significant spending obligations in education and roads construction that have to be provided by central government funding.
Total municipal revenues represent about 0.1% cent of the consolidated general budget (this share has shrunk since 2012). This low level of revenues is clearly insufficient to enable municipalities to fulfil their assigned responsibilities.

TAX REVENUE. Local taxes established by the Law "On bases of Finance of Municipalities" include land tax on individuals and personal property tax, mining tax on construction materials of local importance and corporate income tax on municipally-owned enterprises. The tax base of local taxes as well as the tax rate ceiling and provision of tax benefits are prescribed by the national Tax Code. Localized state administrations may centralize a portion of municipal tax collections for their budgets. The NAR is totally dependent on shared taxes (PIT, CIT, VAT, sales tax and excises). Shared taxes are assigned to the NAR through the Law "On the National Budget" every fiscal year. These shares are not established on a permanent basis but differ from year to year depending on estimated expenditure needs. Thus, the shared taxes play the role of regulating taxes. The most important source of tax revenues for the NAR is VAT (58.2% of tax revenues) followed by PIT (27.4%). The role of the excise (5.5%), sales tax (2.8%) and CIT (2.4%) is quite small. All taxes are collected by the National Ministry for Taxes and Duties. Tax revenues make up 48% of municipalities' revenues, which may, in accordance with current tax legislation, provide tax exemptions as they deem convenient.

GRANTS AND SUBSIDIES. According to the Law "On the Budget System", the NAR and municipalities may receive matching subsidies and grants from the state budget when it is impossible to finance subnational social-economic development programmes from own source revenues. Central government grants do not play a big role in municipal finance (about 20% of total revenues) though they are nearly the only source of revenues for the NAR (accounting for more than 80% of funds). The criteria laid down in the law for distributing fiscal transfers for municipalities are not clear, and the entire allocation process is therefore not fully transparent. The Law "On the Budget System" only states that subsidies are calculated taking into account the number of municipal inhabitants, its contribution to financial resources of the country, revenues and expenditures of a municipality, location of the municipality (whether in the highlands, plains or on the border), cost of living, expected social and economic projects, etc. However, there is no information as to the per capita fiscal capacity threshold within which subsidies would be activated. This results in uneven allocation of transfers between various municipalities.

In addition to the block grants, targeted funds can also be allocated from the central government for specific purposes at the request of the NAR or particular municipalities. There are no data available on the amount and form of these subsidies. Although this mechanism might provide local governments with extra resources, this kind of central government support does not increase the transparency of the financial system as a whole.

OTHER REVENUES. Other revenues of SNGs include fees and property income. Municipal fees include fees for advertising, fees on hotels, sanatoria and health resorts and on persons providing tourist services, parking fees, fees for retail trade, fees on public catering and other services and fees on lotteries. The amount of a fee is established by municipalities themselves within the limits prescribed by national legislation. Property income includes revenues from privatization and lease of municipal or NAR property. User charges are collected by state owned enterprises and do not appear in public budget lines. Fees and property income represent a major source of revenues for municipalities (32.8%) while they are negligible for the NAR. These revenues have stayed stable over the last years. The municipalities may decide on voluntary one-time payments for financing of local activities. Voluntary one-time payments are used only for the intended purposes. The NAR does not have this right.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. There are only a few fiscal rules for municipal budgeting. The 1999 Law "On the Fundamentals of Municipalities Finance" (last amended in 2018) states that compensation of employees should not exceed 50% of total municipal spending.

The Law "On the Budgetary System" states that each level of government may establish its own limits for the deficit of the corresponding budget. In case expenses are not covered by own revenues the gap can be covered by subsidies from the central budget.

DEBT. Deficits may also be covered by contracting short-term and long-term loans from banks and other Azeri credit organizations. There are no legal barriers to municipal borrowing, but formal mechanisms for applying for or receiving loans, are not stipulated in the legislation. The size of public debt and credit resources are established by representative bodies while approving budget provisions for the next fiscal year. The state (central government or NAR depending on the case) is not responsible for the commitments of municipalities to credit organizations. In the case that during the process of execution of sub-national budget, the forecasted revenues appear to be overestimated and the deficit exceeds the established limitations, the municipality or NAR has to exercise the sequestration of its budgeted expenditures.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: UCLG
Last update: 02/ 2019
www.sng-wofi.org

Socio-economic indicators: World Bank // UNDP // UN Desa // ILO
Fiscal data: IMF (2018) - The Government Finance Statistic (GFS) // Ministry of Finance (2018) Statistical Bulletin on the Execution of Municipal Budgets, January-December, 2017.
Other sources of information: Claire Gordon, Tomila Lankina (2016) The Place of Local and Regional Self-Government in Eastern Partnership Policy-Making and Delivery // OECD/UCLG (2016) Subnational governments around the world: structure and finance // Vusal Mirzayev (2015) Study mapping the obstacles to inter-municipal cooperation in Azerbaijan // Jos Wienen, Gudrun Mosler-Törnström (2013) Local and regional democracy in Azerbaijan // Rovshan Agayev et al. (2007) Strengthening Municipalities in Azerbaijan // Sabuhi Yusifov. Local Government Structure, functions and revenues in Azerbaijan.

BELARUS

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: BELARUSIAN RUBLE (BYN)

POPULATION AND GEOGRAPHY

Area: 207 600 km^2
Population: 9.508 million inhabitants (2017), an increase of 0.03% per year (2010-2015)
Density: 46 inhabitants / km^2
Urban population: 78.1 % of national population (2017)
Urban population growth: 0.7% (2017 vs 2016)
Capital city: Minsk (21.1% of national population)

ECONOMIC DATA

GDP: 179.2 billion (current PPP international dollars), i.e. 18 848 dollars per inhabitant (2017)
Real GDP growth: 2.4% (2017 vs 2016)
Unemployment rate: 0.5 % (2017)
Foreign direct investment, net inflows (FDI): 1 276 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 25.0% of GDP (2017)
HDI: 0.808 (very high), rank 53 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The 1994 Constitution of the Republic of Belarus established the country as a unitary and Presidential Republic. The Head of State is the President, directly elected, and executive power is concentrated in the government, through the Council of Ministers. The Parliament (National Assembly) comprises a Lower House (House of Representatives, *Palata Predstavitelei*), composed of directly elected members, and an Upper House (Council of the Republic, *Soviet Respubliki)*. The Council of the Republic is the main body of regional representation in Belarus. The Local Councils of Deputies of the six regions and of the City of Minsk each elect eight representatives in addition to the eight additional members appointed by the President.

Local self-government is enshrined in Section V, Articles 117-124 of the constitution and some of the most essential legislation regarding subnational governance include the 1991 and 2010 Laws on Local governance and self-governance in the Republic of Belarus, and the 2008 Budget Code of the Republic of Belarus. Changes to Section V may be adopted by the Parliament without holding a referendum. The subnational government system is organised in three hierarchical tiers, with regional governments and the City of Minsk at the top, district governments at the intermediary level, and municipal governments at the lower tier.

At the three subnational levels of government, the only elected bodies are Local Councils of Deputies, whose members are elected for a period of four years. The number of local deputies varies according to the population size of each local jurisdiction. On the other hand, the executive committee, the subnational executive body, is composed of representatives of the state administration, appointed according to procedures established by the President. Overall, local executive committees have supremacy in local government over the elected councils' powers, and although the latter are elected and have a self-governing status, they act as representative bodies of state administration.

In 1995, local councils of deputies were abolished through presidential decrees, in cities with district divisions. Most districts and administrative-territorial units (ATU) were thus merged with their administrative centers (i.e. cities and urban settlements) into a single administrative territorial unit. In addition, the executive committees were withdrawn from the jurisdiction of Councils and re-subordinated to the President. The 2010 Law on Local governance and self-governance in the Republic of Belarus further defined the legal and institutional framework of local governance.

Belarus is the only country in Europe that has not signed the European Charter of Local Self-Government. The Council for Cooperation of Local Self-Government Bodies in the Council of the Republic has the responsibility of coordinating the intergovernmental relations between the self-governing units, while the Council of Ministers coordinates the relations between the subnational executive and administrative units.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	14 towns of district subordination 10 urban settlements 1 166 rural councils	118 districts *(rayon)* 10 cities of regional subordination	6 regions *(oblast)* City of Minsk	
	Average municipal size: 7 990 inhabitants			
	1 190	128	7	1 325

OVERALL DESCRIPTION. Belarus is divided into three territorial levels organised in hierarchical order, according to the principles of "parent executive and administrative body" and "parent representative body" (Article 122 of the Constitution). Subnational levels of government include regional, basic and primary levels.

REGIONAL LEVEL. The regions include six *oblasts* (Brest Oblast, Vitebsk Oblast, Gomel Oblast, Grodno Oblast, Minsk Oblast, and Mogilev Oblast) and the City of Minsk. Local Deputy Councils (*Soviets*) at the regional level are superior to the councils of basic and primary territorial levels. The capital city of Minsk has a special status as a 'City of republican subordination' set out by law in 1960. Minsk tends to concentrate more and more population, accounting in 2017 for more than 21% of the total population.

INTERMEDIATE LEVEL. The intermediary/basic territorial level (*bazovyy*) includes district councils (r*ayoni*) and cities of regional subordination. The division of regions into districts has remained unchanged since 1966, except for one district, created in 1989. In addition, 10 cities have "Cities of regional subordination" status (including Minsk City Council). These 10 cities have at least 50 000 inhabitants and are important administrative, economic and cultural centres with a developed industrial and social infrastructure. Councils at the basic level are superior to the Councils of the primary territorial level.

MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION. The municipal/primary territorial level (*pervichnyy*) includes cities of district subordination, urban settlements and village/rural councils. Cities of district subordination define settlements with a population above 6 000, and a certain number of urban facilities. Settlements comprise localities with at least 2 000 inhabitants, which can be resort settlements or industrial settlements depending on the commodities they offer. There are also 1 164 rural councils (*selsoviet*). Cities in Belarus are also divided into 24 non self-governing municipal districts, with their own local administration as defined by the city executive committee. Rural councils are further divided into rural settlements or villages (23 174 as of January 2017), which may range from agro-towns, townships, villages to *khutors*. The number of rural councils has been decreasing since 2008, with the merger of more than 450 councils.

There is no clear legislation on inter-municipal cooperation in the Republic of Belarus, although some programmes were developed and implemented across territorial units based on the regulations of planning and development (e.g. State programme on revival and development of the villages 2005-2010). Local governments are granted the right to organise themselves into associations. The Council for Cooperation of Local Self-Governments in the Council of the Republic is the primary institution with the responsibility of coordinating intergovernmental relations between self-governing units.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The responsibilities of subnational governments are framed by the 1991 and 2010 Laws on Local governance and self-governance in the Republic of Belarus and the 1994 Constitution. The latter defines local responsibilities as resolving issues of local significance, and implementing decisions of higher state bodies. Most local public services are carried out by the executive committees appointed by the central government (they make up the vast majority of local civil servants), while the elected councils deal with administrative and legislative matters. Key subnational responsibilities encompass ensuring sustainable regional development, and particularly territorial planning, enhancing local living conditions, supervising and ensuring local institutions and facilities function properly, distributing social benefits for the most vulnerable, and ensuring high-quality service provision in culture, public order, environmental protection and fire safety. Each subnational government level exercises control over the activities of the lower levels of governments accountable to them, and the delegation of public functions from the central government to local authorities is not stated in Belarusian legislation.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONAL / OBLAST LEVEL	INTERMEDIARY LEVEL	MUNICIPAL LEVEL
1. General public services	Administrative procedures of regional relevance	Civil registries	Civil registries; Notarial functions
2. Public order and safety	Fire protection; Public safety; Military conscriptions	Fire protection; Public safety; Military conscriptions	Military conscriptions
3. Economic affairs/transports	Employment promotion; Regional infrastructure development; Rural road infrastructures; Agriculture; Fuel and energy policies	Employment and public work; Urban public transport; Road infrastructure and maintenance	Farming; Communal unitary enterprises
4. Environmental protection	Environmental policy; Treatment facilities	Waste management; Sewerage	Waste management
5. Housing and community amenities	Social housing subsidies; Gasification and electrification	Urban planning; Social housing subsidies and maintenance of housing stock; Street lighting; Water-supply; Street cleaning; Gasification and electrification	Local development plans; Water supply in agro-towns
6. Health	Regional health facilities (incl. hospitals); Supervision of local level health institutions and public health	Primary health care; Implementation of national health programmes; District hospitals, clinics and polyclinics	Sanitation
7. Recreation, culture & religion	Social-cultural activities; National Youth Strategy; Sports facilities and regional sporting events	Libraries; Cultural and historical heritage; Local cultural institutions; National Youth Strategy; Sports and leisure	
8. Education	Higher Education institutions; Licensing of secondary schools	Pre-school, primary and secondary schools, and out-of-school facilities; Implementation of educational programmes	Co-ordination of education programmes at the local level
9. Social protection	Social care services; Regional plan of social assistance; Implementation of the Gender Equality Policy	Orphanages; Day care; Elderly homes; Assistance to needy families; Gender equality and prevention of domestic violence; Unemployment benefits	

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: oblast/provincial, City of Minsk, oblast cities, rayon/districts, rayon cities, urban and rural settlements.	SNA 2008 (since 2016)	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. The 2008 Budget Code of Belarus provides legal grounds for local government finance, and grants limited freedom to local authorities in terms of fiscal planning. The subnational budgets are incorporated in the state budget, and the financial management system remains highly centralised. The Code puts forward a regulatory approach in the assessment of the needs of the local governments, and the cost of public services is centrally determined by the State. As such, local budgets are assigned to local governments as cost estimates, approved by the central government through a strict regulation of utility costs by the Ministry of Finance. As of 2016, 48% of SNG budgets were allocated to the regional level, 51% to the basic level, and barely 1% to the local level.

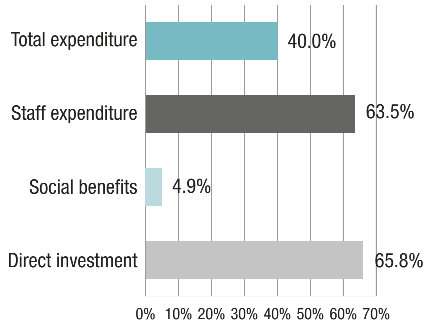
BELARUS

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**2 930**	**16.2%**	**100%**
Inc. current expenditure	2 604	14.4%	88.9%
Staff expenditure	1 089	6.0%	37.2%
Intermediate consumption	741	4.1%	25.3%
Social expenditure	128	0.7%	4.4%
Subsidies and current transfers	618	3.4%	21.1%
Financial charges	28	0.2%	0.9%
Others	0	0.0%	0.0%
Incl. capital expenditure	327	1.8%	11.1%
Capital transfers	46	0.3%	1.6%
Direct investment (or GFCF)	281	1.6%	9.6%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



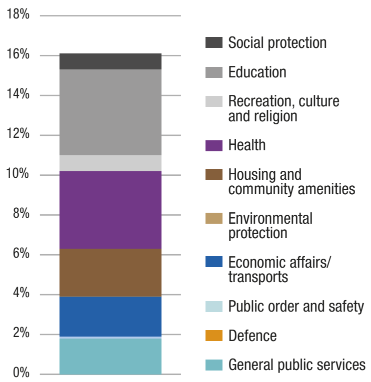
EXPENDITURE. SNG expenditure in Belarus is relatively high, in line with the EU averages in 2016 (15.5% of GDP and 33.4% of public expenditure). However, relative to their budget, SNGs in Belarus act as paying agents on behalf of the central government in many delegated areas, such as health and education, and local spending is made in accordance with centrally determined budgets. In 2016, 88.9% of subnational expenditures were current expenditure while capital expenditure accounted for 11.1%.

DIRECT INVESTMENT. SNGs in Belarus are key investors carrying out 65.8% of total public investment, and allocating on average 9.6% of their budgets to investment, compared to 8.7% on average in EU countries in 2016. Capital investments are funded by the oblasts' budgets and covered mainly by revenues from shared taxes and central government transfers. Capital investments made by local governments are coordinated by the central government. In order to promote further municipal environmental infrastructures, a number of taxes and charges related to environmental protection were recently introduced, however their receipts remain low.

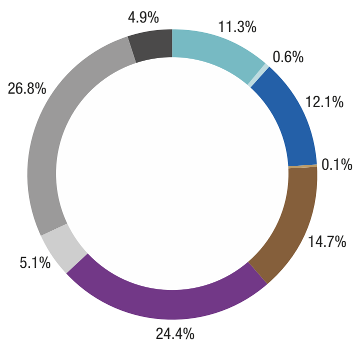
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Local governments' primary spending areas are education and health, which represented altogether more than half of total SNG expenditure, followed by housing and community amenities, and economic affairs and transport. However, management power in all sectors lies with the central government, whereas regional and district authorities are primarily involved in day-to-day management. SNGs are responsible for almost all public expenditures at the country level in housing and community amenities, and for more than three quarters of funding in health and education. They also play a significant role in recreation, culture and religion and economic affairs and transport. Regarding environmental protection, the role of SNGs has been increasing since 2008 with the introduction of tax and non-tax revenues earmarked to this category at the local level.

% GDP



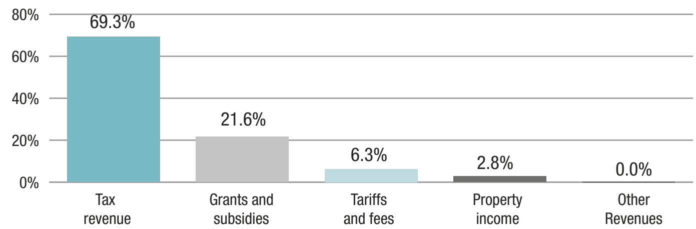
% SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**2 957**	**16.3%**	**38.8%**
Tax revenue	2 050	11.3%	45.1%
Grants and subsidies	640	3.5%	
Tariffs and fees	186	1.0%	
Property income	82	0.5%	
Other revenues	0	0.0%	

% SNG REVENUE



OVERALL DESCRIPTION. Public finance in Belarus is highly centralised. Local budgets are drafted following a top-down approach, where the Ministry of Economy and the Ministry of Finance play a key role in setting the macroeconomic indicators and target figures for total sub-national budget planning, and where superior levels set targets for the subordinate levels. Regional finance departments draft budgets for oblasts in accordance with the target set by the MoF, and establish target figures for the planning of local budgets for rayons and cities with oblast status. Finally, rayon executive committees establish parameters for local budgets of rural and urban settlements. Tax revenue is the most important source of income for SNGs, and the structure of the tax system is specified in the 2008. Tax Code (amended in 2010). The shares of SNG tax revenues in public tax revenues and GDP are high compared to the average for EU unitary countries (24% of public tax and 6.4% of GDP, in 2016); however, most revenues come from shared taxes redistributed between three levels of government. The weight of grants and subsidies in the SNG budget is also much lower than the EU average (44% in 2016).

TAX REVENUE. The vast majority of tax revenues for both SNGs, and in particular regional governments, come from shared taxes, i.e. PIT and VAT, which represent 60% of SNG tax revenue, 42% of SNG revenue and 6.8% of GDP in 2016. Besides, SNG taxing power is very limited as tax bases and rates are controlled by the national government. Tax sharing is determined annually in the Budget Law, and shared taxes are used by central governments to regulate vertical and horizontal imbalances. PIT and VAT revenues are shared with oblast governments which, in return, reallocate them as transfers to lower-tier governments (district governments). The ratio of shared taxes transferred to subnational government is set every five years, and is relatively stable. Shared taxes account (in total for all regional governments) for around 50% of PIT and 30% of VAT receipts. In 2016, the most important tax revenue was the PIT, which represented 36.6% of SNG tax revenues and 25.4% of their total revenue. It was followed by the share of the VAT, which accounted for 23.7% of SNG tax revenues and 16.4 % of SNG revenues. VAT shares allocated to each oblast varied between 3.5% and 4.7%, and the largest share going to the City of Minsk (6.32%).

Property taxes (on land and real estate) are collected by the central administration and fully credited to subnational governments. The real estate tax is levied annually on the residual value of buildings at the general rate of 1%. The taxable bases of the land tax is based on the location and cadastral value of the plot of land. The central government sets basic real estate and land tax rates; however, local governments can increase or decrease this rate up to 150% (to be reduced to 100% from 2020). In 2016, property taxes reached 0.7% of GDP (to be compared to 1.1% in the OECD), 6% of SNG tax revenue and 4.2% of SNG total revenue. Other local taxes comprise the ecological tax (approximately 60% of air pollution taxes, taxes on waste and storage disposal and effluent charges, while the rest goes to the central government) and contributions to innovative funds, both assigned to regional governments. District-level governments receive a tax on revenues of foreign organisations, the uniform imputed income tax and the uniform tax on trade collection. Finally, municipal-level governments' taxes include the resort duty.

GRANTS AND SUBSIDIES. The system of intergovernmental transfers in Belarus aims to equalise the financial conditions of SNGs and funding public sector expenditures, including expenditure on welfare. All transfers and grants from the central government are strictly programmed in the annual Budget Law, and allocated indirectly to local authorities at the intermediary / basic tier of subnational government, who do not benefit from the tax-sharing system, through the oblast budget. In 2016, grants were mostly comprised of current grants (87% of total) while capital grants accounted for the remaining part (13%). The share of transfers in SNG revenue in Belarus is relatively low on average, but for some regions they may represent more than half of revenue. Most central transfers are targeted to welfare services (84%), education, public health, culture. They are allocated according to a discretionary approach, based on expenditure needs and do not take into account revenue capacities and their fiscal efforts. As such, they benefit primarily Minsk City and other regional cities. In 2002, the equalisation procedure was revised to include norms and social standards in the welfare sphere according to the population.

Other transfers include earmarked subsidies for agriculture and fishing, housing, transfers to cover for the Chernobyl catastrophe, and transfers for the payment of wages. Transfers represent approximately 23-25% of the general budget, and are implemented from the special fund for financial support of administrative-territorial units (FFSATU).

OTHER REVENUES. Regions, districts and municipalities receive revenues from penalties and user-charges, based on their respective responsibilities. However, subnational governments can neither set nor regulate municipal tariffs, which are administered at the central government level, and the share of tariffs and fees in SNG revenue is well below the EU average (11.6% in 2016). The bulk of SNG other revenue is made up of dividends, received by oblast governments only. Local water-supply sewerage companies collect fees for water management. In Belarus, local governments do not own assets or properties, but State-owned properties may be transferred to local governments for operative management or in order to carry out their public mandates. As a result, local governments receive small amounts of property income, accounting for 2.8% of SNGs total revenue, above the EU average (1.2%).

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**421**	**2.3%**	**5.7%**	**100%**
Financial debt*	402	2.2%	5.4%	95.5%

* Currency and deposits, loans and bonds

FISCAL RULES. The Head of the executive committee of each local government is responsible for the monitoring of local budget implementation. Rules in force require local budgets to be balanced. In case of a decrease in budget revenue leading to a reduction of more than 10% of expenditure funding compared to the planned budget (and in other emergency cases) intervention rules go into effect, including the abolishment or restriction of expenditure funding from budgetary funds, forbidding bank transactions for treasury purposes, fines, charges and collecting penalty fees.

DEBT. Local government borrowing capacities are set in the Budget Code (article 65). SNGs can access the national debt market freely, but within limits set by the Ministry of Finance. Local debt, including guarantees provided by local authorities on loans issued to local legal entities cannot exceed 20% of the total amount of expenditures of oblast, rayon and municipal budgets, except for the credits in the fields of village housing and for state-approved investment projects. Debt service should not exceed 15% of local budget revenues.

Since 2009, SNGs have been allowed to issue bonds that are backed by the central government, and local bonds have already been issued with the State bank of SB "Belarusbank". In 2016, SNG outstanding debt amounted to 2.3% of GDP. SNG debt is mainly comprised of financial debt (95.5%) with "other accounts payable" accounting for the remaining 4.5%. The financial debt essentially included bonds/debt securities (90.1%) and loans (9.9%). The share of SNG debt in public debt remains low compared to the EU average (14.4% in 2016).

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Lead responsible: OECD
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Socio-economic indicators: World Bank // UNDP Human Development report // UN DESA // ILO // Belstat // Statistical Yearbook of the Republic of Belarus, 2017 and 2012.
Fiscal data: IMF Government Finance Statistics // OECD (2018) Subnational governments in OECD countries: key data (brochure and database).
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GEORGIA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: GEORGIAN LARI (GEL)

POPULATION AND GEOGRAPHY

Area:69 700 km^2
Population: 3.717 million inhabitants (2017), a decrease of 1.4% per year (2010-2015)
Density: 53 inhabitants / km^2
Urban population: 58.2% of national population (2017)
Urban population growth: 0.6% (2017 vs 2016)
Capital city: Tbilisi (29.0 % of national population)

ECONOMIC DATA

GDP: 39.7 billion (current PPP international dollars), i.e. 10 683 dollars per inhabitant (2017)
Real GDP growth: 4.8% (2017 vs 2016)
Unemployment rate: 11.6% (2017)
Foreign direct investment, net inflows (FDI): 1 830 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 29.7% of GDP (2017)
HDI: 0.780 (High), rank 70

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Constitution of 1995 established the Republic of Georgia as a unitary republic. Since the constitution was last amended in 2017, Georgia has been transitioning from a semi-presidential system to a parliamentary system. Effective as of 2018, the constitutional amendments substituted Georgia's unicameral Parliament with two chambers: the Council of Republic and the Senate. The Council of Republic is composed of members elected by a proportional system, and the Senate of elected members from the Autonomous Republic of Abkhazia, the Autonomous Republic of Adjara, other territorial units of Georgia, in addition to five members appointed by the President of Georgia. According to a new constitution, the President will be elected indirectly, by special electoral boards composed of 150 members of the Parliament, members of the Supreme Council of the Autonomous Republics and voters nominated by the parties according to the results of local elections. In the meantime, the last direct presidential election was held in 2018, electing the president for 6-year term. The Prime Minister, appointed by the Parliament following a recommendation made by the President, is the head of the Government.

Georgia has only one subnational government, i.e. municipalities, which are subdivided into two categories: communities and cities. The country also encompasses the Autonomous Republic of Abkhazia and the Autonomous Republic of Adjara. In 2013, a new chapter on local self-government was added to the constitution (Chapter 7-1), recognising local autonomy and local government powers, own assets and resources, along with a comprehensive territorial and administrative reform process. In 2014, a new Code of Local Self-Government was adopted, further amended in 2017, which reformed the regional state administration and abolished former laws, such as the Organic Law on Local Self-Government, the Law on State Supervision, the Law on the Capital Tbilisi and the Law on Municipal Property. Local self-government is enshrined in Article 2 of the new Code.

The 2014 Local Self-Government Code introduced essential changes in the multilevel governance framework of Georgia. It reinforced local participation (through Citizen Advisory Councils) and the elections mechanism. In fact, for a number of cities it called for mayors to be elected directly. This is unlike previous legislation that limited direct mayoral elections to the capital city, Tbilisi. The municipal assembly (*sakrebulo*) is the deliberative organ of local authorities. It is composed of members directly elected for a four-year term, and is headed by a president elected by the assembly members for the same period. Executive power is vested in the mayor (*meri* in cities and *gamgebeli* in communities), who is elected by direct suffrage with an electoral threshold of 50%.

In March 2018, the Parliament and the Government of Georgia announced a new wave of local self-government reforms, to be followed by an action plan to be adopted by the Parliament of Georgia. A wide range of competencies and resources are expected to be transferred to local authorities by 2025, with 7-8% of GDP to be allocated to the municipal budget. Different groups of stakeholders are also in talks regarding new municipal fragmentation and changes in the local voting methods.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	5 self-governing cities *(qalaqi)* 67 communities *(temi)*		2 autonomous republics of Adjara and Abkhazia *(avtomnoy respubliki)*	
	Average municipal size: 55 740 inhabitants			
	72		2	74

OVERALL DESCRIPTION. The territorial organisation of Georgia has undergone several changes in recent years. In 1997, the Georgian Parliament adopted the law on Local Self-Government creating two levels of self-government (districts/*raioni* and municipalities). In 2006, the two-tier system of self-government was replaced a single tier of municipalities (*munits'ipaliteti*), which are subdivided into two categories: five cities (several based on former districts) and 71 communities. In 2014, a territorial reform subdivided several municipalities into smaller units and provided the city status to some communities (12 in all). However, new amendments in 2017 to the Code reduced the number of cities from 12 to 5 (Tbilisi, Kutaisi, Rustavi, Poti and Batumi) and the 14 municipalities that were formed were merged into the previous seven municipalities. Currently, Georgia has a one-tier-system of decentralisation composed of 72 municipalities, including five cities (*qalaqi*) and 67 communities (*temi*) as well the two autonomous republics of Adjara and Abkhazia at the regional level.

REGIONAL LEVEL. The Autonomous Republic of Adjara has special status defined by the 2004 constitutional law on the status of the Autonomous Republic of Adjara. It has its own legislative body. Indeed, the Supreme Council is constituted of 21 members elected by universal suffrage by the consituents of their jurisdictions. The executive branch consists of a Chairperson who is nominated by the President of Georgia with the approval of the Supreme Council, and four Ministers in the areas of economy, healthcare and social security, agriculture and education, culture and sports. The government of the Autonomous Republic of Adjara is accountable to the President of Georgia, and its local-self government system consists of 5 municipalities and the city of Batumi, the administrative centre of Adjara and the third largest city in Georgia. The other autonomous republic, Abkhazia, is a disputed region that is currently not under the control of the Georgian government.

MUNICIPALITIES AND INTER-MUNICIPAL CO-OPERATION. Cities and communities have the same status. The difference between them lies in the internal territorial organisation. Cities are unitary urban settlements while communities are formed by a number of rural and urban communities, usually an agglomeration structured around an urban settlement (town) and adjacent rural settlements (villages). Each of these entities is divided into sub-municipal administrative units. In 2017, the average size of municipalities was big (calculation based on 64 municipalities), especially compared to the EU28 average (5 900 inhabitants) but the median size is smaller (31 000 inhabitants). Around 23% of municipalities have fewer than 20 000 inhabitants and only two have fewer than 5 000 inhabitants. The capital city of Tbilisi is by far the most populated (over 1 million), accounting for 30% of the national population. It is followed by Rustavi, Kutaisi and Batuni (between 126 000 and 155 000 inhabitants).

The Constitution and the Code of Local Self-Government (Section III – Chapter VII) grant the capital city of Tbilisi special status. It is subdivided into 10 administrative districts, which reflect the delimitations of the city's historical neighbourhoods. Each district has an executive department, headed by an executive director appointed by the mayor of Tbilisi. As the functional area of Tbilisi is larger than its administrative boundaries, Tbilisi started a metropolitan governance project in 2009 covering the capital city of Tbilisi, the city of Rustavi and the municipalities of Mtskheta and Gardabani, with co-operation taking place regarding water supply, sewerage system and solid waste management. Beyond Tbilisi, intermunicipal co-operation is gradually emerging in Georgia, despite the lack of a formal legal framework. The 2014 Local Self-Government Code (articles 20-21) empowered municipalities to establish joint enterprises, and local authorities have started to come forward with such initiatives in the provision of public goods and services.

STATE TERRITORIAL ADMINISTRATION. Georgia is subdivided into nine regions (*mkharebi*) based on Georgia's historical and geographical regions. They are de-concentrated state administrations, headed by State governors who are appointed by the government. Regional governors used to supervise municipal governments but their role was diminished by the 2014 code, and they were replaced by the office of prime minister and the ministry of justice. As part of the "regionalisation process", the 2014 code established Regional Advisory Councils as consultative bodies representing the authorities that operate at the municipal level and are chaired by the State governors. Amid stark and worsening regional disparities, their role is to report the challenges and specificities of each region and incorporate them into regional development plans.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The law on local self-government and Article 101-2 of the Constitution provide the framework that defines the competences of municipalities in Georgia. Georgian municipalities have both exclusive and delegated competences. Municipalities may proactively solve, within the limits set by the law, any issue within their respective jurisdictions if the relevant activity (e.g. related to employment, tourism, agriculture, innovative development, etc.) is not a specified part of the remit of any other public authority. Delegated tasks are determined by legal mandates or agreements between ministries and municipalities, and may encompass military registries, healthcare or social assistance. The capital city of Tbilisi has additional functions in transport and communication, healthcare, social protection and local development. In some sectors, it is unclear who is in charge of what. This is the case, for instance, in management of the water supply. The lack of clear boundaries is attributed to slow progress in the alignment of sectoral legislation with decentralisation policies. According to the local code, municipalities have the right to establish both non-profit and commercial enterprises for the provision of municipal and social services. The number of non-commercial enterprises established by the municipalities has doubled in recent years.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPAL LEVEL
1. General public services	Municipal administration; Management of municipal properties; building permits; Military recruitment (delegated)
2. Public order and safety	Fire safety and rescue assistance
3. Economic affairs/transports	Local motorways; Traffic regulation on local roads; Local public transport; Outdoor advertising and street trading; Exhibitions, markets and fairs; Management of local natural resources
4. Environmental protection	Municipal waste management; Street cleaning; Public parks and public areas
5. Housing and community amenities	Spatial planning; Local water supply; Cemeteries
6. Health	Hygiene and sanitary inspections; Public healthcare (delegated); Prevention of epidemics; Ambulances (Tbilisi)
7. Recreation, culture & religion	Libraries; Cinemas; Museums; Theatres; Sport facilities; Preservation and development of local heritage; Local cultural monuments; Creative activities
8. Education	Pre-school education
9. Social protection	Registration and provision of shelter for the homeless; Infrastructure for disabled persons; Housing assistance for bus drivers (Tbilisi); Care of internally-displaced persons (delegated)

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: municipalities and the two autonomous regions.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GEORGIA

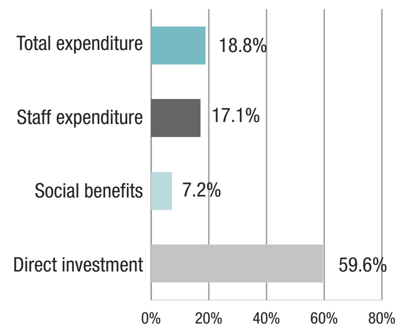
UNITARY COUNTRY

GENERAL INTRODUCTION. In addition to the Georgian Constitution, the local self-government fiscal framework in Georgia is specified in the Organic Law on local self-government, the Budget Code and the Tax Code of Georgia. Each local government has its own independent budget. The autonomous Republic of Adjara, under the jurisdiction of the Georgian government, also has financial autonomy within the scope established by Georgian legislation. It receives part of the Georgian state tax and non-tax revenues and special funding from the national state budget for the exercise of its functions. Ongoing reforms tend towards deepening decentralisation, including the implementation of new rules for financial equalisation, the strengthening of the financial capacity of local government through additional tax revenues, the modernisation of the auditing system and territorial civil service, and the recruitment of specialised auditing staff.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**560**	**5.6%**	**100%**
Inc. current expenditure	359	3.6%	64.2%
Staff expenditure	88	0.9%	15.8%
Intermediate consumption	81	0.8%	14.5%
Social expenditure	72	0.7%	12.8%
Subsidies and current transfers	116	1.2%	20.7%
Financial charges	3	0.0%	0.5%
Others	0	0.0%	0.0%
Incl. capital expenditure	200	2.0%	35.8%
Capital transfers	20	0.2%	3.6%
Direct investment (or GFCF)	180	1.8%	32.2%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



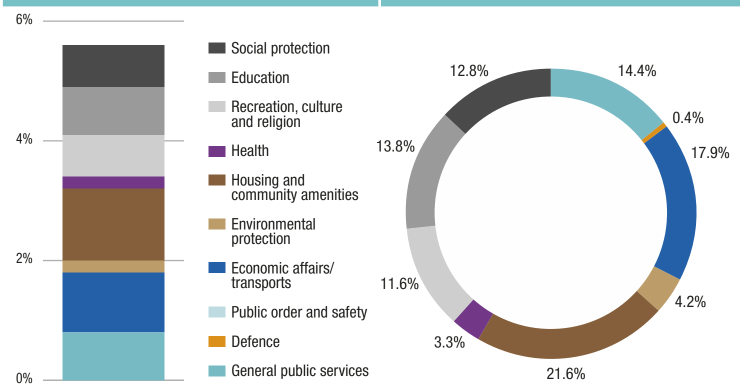
EXPENDITURE. In 2016, local government expenditure amounted to 5.6% of GDP and 18.8% of public expenditure, below the average for EU countries (15.5% of GDP and 33.4% public expenditure). Whereas local governments in Georgia represent a small share of public employment and staff expenditure, they are very involved in the investment process. In fact, they are responsible for more than half of total public investment. Per capita spending varies greatly across regions; subnational expenditure tends to be concentrated in the Autonomous Republic of Adjara and the city of Tbilisi.

DIRECT INVESTMENT. Local governments' direct investment accounted for respectively 32.2% of SNG expenditure and 59.6% of public investment in 2016, above the EU average (respectively 8.7% and 50.9% in 2016). Since 2013, this has increased markedly (+0.6 percentage points in terms of share of GDP, +28 pp for the share of public investment). Nevertheless, capital investment projects are mostly financed and managed by the central government through the municipal development fund, although local authorities are sometimes involved in the planning process.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Housing and community amenities is the primary spending area of SNG, accounting for 21.6% of SNG expenditure and 88.9% of the total public expenditure in this category, followed by economic affairs, general public services and education. Environment protection stands for a small share of the local budget, and yet environmental spending is mostly carried out by local governments (56.2% of public environmental expenditure). The financial needs of local governments are much higher than their revenues. The resulting vertical imbalance means that SNGs rely heavily on transfers from the central government.

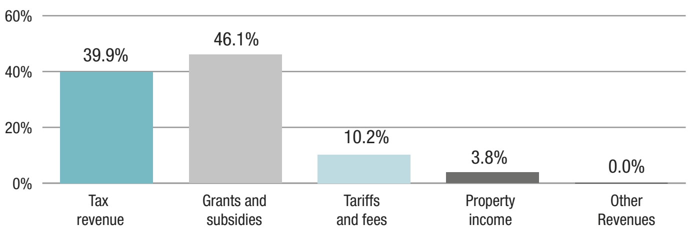
% GDP | % SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**589**	**5.9%**	**20.7%**
Tax revenue	235	2.3%	9.1%
Grants and subsidies	271	2.7%	
Tariffs and fees	60	0.6%	
Property income	22	0.2%	
Other revenues	0	0.0%	

% SNG REVENUE



OVERALL DESCRIPTION. Local government revenue comprises own revenues (local taxes, charges and fees), shared tax revenues, and other revenues in the form of grants, subsidies and loans. In 2016, grants and subsidies constituted the bulk of total SNG revenue (46.1%), before tax revenues (39.9%). Yet, the ratios of SNG tax revenues in SNG revenues and public tax revenues have increased significantly between 2013 and 2016: from 5.6% of public tax revenue in 2013 to 9.1% in 2016, and from 22.3% of SNG revenue in 2013 to 39.9% in 2016 (the ratio as a share of GDP remains unchanged). The new reform announced in 2018 plans to increase further local budgets to reach 7% of GDP.

TAX REVENUE. Local governments rely on two primary sources of tax revenue: a shared tax, the personal income tax (PIT) and an own-source tax, the recurrent property tax. The organic law on local self-government (art. 24) enables local government to introduce or abolish local taxes and fees, in accordance with Georgian legislation; however, this prerogative is not used. Local governments receive a portion of the PIT collected within its jurisdiction, accounting for 18% of the PIT at the national level. PIT revenue represented 54.5% of local tax revenue, 21.8% of local total revenue and 1.3% of GDP. The budget code (annex 1) mentions that the PIT is shared between the State and SNGs, yet distribution criteria remain unclear. Since 2016, the PIT tax base, which previously comprised only taxes paid by individual entrepreneurs, has been enlarged to include the proceeds from the sale of material assets, rented, bestowed and inherited properties.

Moreover, the property tax is a local tax levied on buildings and land. It is paid by individual and legal persons. Municipalities can set the tax rates within limits set by the Georgian Tax Code, in consultation with the Ministry of Finance. The tax rate cannot exceed 1% of the value of the property for legal persons, whereas the limit for individual owners is based on income: between 0.05% and 0.2% for households earning less than USD 45 000 per year, and between 0.8% and 1% for other households. There are many challenges associated with property tax collection, due to the large number of exemptions granted to specific categories (e.g. farmers). An additional challenge is the fact that property assessments are not based on market price. Instead, the individual taxpayer assesses his own property. Nevertheless, the property tax accounted for 45.5% of SNG tax revenues, 18.1% of total SNG revenues and 1.1% of GDP in 2016.

GRANTS AND SUBSIDIES. Grants are the primary source of subnational revenue, yet their share in local revenue has decreased significantly in recent years due to the increase in local tax collection and tax revenues (-18 percentage points compared to 2013). Overall, capital grants accounted for almost 30% of total grants (vs 70% for current grants), a large proportion by international comparison.

Equalisation transfers make up the bulk of transfers. According to Georgia's equalisation system, which is set forth in the Budget Code (Article 71-74), the central government transfers funds on an annual basis, according to a formula including the population size, the area, the number of children from 0-6 and of young people from 6-18, the status of the capital and roads of local importance. The equalisation formula has raised eyebrows among experts: 61% of transfers are channelled to large self-governing cities that concentrate 42% of the country's total population, while only 39% of the transfers reach municipalities that are home to 58% of the total population. Making matters worse, it does not incentivise small municipalities to increase their revenue bases, since that would imply a reduction in the size of their grant. The Ministry of Finance is currently working on reviewing the equalisation mechanism in order to lessen regional and inter-municipal disparities. The final amount allocated for the equalisation transfer is determined by the central government and approved by the parliament.

According to the Law on local self-government (art. 94), municipalities are also entitled to targeted transfers earmarked for the exercise of local delegated powers, whose calculation is determined during consultations between the Ministry of Finance of Georgia and local financial administrations, based on 1) the cost of implementation of delegated tasks; 2) special transfers in the case of unforeseen events such as natural disasters ; and 3) capital transfers for the implementation of capital projects.

OTHER REVENUES. Tariffs and fees represent a significant source of revenue for local governments, and in particular self-governing cities (Tbilisi, Batumi), through the collection of fees on construction permits, garbage collection, urban development and gambling, and administrative fines. Fees levied on the use of natural resources (oil and gas, minerals and metals, mineral water, hunting, fishing) only benefits certain municipalities (70% of the budget of Bolnisi municipalities).

The share of property-related income in SNG revenues is large by international standards: 3.8% vs 2.0% in the OECD and 1.2% in the EU28 in 2016. According to the National Agency of State Property, the central government transferred a significant number of its immovable properties into the ownership of municipalities in 2016 and 2017. Central authorities have however been slow in fully decentralising land, water, forest and natural assets to municipalities. Only large municipalities are able to receive significant revenue from property assets, be they physical or financial (interest earned on current accounts in commercial banks).

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. The budget balance rule applied to Georgian local governments stipulates that the ratio of the consolidated budget deficit (central and local government) to GDP should not exceed 3%. Recent changes to the Local Government Law shall improve fiscal co-ordination across levels of government, as the parliament will be setting targets for sectors overall (such as requiring a 10% across-the-board reduction in administrative costs), as well as aggregate targets consistent with the general government fiscal rules.

DEBT. Municipal debt management is regulated by the fiscal rules laid down in the Organic Law of Georgia on Economic Freedom. Municipalities may borrow to finance capital investments with the permission of the Government of Georgia. The total amount of the loan borrowed by a municipality shall not exceed 10% of the municipality's average annual own revenues for the three previous budget years. Municipalities may borrow (from a public authority or a related legal entity) up to a maximum of 10% of their annual budgets. For the city of Tbilisi, annual loan servicing shall not exceed 5% of its annual budget. The capital market is still fledgling in Georgia and according to reports from the Council of Europe, local debt is low.

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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO // Geostat Georgia (Statistical yearbook).
Fiscal data: IMF Government Finance Statistics // OECD (2018) Subnational Governments in OECD countries: key data // UNECE: National Accounts of Georgia.
Other sources of information: Council of Europe (2018) Local and Regional Democracy in Georgia - Congress of Local and Regional Authorities // IMF (2017) Georgia: Fiscal Transparency Evaluation // Subgroup on Local Government and Public Administration reform of the Working Group 1 of the CSF EAP (2016) Update on Public Administration and Local Governments Reforms in Eastern Partnership Countries // Irakli Khmaladze (2015) Local Finance Benchmarking in Georgia, In Local Finance Benchmarking: a shared tool for improved financial management // David Losaberidze (2015) Mapping the obstacles to inter-municipal cooperation in Georgia.

KAZAKHSTAN

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: TENGE (KZT)

POPULATION AND GEOGRAPHY

Area: 2 724 902 km2
Population: 18.038 thousand inhabitants (2017), an increase of 1.6% per year (2010-15)
Density: 7 inhabitants / km^2
Urban population: 57.3% of national population
Urban population growth: 1.5% (2017 vs 2016)
Capital city: Astana (5.9% of national population)

ECONOMIC DATA

GDP: 476.4 billion (current PPP international dollars), i.e. 26 410 dollars per inhabitant (2017)
Real GDP growth: 4.1% (2017 vs 2016)
Unemployment rate: 4.9% (2017)
Foreign direct investment, net inflows (FDI): 4 654 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 22.72% of GDP (2017)
HDI: 0.800 (very high), rank 58 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Republic of Kazakhstan is a unitary country with a hybrid system of government, with a parliamentary system and a powerful President as head of State. Independent from the Soviet Union since 1991, the country's last elections were held in 2015 and the former president was re-elected a fifth time by popular vote for a five-year term. The Kazakhstan parliament is the supreme legislative body and consists of two chambers, the Senate (Upper House), with elected representatives from regional assemblies, and the *Mazhilis* (Lower House).

The current Constitution of Kazakhstan, enacted in 1995, established in Art. 85-89 the system of a "mixed" system of local governance (both deconcentrated and decentralised), which is composed of local governments (*Akimats*) and local self-governments, which are elected either indirectly or directly (*Maslikhats*).

At city, district, and regional level, the *maslikhat* is directly elected but has only budgetary and tax-raising power. Members of the *maslikhats* elect the representatives from their provinces to the national Senate. This organisation reaffirms the subordination of local governments to the central government, with the central government granting powers and responsibilities to local executive bodies. Moreover, each tier of government is subordinated to the tier above it, which tends to consolidate central control over lower levels.

Since its independence, the country has taken steps to grant more autonomy to local governments through fiscal and functional decentralisation reforms. In 2009, both *akims* and *maslikhats* were officially re-defined as local government and self-government agencies, although most heads of the local administrations (*Akims*) are still appointed and accountable to the Kazakhstan president.
Since 2012, the country has embarked in a decentralisation process. Decentralisation is cited among the objectives of the 2012 country's national development plan entitled "Kazakhstan 2050: new political course for Kazakhstan in a fast-changing world"". In accordance with the 2012 "Concept of Local Self-Government development in the Republic of Kazakhstan, some *akims* of towns, villages and settlements with "*rayon*" status, are elected since 2013 through local indirect suffrage (elections took place in 2013, resulting in the elections of 2 457 *akims*, i.e. 91.5% of *akims*). Executives at other subnational government levels are, however, still appointed.

In 2017, new reforms have been launched to redistribute executive powers from the president to the parliament and ministries, towards more open and efficient governance. As announced in the programme "100 steps", "Amendments and Additions to Certain Legislative Acts of the Republic of Kazakhstan on the Development of the Local Self-Government" were adopted in July 2017. The law envisages the introduction of an independent budget and municipal ownership of the local self-government, and the expansion of local self-governments' powers regarding the management of budgetary processes and municipal property.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	34 small "cities of district significance" and 6 904 villages and settlements *(aul)*	40 large "cities of regional significance" and 175 districts *(rayons)*	14 regions *(oblasts)* and 2 cities of national sub-ordinance	
	Average municipal size: 2 600 inhabitants			
	6 938	215	16	7 169

OVERALL DESCRIPTION. The vast territory of the Republic of Kazakhstan is organised according to a three-tier government system established by the 2001 Law on Local Public Administration and Self-Government.

REGIONAL LEVEL. At the upper level, there are 14 regions (*oblasts*) and the 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, and have a regional/city council elected by universal suffrage (regional *maslikhat*). Kazakhstan's regions are sparsely populated on average. In terms of the number of inhabitants, it is one of the least densely populated among OECD countries, with an average population size of around one million inhabitants per region. In terms of population density, the median value is the lowest among OECD countries despite the high concentration in Astana (1 128 inhabitants per square kilometre) and Almaty (2 402 per square kilometre). Territorial inequality among Kazakhstan's oblasts is very high by the standards of OECD. In 2010, GDP per capita in Atyrau was almost four times the national average, and in Almaty city, it was twice the national average. At the bottom end of the scale, South Kazakhstan's GDP per capita was one-third of the national average.

INTERMEDIATE LEVEL. At the intermediate level, there are 175 districts (of which 17 are city districts and the rest rural), and 40 cities of regional significance. District executives 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*).

MUNICIPAL LEVEL. The lower level includes 34 "cities of district significance" and 6 904 villages and settlements recognised as local self-governments (*aul*). A 2013 law, amending the 2001 law, introduced a measure of decentralisation, most importantly the election of local *akims* through indirect suffrage by local level councils, and an increase in their financial and economic independence.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The 2001 law on Local Public Administration and Self-Government, regularly amended, broadly defines the general division of competences of regions (article 29), *rayons* and cities of regional significance (article 31) and of *aul* and cities of district significance (article 34). In Kazakhstan, the central government (budgeting and designing) and the governments of both *oblasts* and *rayons* (implementation) are jointly responsible for most services. The tasks of the three levels often overlap. Regions are primarily responsible for coordinating the work of districts and designing local administrative management schemes. District governments (intermediary level) have extensive responsibilities, including 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, water supply and sewerage. At the municipal level, local governments have responsibilities related, for the most part, to local development, cultural preservation and local service provision.

The Republic of Kazakhstan considers decentralisation and regional development reforms to be a high priority (cf. the Strategy Kazakhstan-2050, Kazakhstan Plan of the Nation). Consequently, a new division of powers and responsibilities between the central government and SNGs is currently being developed, in-between decentralisation and deconcentration.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONAL LEVEL	INTERMEDIARY LEVEL	MUNICIPAL LEVEL
1. General public services	Military conscription; Civil registration; Regulatory and control functions	Property management; License issuance for business activities; Construction permits for communal facilities	Notarial actions; Civil registration
2. Public order and safety	Military mobilisation; Civil protection	Fire brigades; Prevention policies regarding earthquakes and terrorism	
3. Economic affairs/transports		Development plans for the districts; Development of entrepreneurial activity; Agriculture; Communication and engineering infrastructure (water, heat and electricity grids, etc.); Transportation and local roads; Tourism; Local roads; Urban public transport.	
4. Environmental protection		Energy efficiency; Sewage disposal plants; Waste disposal and collection; Preservation of nature and parks	
5. Housing and community amenities		Land development plans; Design of public spaces; Construction and maintenance of water pipes; Public housing; Street cleaning	Land regulation; Public housing; Development of local social infrastructure; Cemeteries
6. Health	Provision and financing of healthcare services	Primary healthcare (medical centres); Preventive healthcare; Hospitals	Village organisations regarding healthcare services; Emergency care
7. Recreation, culture & religion		Historical buildings and culture; Theatres; Museums; Libraries; Sports; Leisure	Protection of historical and cultural heritage; Sport infrastructure
8. Education	Pre-primary and primary education; Secondary education; Vocational education	Pre-primary and primary education; Secondary education; Vocational education	
9. Social protection		Pensions; Unemployment benefits; Maternity benefits; Veterans; Child benefits; Orphanages; Social adaptation and rehabilitation of convicted persons	Assistance to the disabled and to the unemployed

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: Almaty and Astana cities, oblast bodies and budgetary local government units.	SNA 2008	Availability of fiscal data: **Low**	Quality/reliability of fiscal data : **Low**

GENERAL INTRODUCTION. Kazak decentralisation remains quite asymmetric. Some functions are delegated to subnational tiers of government while they remain fiscally dependent on the central government. Local government own-source revenues are marginal and their scope for fiscal initiatives is very limited. Most regions, apart from the city of Almaty and the oil rich regions, suffer from fiscal imbalances. The recent regional development strategy calls for channelling more resources and responsibilities to regional and local governments, along with an increased degree of political decentralisation. In particular, Kazakhstan is taking important steps to decentralise budget management in line with the President's aim to create an independent budget at local level as announced in the programme "100 steps". Amendments to the Law on Local Self-Government adopted in July 2017 foresee an independent budget and municipal property for local governments from 1 January 2018 in rural communities with populations of more than 2 000 people. The arrangement will extend to all local communities after 1 January 2020.

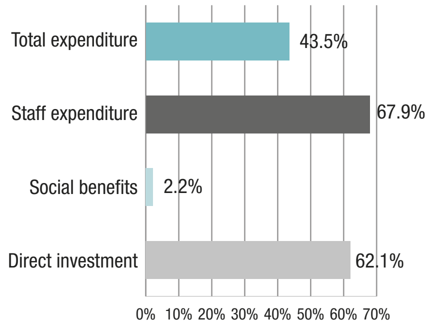
KAZAKHSTAN

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**2 230**	**8.9%**	**100%**
Inc. current expenditure	1 748	7.0%	78.4%
Staff expenditure	507	2.0%	22.7%
Intermediate consumption	870	3.5%	39.0%
Social expenditure	27	0.1%	1.2%
Subsidies and current transfers	313	1.3%	14.0%
Financial charges	0	0.0%	0.0%
Others	30	0.1%	1.4%
Incl. capital expenditure	482	1.9%	21.6%
Capital transfers	0	0.0%	0.0%
Direct investment (or GFCF)	482	1.9%	21.6%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



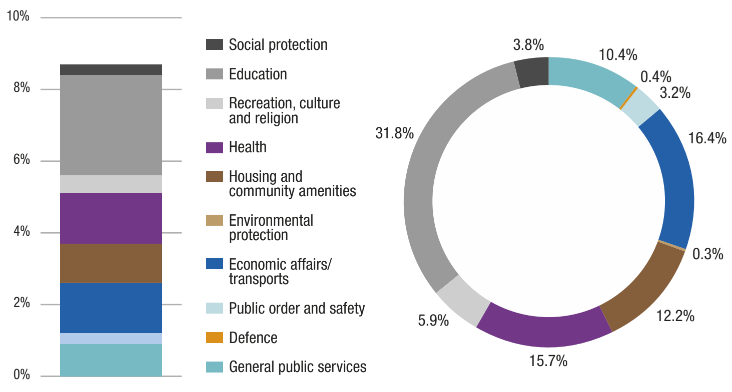
EXPENDITURE. SNG expenditure accounts for 8.9% of GDP (vs 16.2% in the OECD on average in 2016) and 43.5% of public expenditure (vs 40.4% in the OECD). SNGs are key public employers. SNG staff spending accounted for almost 68% of public staff spending, a share higher than in the OECD on average (62.9%). These figures however hide a significant part of deconcentrated spending.

DIRECT INVESTMENT. SNG investment is relatively high as a share of GDP and public investment, slightly above the OECD averages (1.7% of GDP and 56.9% of public investment. Investment accounted for 21.6% of SNG spending, which is also above the OECD average (10.7%), confirming that investing is key function of SNGs. In practice however, SNGs often act as paying agents of central government to implement national investment plans.

The government has also prioritised public-private partnerships (PPPs) as a delivery mode for both economic and social infrastructure. It has put in place a well-structured legal and institutional framework for preparing PPPs at both the national and regional level, including a Concessions Law adopted in 2006 and a PPP Law adopted in December 015. Kazakhstan has set up a Kazakhstan PPP Centre, a Project Preparation Fund and several PPP units for developing PPP projects have been established by most regional governments. 266 PPP contracts have been signed by regional governments between December 2015 and March 2018 in sectors such as health care, education and sports and recreation facilities. This proliferation however raises questions over the quality of contracts and their future sustainability as regions often have a limited and uneven capacity as well as inadequate resources to prepare projects.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

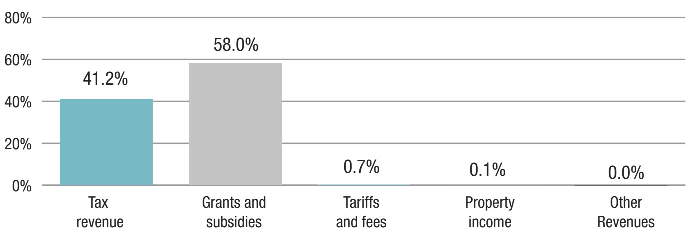
In Kazakhstan, the primary responsibilities of local governments in terms of delivery of public services concern education and health sectors. Education is by far the largest sector of SNG expenditure, accounting for almost 32% of total SNG spending and 71.2% of total public spending on education. Local governments are in charge of financing teachers' salaries and building maintenance in the education sector with the exception of higher education, specialised types of primary and secondary education (such as military schools and schools for gifted children), and the continuing training of civil servants, which are funded by the national government. The latter is also in charge of policy direction and administrative control. The second sector of subnational expenditure is health (15.7% of total SNG spending and 45% of total public spending in this category), including the financing of specialised local hospitals, tuberculosis clinics, diagnostic centres, hospitals, and outpatient clinics for veterans. Other large categories of expenditure include economic affairs (transports) and housing and community amenities.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**2 238**	**8.9%**	**51.3%**
Tax revenue	922	3.7%	27.1%
Grants and subsidies	1 298	5.2%	
Tariffs and fees	16	0.1%	
Property income	2	0.0%	
Other revenues	0	0.0%	

% SNG REVENUE



OVERALL DESCRIPTION. In Kazakhstan, public administration, finance and policy making are highly centralised. A recent development strategy advocates for the delegation of more resources from the centre to the regions, and for enhancing regional powers and capacities.
The bulk of subnational budget revenues is made up of central government transfers (58% of total subnational revenues vs 37.2% in the OECD on average in 2016). On the flip side, tax revenues accounted for 41.2% of subnational revenues, slightly below the OECD average in 2016 (44.6%). The shares of tariffs and fees and property income in SNG revenues is particularly low, well below the OECD averages (17.9% and 2.0%, respectively). Yet the amount of subnational revenues compared to public revenues has been increasing since 2013 (when it accounted for 37.2% of total public revenues).

TAX REVENUE. SNG tax revenues accounted for 3.7% of GDP and 27.1% of public tax revenues, which is below the OECD averages (7.1% of GDP and 31.9% of public tax revenue). Tax revenues are primarily generated by tax sharing arrangements, based on the sharing of the personal income tax (PIT) and the social tax on payroll and work force. Both accounted for 71% of SNG tax revenues (respectively 40% and 31% of SNG tax revenues and 16.5% and 12.6% of SNG revenues).
The revenues from the PIT represent the highest share of tax revenues of oblasts (up to 40%), followed by the social tax based on payroll (30%). Local governments at lower levels are assigned the land and property tax, which represent 13% of rayons' tax revenues. Rayons can revise the tax rate on land and property within a 20% limit depending on the characteristics of the property and the land (which principally concerns its access to water). They also receive part of the excise taxes on alcohol, tobacco and petroleum product (7.4% of SNG tax revenues and 3.0% of SNG revenues).
Overall, the land and property taxes accounted for 13.1% of SNG tax revenues and 5.1% of SNG revenues in 2016, i.e. 0.5% of GDP, below the OECD average (1.1% of GDP in 2016).

Other taxes include taxes on transport or environmental emissions, whose rate can be set by SNGs (they can set the rate of environmental emissions charges, within a prescribed scale, and the rate for the use of water resources), which help strengthen their public finances.
All taxes are collected centrally by the Ministry of Finance and its local branches and are redistributed via an equalisation mechanism.
In the context of the current decentralisation programme, SNG financial autonomy should increase as new shared taxes and own-source tax revenues are allocated to SNGs.

GRANTS AND SUBSIDIES. SNGs receive both targeted transfers and subsidies, subject to change every three years. Earmarked transfers include the targeted investment transfer, dedicated to regional and local infrastructure and one-off expenditures (e.g. hosting a large international sporting event). Non-earmarked transfers serve to compensate for the difference in revenues in each region and are calculated based on the estimated number of budgeted services' 'customers' in the region, as well as objective regional factors. Discussions are ongoing in the short term about changing the methodology for calculating transfers and replacing the existing spending approach by a standard cost assessment method based on the provision of public services.

SNG grants also include funds coming from the equalisation of tax revenues between regions to reduce disparities. The equalisation process is assessed during the annual budget process based on each region's projected expenditures and revenues, and on estimates derived from historical trends and inflation. When expenditure exceeds revenues, additional funds (subsidies) are allocated to the national budget, and then reallocated to regions in deficit. Conversely, in the case of a surplus, regions are subject to withdrawals, retaining only the amounts they need in order to finance their expected expenditure. Not surprisingly, the number of regions with a surplus is declining.

Overall, the share of capital grants within total SNG grants is decreasing, as capital grants accounted for 18.7% of transfers in 2016 and current grants, 81.3%, compared to respectively 28% and 72% in 2013.

OTHER REVENUES. In addition to grants, subsidies and tax revenues, oblasts can collect local administrative fees over which they have some leeway and charge for their services, such as pollution charges, groundwater resources and fees related to the natural landscape. They can also assess fines and penalties and benefit from property income (sale of capital assets, dividends from local public companies).

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**234**	**0.9%**	**5.6%**	**100%**
Financial debt*	234	0.9%	5.6%	100%

* Currency and deposits, loans and bonds

FISCAL RULES. Kazakhstan is taking important steps to decentralise budget management through 2017 amendments to the Law on Local Self-Government. The law foresee an independent budget and municipal property for local governments from January 2018 in rural communities with populations of more than 2 000, and in all local communities after 1 January 2020.

DEBT. SNGs are able to borrow through loans from the central government or from another SNG at a higher level (oblast) in order to cover fiscal deficits and finance investments. Quotas for annual local borrowing and total local debt are fixed annually by the Budget Law. In addition, the government set 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%). Total liabilities for SNGs remain very limited.

The two special-status 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 has allowed the 14 *oblasts* to issue bonds, under strict control of the Ministry of Finance (including the exact use of borrowed funds).

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: OECD
Last update: 02/ 2019

www.sng-wofi.org

Socio-economic indicators: World Bank // UNDP // UN Desa // ILO // Agency on Statistics of the Republic of Kazakhstan (KAZSTAT)
Fiscal data: IMF Government Finance Statistics // OECD (2018), Subnational Governments in OECD Countries: Key data (brochure and database)
Other sources of information: OECD (2019) Public-private partnerships review of Kazakhstan // OECD (2018) Reforming Kazakhstan: Progress, Challenges and Opportunities // OECD (2017) Territorial Review of Kazakhstan // World Bank (2017) Kazakhstan, enhancing the fiscal framework to support economic transformation, Public Finance Review // OECD (2017) Decentralisation and Multi-level Governance in Kazakhstan, OECD Public Governance Reviews // IMF (2017) Republic of Kazakhstan, Selected Issues // Bhuihyan S. (2013) Decentralisation and Local Governance in Kazakhstan // Hossain. Amagoh F. and Bhuiyan S. (2010) Public Sector Reform in the Republic of Kazakhstan.

KYRGYZSTAN

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: SOM (KGS)

POPULATION AND GEOGRAPHY

Area: 199 950 km^2
Population: 6.198 million inhabitants (2017), an increase of 1.6% per year (2010-2015)
Density: 31 inhabitants / km^2
Urban population: 36.1% of national population
Urban population growth: 2.5% (2017)
Capital city: Bishkek (16% of national population)

ECONOMIC DATA

GDP: 23.2 million (current PPP international dollars), i.e. 3 725 dollars per inhabitant (2017)
Real GDP growth: 4.6% (2017 vs 2016)
Unemployment rate: 6.9% (2017)
Foreign direct investment, net inflows (FDI): -107.2 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 29.9% of GDP (2017)
HDI: 0.672 (medium), rank 122 (2017)
Poverty rate: 1.5% (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Kyrgyzstan is a unitary country. Following the adoption of the 2010 Constitution, Kyrgyzstan's form of government was changed from presidential to parliamentary. Since 2007, the Supreme Council is the country's unicameral parliament. Following the 2010 constitutional referendum, the number of seats was increased to 120 and a limit was established that parties could not hold more than 65 seats in order to prevent power concentration. Membership of the Parliament is not regulated by regional or local representation criteria. Also as a result of the 2010 referendum, the President, who is directly elected, may only stay in office for one six-year term.

The Kyrgyz Republic was one of the first former Soviet countries to set forth a decentralization initiative. The Constitution recognizes local self-governance and the principle of its autonomy (Section VIII). Local self-governance is regulated by the 1991 Local Self-Governance Act that gave local councils (*keneshes*) the authority to oversee local executive bodies. In 1992, the 1991 Act was revised as the Local Self-Government and Local State Administration Act, which further reinforced *keneshes'* autonomy. In 1994, the system of local self-governments was introduced in the capital city of Bishkek. In 1996, the government adopted a decree establishing local governments (*aiyl okmotus*), and in 1999 a decree gave the local self-governments authority to hold budget hearings.

In 2002, the government adopted the National Strategy on Decentralization (2002–2010) and the parliament adopted a law allowing transfer of control over state property to local self-governments. In 2001, all localities adopted the principles of local self-government. The 1992 Local Self-Government and Local State Administration Act was modified in 2008 and 2011 to outline the operational and legal foundations of local self-governance, as well as the principles of interaction with the national level. The National Strategy for Administrative and Territorial Reform, adopted in 2012, initiated a process of systemic decentralization. To strengthen local self-government bodies and provide additional powers and resources to them, the central government plans to enlarge local self-government bodies through mergers. To date, no action has been undertaken in this regard and, following the 2012 reform, districts representative bodies were abolished.

In 2017 the Government highlighted the importance of regional development in the program "40 Steps to a New Era" stressing that citizens of the regions will receive an equal level of access to guaranteed social services, primarily in education and healthcare. In late 2018 the Program of development of local self-government for 2018-2023 was adopted. It includes inter alia the steps towards clear allocation of functions between levels of government and transparent fiscal equalization.

TERRITORIAL ORGANISATION

2016	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	453 rural communities *(aiyl okmotus)* and 17 "cities of district *(raion)* significance"	"cities of regional significance"	2 "cities of national importance" (Bishkek and Osh)	
	Average municipal size: 13 188 inhabitants			
	470	12	2	484

OVERALL DESCRIPTION. The parliamentary republic of Kyrgyzstan has three tiers of subnational government. In the current system of public administration of Kyrgyzstan, elected local governments exist at the municipal level in 453 rural communities and 17 cities of district (*raion*) significance; at the intermediate level in 12 cities of regional significance; and at the regional level in 2 cities of national significance, namely Kyrgyzstan's two largest cities: Bishkek (995 700 inhabitants) and Osh (281 200 inhabitants). At the sub-national level, there are two layers of deconcentrated national government units, namely districts (*raions*) and regions (*oblasttar*). The first direct elections of local self-government bodies were held in 2001. All self-government bodies have elected representative councils, while Chief executives are appointed by the Prime Minister in districts and regions. Local government elections take place every four years.

MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION. Local governments have an executive and a legislative body, respectively, the *ayil okmotu* and *ayil kenesh*. The elected members of the local council (*kenesh*) appoint the chief executives (upon proposal by the Prime Minister) of local self-government bodies in the 17 cities of district significance. Local budgets are subject to the approval of local *keneshes*. Mayors of rural communities are elected by the legislative body on a proposal by the chief executive (*akim*) of their respective districts. The law on Local Self-Governance promotes inter-municipal cooperation, but to date there is no specific regulation for such arrangements. In practice cases of inter-municipal cooperation were not found either.

INTERMEDIARY LEVEL. The intermediary level of government in Kyrgyzstan is comprised of 40 districts (*raions*), administered by government-appointed officials, and 12 cities of regional significance with self-governing, elected bodies.

REGIONS. The regional level in Kyrgyzstan comprises 7 regions (*oblasttar*) and the 2 cities of national significance (Bishkek and Osh). The 7 regions are managed by a governor appointed by the national government, while Bishkek and Osh both have self-governing, elected bodies.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Local self-governments' competences are established by the 2011 Local Self-Government and Local State Administration Act and are the same for all kinds of local self-government bodies. They include own responsibilities and responsibilities which can be delegated to local governments by the central government, either by law or bilateral agreements. The law provides a list of 25 own responsibilities, the major ones concerning the provision of drinking water, libraries, local roads, parks and green areas, street cleaning and lights, recreation and sports, and cemeteries. Delegated responsibilities include marriage regulation, birth and death registration, as well as provision and maintenance of educational and healthcare facilities. The 2011 Act does not clearly distribute functions and tasks among tiers of government, and some functions can be overlapping across levels of governance. The two deconcentrated layers of government, namely the 7 oblasttar and 40 raions do not have budgeting rights and functional responsibilities. They carry out only supervisory functions assigned to them by the national government.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONAL LEVEL	INTERMEDIATE LEVEL	MUNICIPAL LEVEL
1. General public services	Idem	Idem	Own: Administrative services; Local budget; Public buildings and facilities Delegated: Marriage; Birth; Notary; Particular taxes collection
2. Public order and safety	Idem	Idem	Own: Assistance to police forces; Domestic violence response
3. Economic affairs/transports	Idem	Idem	Own: Economic development; Local roads; Parking spaces; Urban transport; Student transport; Local tourism; Delegated: Veterinary and agriculture control
4. Environmental protection	Idem	Idem	Own: Parks and green areas; Street cleaning; Delegated: Environment protection
5. Housing and community amenities	Idem	Idem	Own: Distribution of drinking water; Water treatment and sewage facilities; Waste management; Cemeteries; Public lighting; Urban and land-use planning; Delegated: Heating provision
6. Health	Idem	Idem	Delegated: Facilities for hospitals and ambulances (management and maintenance)
7. Recreation, culture & religion	Idem	Idem	Own: Local libraries; Cultural events; Folk arts; Recreation areas; Local sports
8. Education	Idem	Idem	Delegated: Facilities for kindergartens and school buildings (management and maintenance)
9. Social protection	Idem	Idem	Own: Social care for children and youth; Support services for families Delegated: Support to low income families

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: cities under republican jurisdiction (Bishkek and Osh), districts (raions) under City of Bishkek, cities under regional *(oblast)* jurisdiction, cities under district (raion) jurisdiction and rural communities *(aiyl okmotu)*.	Other: IMF GFS	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. The 2003 Financial and Economic Principles of Local Self-Governance Act strengthened financial autonomy of local self-governments. Since 2014, Public Finance in Kyrgyzstan has been highly concentrated at the central government level, as regional and district budgets have been eliminated and integrated within the central government budget. In January 2017, the Budget Code and the Budgetary System replaced the Major Principles of Budget Rules in the regulation of intergovernmental fiscal relations and budgets at the national and local levels.

National legislation does not allow the central government to interfere in the budget decisions of local governments, although, de facto, local governments' revenues and expenditures depend significantly on the central government's general fiscal policy. According to law, the delegated responsibilities are to be followed by earmarked grants, yet they often do not cover necessary costs and local governments struggle to implement unfunded mandates. This results in underfunding of own responsibilities.

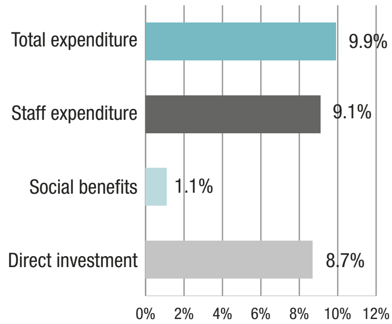
KYRGYZSTAN

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**131**	**3.7%**	**100%**
Inc. current expenditure	108	3.0%	82.0%
Staff expenditure	40	1.1%	30.4%
Intermediate consumption	45	1.3%	34.1%
Social expenditure	4	0.1%	2.8%
Subsidies and current transfers	19	0.5%	14.2%
Financial charges	0	0.0%	0.2%
Others	1	0.0%	0.4%
Incl. capital expenditure	24	0.7%	18.0%
Capital transfers		0.0%	0.0%
Direct investment (or GFCF)	24	0.7%	18.0%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



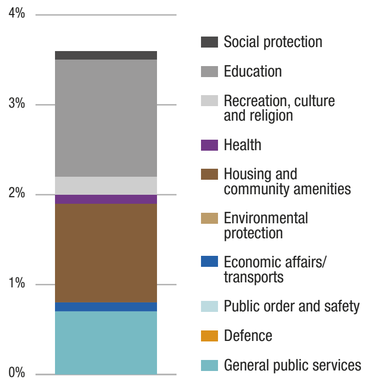
EXPENDITURE. After 2014, subnational expenditure levels fell due to the fact that districts and regions were deprived of budgetary rights and their spending started to be counted as national expenditures. As of FY 2016, SNG expenditure in Kyrgyzstan represented 9.9% of total public expenditure and 3.7% of GDP. 82% of total expenditure incurred at the subnational level is devoted to current expenditures, mainly for the provision of services and staff expenditures. The share of staff expenditures, which constitutes 30.4% of total subnational expenditure, is rather low compared to other Eurasian countries: staff expenditures account for more than 70% of subnational expenditures in Uzbekistan and about 60% in Tajikistan.

DIRECT INVESTMENT. The share of Local government investments corresponds to 8.7% of general government investments and 0.7% of GDP. At the subnational level, capital expenditures represent 18% of total expenditures, which is a quite significant figure compared to other Eurasian countries (only Kazakhstan and Tajikistan report higher figures). Local governments invest mostly in reconstruction and renovation of local social and common infrastructure. They also invest directly in the construction of school buildings and water-treatment facilities (their delegated functions).

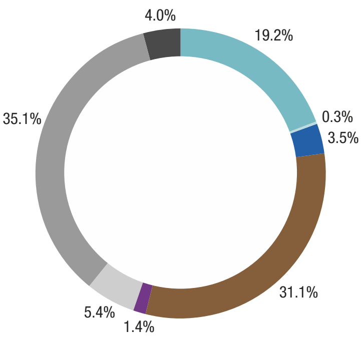
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Education is currently the largest expenditure line by economic function at 35% of subnational government spending. This is a delegated responsibility which includes only maintenance of kindergartens' and schools' premises. The second largest item of expenditure is housing and community amenities (at 31%). Local governments cover about 1/3 of costs on housing and community services, thus subsidizing 1/3 of tariffs for citizens. The third-largest item of expenditure includes general public services (at 19%). Each of the three categories account for approximately 17% of total public spending in the same category. Culture (at 5.4% of total subnational government spending) and social protection (at 4%) spending per capita is very low: respectively 7 and 5 dollars PPP per capita in 2016. Other expenditure items, such as environmental protection, have a negligible impact on subnational budgets.

% GDP



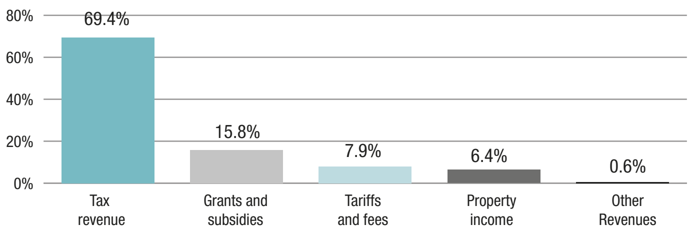
% SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**132**	**3.7%**	**11.1%**
Tax revenue	91	2.6%	13.1%
Grants and subsidies	21	0.6%	
Tariffs and fees	10	0.3%	
Property income	8	0.2%	
Other revenues	1	0.0%	

% SNG REVENUE



OVERALL DESCRIPTION. Local finance bodies are nominally independent but rather reliant on central government grants. Tax revenue is the most important source of income for local governments; corresponding to 13.1% of public tax revenue and 2.6% of GDP in FY 2016, and accounting for 69.4% of SNG total revenue. Tariffs, fees and property income play less important roles, accounting for only for 7.9% and 6.4% of total SNG revenues respectively while grants and subsidies accounted for 15.8%.

TAX REVENUE. Local taxes are established by the National Tax Code. Local taxes include land taxes and property taxes. The share of the property tax in particular is quite significant, making up 14.2% of total revenues and 20.5% of tax revenues. Shared taxes, regulated by the 2017 Budget Code, constitute a key source of local revenue. Particular shares of PIT, CIT and the sales tax assigned to each local government are defined by the central government in its yearly budget law. The PIT appeared to be the largest tax resource of local governments in FY 2016. It constituted 35.1% of tax revenues and 24.3% of total revenues, followed by the shares of sales tax, which comprises 24.7% of tax revenues and 17.1% of total revenues. The third category of sharing taxes is the CIT. Its share in tax revenues constitutes 19.8% and 13.8% in total revenues.

Local governments cannot introduce new taxes, but they can provide tax exemptions, such as exemption from property tax for up to 3 years in cases where the taxpayer has suffered material losses due to "force majeure", and exemption from property tax for a period of up to 5 years for newly created organizations in case they guarantee the turnover of more than 30 million soms (i.e. $0.2 PPP per inhabitant) per year. LGs also can grant full or partial exemption from land tax on agricultural land for a period of up to 3 years in cases where the land user suffered material losses due to "force majeure". All taxes for local governments are being collected by the National Tax Service.

GRANTS AND SUBSIDIES. According to the legislation, local governments are eligible for two kinds of grants: equalization and targeted grants. Targeted grants in turn can be provided as categorical grants and matching grants. There are also intergovernmental transfers called "mutual settlements" which are in fact the transfers in both directions to off-set or balance earlier transfers.

Equalization grants are aimed at balancing local expenditures and revenues. Since 2011, they are calculated based on the per-capita budget capacity of local governments. In case a local government's per capita fiscal resources exceed twice the average for all local governments, this local government has to transfer the difference to the central government.

Targeted transfers are aimed at funding the functions delegated from the central to the different levels of local governments; co-financing specific local responsibilities; and compensating additional spending mandates received from the central government. However, it seems like these grants are not being de facto provided, since they do not appear in central government budget allocations nor in budgetary reporting. Another kind of targeted transfers are so-called "stimulating grants", for which local governments apply on a competition basis to receive additional funds. These grants are used mainly for renovation of social infrastructure.

The Development Programme of the Kyrgyz Republic for the period 2018-2022 states that central government funds are to be diverted from fiscal equalization budget to specific development investment budgets in those regions which have a competitive advantage (i.e., drivers of growth).

OTHER REVENUES. Local non-tax revenues amount to 15% of subnational government revenue. It includes tariffs and fees (at 10 dollars PPP per capita) property income (8 dollars PPP per capita) and other revenue. Put together, they represent 0.5% of the GDP. Tariffs and fees include a list of land-use license fees, waste management fees, pasture lease fees, revenues from paid services, revenues from lotteries, parking fees, hunting fees, fines and penalties. Local governments property income includes profits from locally-owned enterprises and local property lease.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**290**	**0.0%**	**0.6%**	**100%**
Financial debt*	163	0.0%	0.4%	56.0%

* Currency and deposits, loans and bonds

FISCAL RULES. According to the Budget Code, local governments are subject to a balanced-budget rule and current expenditures cannot exceed revenues of the same fiscal year.

DEBT. Local governments are permitted to issue local securities and borrow from the central government for investment purposes. They are not allowed to issue guarantees on loans of third parties. Local government are allowed to borrow only in case debt repayment and debt service obligations do not exceed 20% of local annual revenues (excluding grants). All borrowing decisions must be approved by the local representative body *(kenesh)*.

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World Observatory on Subnational Government Finance and Investment

Lead responsible: UCLG
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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data: IMF (2018) - The Government Finance Statistic (GFS) // Kyrgyzstan National Statistical Committee – web portal // Kyrgyzstan National Statistical Committee. Social and Economic Position of Kyrgyzstan, monthly, January-December, 2018 // Kyrgyzstan National Statistical Committee (2016) Statistical Yearbook 2012-2016.
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REPUBLIC OF MOLDOVA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: MOLDOVAN LEU (MDL)

POPULATION AND GEOGRAPHY

Area: 33 850 km^2
Population: 3.550 million inhabitants (2017), a decrease of 0.1 % per year (2010-2015)
Density: 105 inhabitants / km^2
Urban population: 41.1% of national population (2017)
Urban population growth: 0.0% (2017 vs 2016)
Capital city: Chisinau (14.4% of national population)

ECONOMIC DATA

GDP: 20.2 billion (current PPP international dollars), i.e. 5 698 dollars per inhabitant (2017)
Real GDP growth: 4.5% (2017 vs 2016)
Unemployment rate: 4.1% (2017)
Foreign direct investment, net inflows (FDI): 160.8 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 22.4% of GDP (2017)
HDI: 0.700 (high), rank 112

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Constitution of 1994, established Moldova as a parliamentary republic. The Parliament consists of a single-chamber of 101 members elected by universal suffrage for four years. Since 2016, the President is directly elected by universal suffrage (previously, he was elected by the Parliament) to be the Head of State for four years. The Prime Minister is nominated by the President in consultation with the parliamentary majority.

Moldova is a unitary country. Decentralisation and local government's autonomy are enshrined in the 1994 Constitution (art. 109). According to Art. 110, the territory is divided into villages, towns, districts and the autonomous territorial-unit of Gagauzia. Forming a two-tier subnational system, with a regional and a local level. The two municipalities of Chisinau and Balti have competences at both local level and regional level.

The decentralisation process in Moldova has been uneven, with several phases of stop and go. In 1994, several changes to the Soviet-model system of administration were made, although the Soviet model of administrative-territorial units remained mostly unaltered. Subsequent to the adoption of the European Charter of Local Self-Administration in 1997 and wanting to conform with European Standards, a new territorial structure and division of resources and competencies were established in 1998, which followed the Romanian model. In December 2001, the newly-elected Communist government started another round of administrative-territorial reforms which took effect in the aftermath of the 2003 local elections. The reform restored a quasi-Soviet model of territorial division of authority, and local autonomy was significantly reduced.

Several laws were passed, such as the 2003 Law on Local Public Administration and the 2003 Law on local public finance (no. 397-XV, amended in 2013) and the Law on administrative decentralisation 435/2006. The most important law is the 2006 Law on Local Public Administration (no. 436-XVI, amended in 2012). It acts as a code for the local administration system and regulates the organisation of SNGs, their competences, their internal administration, the forms of control over their activities, their property and financial resources, and the forms of association and co-operation.

After a political crisis which lasted between 2009 and 2010, a new phase started and in 2012, Moldova launched a National Decentralisation Strategy and Action Plan for 2012-2015. In accordance with the European Chart of Local Self Governance (adopted by Moldova in 1997), the strategy and action plan aimed at addressing the fiscal, financial and management challenges, which resulted partly from the high-fragmentation of the first-level government units and partly from the insufficient institutional and administrative capacity. A pilot implementation started in 2014 and was expanded to the whole country in 2015. It is estimated that only 40% of reforms have been implemented. In early 2016, it was decided that the reform would extend until 2018.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	56 cities (orase) including 13 with municipality status *(municipii)* 869 communes or villages *(sate)*		32 districts *(raions)* 2 municipalities 1 autonomous territory	
	Average municipal size: 3 840 inhabitants			
	925		35	960

OVERALL DESCRIPTION. Moldova has a complex territorial organisation that results from a series of administrative-territorial reforms that took place between 1994 and 2002. The 2002 Law on the Territorial-Administrative Structure set up the current division of a regional and local levels. It is worth noting that there is one unrecognised territorial unit (Transnistria) that does not consider itself subject to the jurisdiction of Moldova.

REGIONAL LEVEL. The regional level consists of 32 districts (*raions*), two municipalities (*Municipii* of Chisinau and Balti) and one autonomous territory (*Gagauzia*). At district level, the governing body is the district council (*Counsiliul raional*) whose councillors are elected by universal suffrage for a term of four years. The district council elects a president (*presedinte*) for four years as well as an executive body called the district chair's office. The two special municipalities of Chisinau (the capital) and Balti have a dual status, municipal and regional, and carry out responsibilities of both levels. In addition, Chișinău has a special status as a capital city regulated by a new law adopted in 2016 replacing an outdated one: the law no. 136 on the Status of Chișinău Municipality. Chișinău is subdivided into five sectors. Besides the city itself, the municipality comprises 35 other suburban localities: six towns and 12 communes. Gagauzia is an autonomous region with a special statute. It has its own assembly, the Gagauzian people's assembly, which enjoys law-making powers within its own jurisdiction.

Gagauzia is also governed by a governor who is elected by direct universal suffrage for a period of four years. The Permanent executive power in Gagauz-Yeri is exercised by an executive committee.

MUNICIPAL LEVEL AND INTER-MUNICIPAL COOPERATION. The local level comprises two main types of local governments: 56 cities (*orase*) including 13 that have municipality status (*municipii*) and 869 communes or villages. Cities and communes can comprise localities that are not self-governing (there were 1 533 localities in 2018). There are 633 other villages, which are thus administratively part of either cities or communes. Towns are designated as "municipalities" on account of their special economic, socio-cultural, scientific and administrative significance to the country. The number of municipalities include Chișinău, Bălţi and Comrat. The governing body is the local council (*consiliu local*) made up of councillors elected via universal and direct elections for a four-year term and the mayor (*primar*), seconded by the mayor's office (*primarie*), who is also elected by direct universal suffrage for four years. In Chisinau, the mayor is called "mayor general". The localities that are part of the Capital city have their local city halls but are coordinated by the municipal council.
The Moldovan local system is very fragmented. The average size of municipalities is 3 840 inhabitants, versus 5 900 in the EU28. According to the Law on the Territorial-Administrative Structure, a municipality must have a minimum population size before it can form a local government (1 500). There is no policy promoting mergers but instead municipalities are encouraged to cooperate among themselves. Inter-municipal cooperation is regulated by the 2006 Law on administrative decentralisation. Local governments can cooperate on regulatory functions, community services (e.g. education and social services), public utilities and their infrastructure (e.g. water and sewerage), general administrative functions (human resources, local financial management, procurement, etc.). They may sign contracts and agreements, create joint, single- or multi-purpose functional enterprises, or create associative bodies with independent legal "personality", in the aim of enhancing integrated territorial cooperation.

STATE TERRITORIAL ADMINISTRATION. The central government has deconcentrated authorities subordinated to ministries whose functions are regulated by the 2016 Government Regulation no. 266. Following the adoption of the Law on Regional Development in the Republic of Moldova (2006), five development regions were set up. They do not represent administrative jurisdictions and are mostly used in the context of planning, evaluating and implementing regional development policies.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

SNG responsibilities are not laid out by the constitution, but they are identified in different laws, including law no. 436-XVI on Local Public Administration, law no. 435-XVI on Administrative Decentralisation and the Law on Public Finance. According to the law, all first-level local authorities have the same set of responsibilities, irrespective of their size, institutional, administrative or fiscal capacity. At the regional level, the only case of asymmetry in terms of functions is the "special autonomy" of Gagauzia. SNGs have two types of responsibilities: delegated and exclusive. In practice, the assignment of responsibilities between the regional and the local level is imprecise, as well as between SNGs and central government entities or state-owned enterprises. In particular, the delimitation of the competences among the first and second level authorities is unclear, contradictory, and in some cases even lacking. Besides inter-municipal cooperation, the Law on public-private partnerships, the Law on concessions and the Law on local public communal services provide the legal grounds for the establishment of PPPs or municipal enterprises.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONAL LEVEL	MUNICIPAL LEVEL
1. General public services	Internal administration; Coordination of local councils' activities	Internal administration; Local property management
2. Public order and safety		Fire protection
3. Economic affairs/transports	Regional roads; Regional public transport; Economic development support; Energy	Local roads; Local public transport; Local gas and heating distribution
4. Environmental protection	Protection of natural resources	Waste management; Sewerage systems
5. Housing and community amenities	Spatial planning	Urban and spatial planning; Water supply; Parks and green spaces; Cemeteries; Social housing; Public sanitation
6. Health		
7. Recreation, culture & religion	Sports; Youth programs; Theatres; TV stations; Libraries and other cultural institutions	Libraries; Museums and other cultural institutions; Local cultural programs; Sports
8. Education	Construction and maintenance of primary schools, gymnasiums, lyceums, after-school and other educational institutions, boarding schools; Remuneration of staff (including teachers)	Construction and maintenance of kindergartens
9. Social protection	Social protection and maintenance of social institutions	Housing construction and other facilities for socially vulnerable groups as well as for other population categories

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: one autonomous territorial unit, 32 raions, Chisinau and Balti, municipalities, cities, villages, and around 8 400 local government budgetary organisations.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. The most important laws related to SNG finance are law no. 397-XV on Local Public Finance of 16 October 2003; the Tax Code of the Republic of Moldova No. 1163 of 24 April 1997, law no. 847-XIII on the Budget System and Budgetary Process and the Local Public Administration Act of 2006. The Law on Public Administration stipulates that SNGs enjoy financial autonomy and can take the initiative on matters pertaining to local administration. However, despite a new local government finance system which came in force on 1 January 2015, based on the 2013 amendments to the 2003 Law on Local Public Finance, three key indicators of local autonomy (autonomv over local budget; control over local revenues; authority to determine local expenditures), show that budgetary processes in particular in Moldova is still centralised to a great extent.

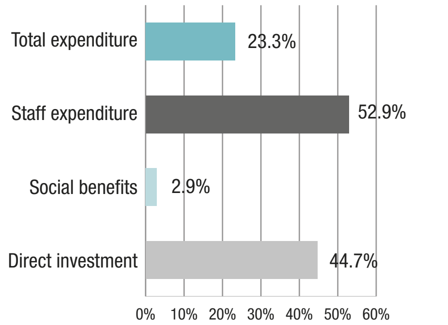
REPUBLIC OF MOLDOVA

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**447**	**8.4%**	**100%**
Inc. current expenditure	351	6.6%	78.4%
Staff expenditure	229	4.3%	51.3%
Intermediate consumption	81	1.5%	18.2%
Social expenditure	19	0.3%	4.2%
Subsidies and current transfers	19	0.4%	4.2%
Financial charges	3	0.0%	0.6%
Others	0	0.0%	0.0%
Incl. capital expenditure	97	1.8%	21.6%
Capital transfers	1	0.0%	0.2%
Direct investment (or GFCF)	96	1.8%	21.5%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)

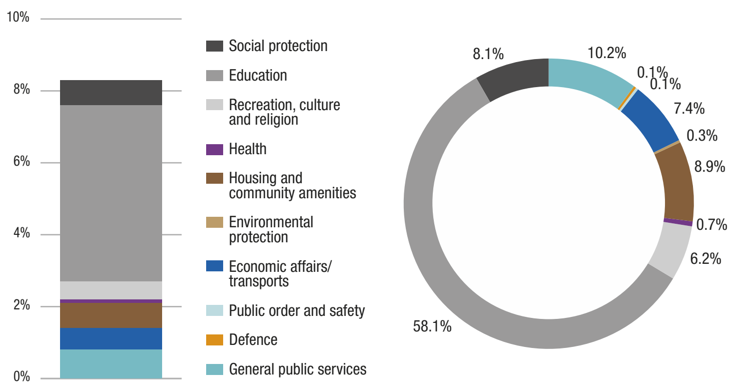


EXPENDITURE. SNG expenditure in Moldova as a share of GDP and public expenditure in 2016 are low, much below the EU28 averages (15.5% of GDP and 33.4% of public expenditure). SNG expenditure is mostly comprised of current expenditure (78.4% of their expenditure) of which 51% are related to staff expenditure. SNGs are important public employers: SNG staff spending accounted for 53% of total public staff spending (vs 50.9% in the EU28). In fact, execution of national education budget is mainly done through SNGs budgets (including salaries of educational staff), without decision-making power on these financial flows.

DIRECT INVESTMENT. SNGs are significant investors: 21.5% of their expenditure was dedicated to investment in 2016 (vs 8.7% in the EU28). In 2016, SNG investment accounted for a high share of the total public investment: 44.7% vs 50.9% in the EU28. Between 2008 and 2013, up to 78% of local capital expenditure was financed through fiscal transfers (budget fund) from the central government, and 5% from transfers from special funds (Social Fund, Ecological Fund, Energy Efficiency Fund).

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

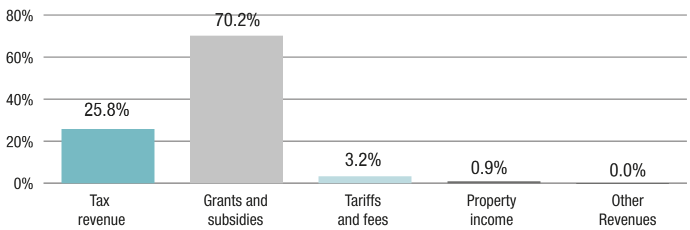
Education is by far the most important SNG budget item in Moldova, representing 58.1% of total SNG expenditure in 2016 and 44.3% of consolidated public expenditure in education. This reflects the responsibilities of the raions and municipalities in the construction and maintenance of educational facilities. Concerning staff and teachers salaries, SNGs have no control as salaries are determined by the central government. With the recently-implemented school financing reform, half of the expenditures at the local level are carried out by the second-tier level (raions). Raion governments accounted for two-thirds of SNG expenditure on education in 2013 (compared with less than 10% in 2012). Three other sectors account for the same share of SNG spending: social protection, housing and community amenities and economic affairs/transports. Expenditure on social benefits are also mostly carried by the raions. In this area, SNGs have little decision-making power over social policies.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**477**	**8.9%**	**26.2%**
Tax revenue	123	2.3%	10.6%
Grants and subsidies	334	6.2%	
Tariffs and fees	15	0.3%	
Property income	4	0.1%	
Other revenues	0	0.0%	

% SNG REVENUE



OVERALL DESCRIPTION. Grants and subsidies represent the most important source of SNG revenue, accounting for a very large share of SNG revenue: 70.2% compared to 44.1% in the EU28. Consequently, the share of tax is limited (25.8% vs 41.1% in the EU28) while other sources of income, such as tariffs and fees and property income, account for a small portion of SNG revenue. The 2013 amendments to the Law on Local Public Finances, implemented from 2015, introduced changes to the allocation of transfers to local governments and local budget formulation. The principle of balancing local expenditures to a certain minimum level, established nationwide, was replaced with a new formula focusing on local fiscal capacity. Local government powers over taxes on economic activities (corporate income and wage taxes) have been removed.

TAX REVENUE. Despite the existing legal provisions, local government bodies continue to suffer from an insufficient tax base. SNG tax revenues represented only 2.3% of GDP in 2016 and 10.6% of public tax revenues, two ratios well below the EU28 (6.4% of GDP and 24.0% of public tax revenue). In addition to being limited, tax revenues are mainly shared, leaving few taxation power to SNGs since they have no power to regulate, manage or collect those taxes. Finally, while first-level local authorities can receive own-source taxes and fees, second-level authorities have no own-source taxes but can collect only fees. However, Gagauzia benefits 100% of revenues generated on its territory by wage, income, VAT and excise taxes.

Changes in the Law on Local Public Finance in 2013 modified tax sharing arrangements. Until 2014, a percentage of both the personal income tax (PIT) and corporate income tax (CIT) was allocated to SNGs. Now, the whole CIT goes to the state budget while the PIT in the territory of the administrative-territorial unit is redistributed, according to a share which differs: 20% of the PIT in the case of villages and cities that are capitals of the Raions, 75% for towns and cities with the status of municipality, 50% for Chisinau 45% for Balti. Revenues from PIT assigned to the SNG budget represented 1.3% of GDP, 58.3% of SNG tax revenue and 15% of total SNG revenue.

The main own-source tax is the recurrent tax on immovable property (land and buildings) which is paid by both individuals and legal persons. It is calculated from the estimated cadastral value of the property (however, only 20% of local assets have been registered with the Cadastre Agency). The rate is established according to the type of property. Local authorities can establish their rate within a minimum and a maximum established by the tax code. In general, local authorities set property tax rates at the minimum in villages and communes, while in cities the rates are slightly higher. In 2016, the property tax accounted for 5.9% of SNG tax revenue, 1.5% of SNG total revenue in and 0.1% of GDP, which was well below the OECD average (1.1% of GDP in 2016). If the recurrent tax on net wealth is added, taxes related to property would amount to 12% of SNG tax revenue. Other local taxes are an entrepreneurial patent, a tax on natural resources, the inheritance tax and miscellaneous taxes on goods and services, which amounted to 25% of SNG tax revenue in 2016.

GRANTS AND SUBSIDIES. SNGs can benefit from two types of financial transfers: general purpose transfers (*echilibrium*), financed from the Equalisation Fund and special purpose transfers, financed from the central budget. In 2016, around 13% of transfers were general purpose transfers while 87% were earmarked transfers. Overall, only 5.6% were capital grants, compared to 94.4% of current grants.

Fiscal equalisation mechanisms are in place in Moldova, and they ensure that mandatory and basic services are provided in all regions. General balance transfers are allocated according to equalisation formulas, stipulated in the Law on Local Public Finance, one for the regional level and the other for the local level. For the local level, allocation of funds is carried out in inverse proportion to the fiscal capacity per inhabitant multiplied by 1.3 and in direct proportion to the population and area. For the regions, transfers are calculated according to a formula where two indicators are used: the population and the district size.

Special transfers from the budget are revenues obtained by public institutions, under conditions approved by the regulatory acts. These transfers are allocated to SNG budgets for funding of education and the competences delegated to SNGs by the Parliament on the Government's proposal. In addition, there are different special funds, from which local authorities may receive specific grants such as the regional development fund, the environmental fund, the energy efficiency fund and the special fund for construction and maintenance of roads.

OTHER REVENUES. Tariffs and fees accounted for only 3.2% of SNG revenues in 2016, which is low compared with international standards (11.6% on average in EU28). Local fees can only be imposed, modified or cancelled exclusively by amending and supplementing the tax code. However, SNGs can collect multiple fees such as fees on natural resources, parking and parking lot fees, market, accommodation and resort fees, commercial and social services, solid waste removal, water distribution, advertising services and so on. SNGs also receive revenues from fines and penalties related to administrative sanctions. Revenues from property income (0.9% vs 1.2% in the EU28) include rents from the use of public assets, revenues from sale and privatisation of public property. Revenues collected from public property are mainly used to cover budget deficits when necessary.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**44**	**0.8%**	**2.3%**	**100%**
Financial debt*	44	0.8%	2.3%	100%

* Currency and deposits, loans and bonds

FISCAL RULES. Article 13 of-of the law on local public finance prohibits the approval and execution of local budgets with a deficit. The local authorities are obliged to take all necessary measures for maintaining budget balance. If revenue collected is lower than the approved amount, the respective representative and deliberative authority shall reduce the expenditure which includes the obligations and payments established for the year-end with a balanced budget by modifying the respective local budget. In a situation where budget balance is teetering, certain allocations can be blocked (except for payments to pay down the debt). Semi-annual reports are used to monitor the budget. They are prepared by the Finance Department of the local self-government.

DEBT. The Law on Local Public Finance (no. 397/2003, last amended in 2013) allows municipal borrowing for capital expenditure purposes ("Golden Rule") both domestically and abroad, including on the debt market. The law also enables local authorities to issue guarantees on borrowing to municipal enterprises. However, according to Law No. 419/2006 on Public-Sector Debt and Government Guarantees, local authorities are required to obtain the prior approval of the Ministry of Finance before borrowing long-term. There is also a cap on debt service, including repayment of principal and interest for existing debts (20% of annual municipal revenues). The total outstanding SNG debt was quite low in 2016, only 2.3 % of public debt and 0.8% of GDP, a level of debt well below the EU28 average (14.3% of GDP and 14.4% of public debt). It was entirely composed of loans in 2016, even though they are allow to tap the bond markets.

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Lead responsible: OECD
Last update: 02/ 2019

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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO // National Bureau of Statistics of the republic of Moldova.
Fiscal data: IMF Government Finance Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // OECD (2018): Key Data on Local and Regional Governments in the European Union **Other sources of information:** Council of Europe (2019) Local and regional democracy in the Republic of Moldova // NALAS (2018) Fiscal Decentralization Indicators for South-East Europe // Igor Munteanu (2017) Key Features of Local Self-Government in Moldova // Subgroup on Local Government and Public Administration reform of the Working Group 1 of the CSF EAP (2016) Update on Public Administration and Local Governments Reforms in Eastern Partnership Countries // CEMR (2016) Local and Regional Governments in Europe: Structures and Competences // Viorel Roscovan (2015) Local Finance Benchmarking in Moldova // Adrian Ionescu Sasa Drezgic, Iulian Rusu (2015) Report on the territorial administrative structure options for the Republic of Moldova // Iulian Rusu (2015) Mapping the obstacles to inter-municipal cooperation in Moldova.

RUSSIAN FEDERATION

FEDERAL COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME   LOCAL CURRENCY: RUSSIAN ROUBLE (RUB)

POPULATION AND GEOGRAPHY

Area: 17 098 250 km^2
Population: 144.495 million inhabitants (2017), an increase of 0.1% per year (2010-2015)
Density: 8 inhabitants / km^2
Urban population: 74.3% of national population (2017)
Urban population growth: 0.3% (2017 vs 2016)
Capital city: Moscow (8.6% of national population)

ECONOMIC DATA

GDP: 3 817.2 billion (current PPP international dollars), i.e. 26 418 dollars per inhabitant (2017)
Real GDP growth: 1.5% (2017 vs 2016)
Unemployment rate: 5.2% (2017)
Foreign direct investment, net inflows (FDI): 28 557 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 21.7% of GDP (2017)
HDI: 0.816 (Very High), rank 49

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

According to the Constitution, the Russian Federation is a democratic federative law-governed state with a republican form of government (Article 1). State power is exercised by the President of the Russian Federation, the Federal Assembly, the Government of the Russian Federation, and the courts of the Russian Federation (Article 11).

The President of the Russian Federation is the head of the State and is elected for six years by universal, equal and direct suffrage. The president appoints the Chairman of the government in agreement with the legislature. The Federal Assembly is the representative and legislative body of the federation. It consists of two chambers: the Council of the Federation and the State Duma. The Council of the Federation includes two representatives from each “subject” of the Russian Federation: one from the legislative and one from the executive body of state or regional authority (170 in total). Initially, these two delegates were the regional governor/president and parliamentary speaker in person. However, since 2000, they may not sit directly on the Council. Instead, one of the two delegates is appointed by the governor/president and the other elected by the regional parliament. The State Duma consists of 450 deputies who are elected for a five-year term. A representative may not be simultaneously a member of the Council of the Federation and a deputy of the State Duma. A deputy of the State Duma may not be a deputy of other representative bodies of state authority and local self-government.

The Federation consists of republics, territories, regions, cities of federal importance, and autonomous regions and areas. A republic has its own constitution and legislation. Territories, regions, cities of federal importance, autonomous regions and areas have their own charter and legislation. The differences in terms of actual power, prerogative or revenue sources between these different regional types are however small.

The basic legal principles regarding subnational governance can be found in the 1993 Constitution. It recognises and guarantees the principles of local self-government (Chapter 1, article 12) and delineates the roles and functions of local governments (Chapter 8). According to the constitution, local self-government bodies shall independently manage municipal property; form, adopt and implement the local budgets; introduce local taxes and dues; ensure public order; and also solve other issues of local importance. Since the early 1990s, significant reforms have been initiated with the aim of developing the local government structure in Russia. In 1995, a Federal Law underlining the general principles of local self-government in Russia was adopted. In 1998, Russia signed the European Charter of Local Self-Government. In 2003 a new Federal Law “On General Principles of Local Self-Government” was adopted to reform the local self-government organisation. In addition, legal provisions regarding lower-tier governments are contained in many other codes and legislative acts, including the civil code, the budget code and the tax code of the Federation. A municipal reform was carried out between 2003 and 2005, resulting in an increase in the number of municipalities from approximately 12 000 to more than 20 000 today. Direct election of governors was re-established in 2012, after being abolished in 2005. Although the structure varies across regions, local government bodies comprise a legislative body headed by a mayor or an appointed official.

In addition to the legal provisions, a number of governing structures and institutions have been established over the years, including the Council of Local Self-Government of the Russian Federation, a Board of Local Self-Government Leaders, as well as specialised units within the federal ministries and the presidency in charge of local government issues. Federal constituencies (states or regions) are responsible for the regulation of all aspects of local government within their respective jurisdictions. Their regulation of municipal and local affairs must take into account the local circumstances of specific settlements (urban, rural or intra-city), the population and its traditions, the economic, social and national development of specific territories. Thus far, each federal constituent or region has developed a separate framework concerning their local government system. Most constituencies have also enacted rules regarding the elections of local government bodies, forms of public participation in local and municipal services, as well as laws on official misconduct associated with the local authorities. In 2014 and 2015, amendments to Federal Law 13175 on Local Self-Government introduced the option for mayors to be elected by local councillors from among their own ranks, instead of directly by the population. This framework has slowly been adopted by several regions. Complaints regarding the abolition of direct mayoral elections have been directed to the Constitutional Court. The newly proposed legislation will, if adopted, enable governors to dismiss elected mayors for 'improper use' of regional funding transferred to local authorities – a measure which according to one expert could be used improperly. Economic and social disparities between and within regions continue to threaten national cohesion and the success of the federal economic model of Russia. The fiscal redistribution across and within regions has fallen short in reducing the revenue disparities despite numerous efforts through the government’s budget equalisation mechanisms.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	1 589 urban settlements 18 101 rural settlements 286 intra-city districts and territories	1 784 municipal districts (rayons) and 567 cities (city *okrugs*)	83 Subjects of the Federation	
	Average municipal size: inhabitants			
	19 976	**2 351**	**83**	**22 410**

OVERALL DESCRIPTION. Russia has a complex multi-tiered administrative structure, which is asymmetric. The regions include 21 republics, 46 provinces (*oblasts*), one autonomous *oblast*, nine "territories" (*Kraj*), four autonomous areas (*autonomy okrugs*), and two cities with federal status (Moscow and St. Petersburg) and have various degrees of autonomy. Cities of federal importance are defined as distinct regions despite being geographically enclaved in other regions. The four autonomous areas are large territories with, in general, a low population density that can be part of the other subjects (*oblasts*) while remaining subjects of the Russian Federation. Chukotka Autonomous District is an exception, as it is not part of any other subject.

Federal subjects have either one or two tiers of local government. For regions with two local government levels, the second tier was made up of 1 784 municipal districts and 567 cities as of January 2017. These administration divisions are similar to the boroughs. The third and the lower level comprises 1 589 urban and 18 101 rural settlements as well as 266 intra-city districts and territories in cities of federal importance. The urban settlements are the equivalent of cities in other countries and include an urban agglomeration. The least populated city in Russia, Chekalin, has only 1 000 inhabitants. An urban settlement does not necessarily differ from a rural one in area or population. The differences in the label are based on socio-economic characteristics that make urban settlements more economically independent from agriculture in comparison to rural ones. Most urban municipalities have a population of between 3 000 and 12 000. The intra-city entities are intermediate territorial and administrative subdivisions, depending on their characteristics and status, between the city and the rural commune (village or other).
Since 2000, there has also been a federal administration at territorial level. It is composed of nine federal districts (previously eight), each administered by an authorised representative of the President of the Russian Federation. The regional governments are grouped as such for monitoring purposes by the federal government. This authorised representative has no constitutional authority. In addition to the federal districts, federal subjects are also grouped into twelve economic regions exclusively for economic and statistical purposes and therefore differ from the federal districts, which are important from an administrative perspective.

The territorial structure of the Russian Federation has undergone several changes in recent decades. The majority of the former autonomous districts (*autonomous okrugs*) have ended their autonomy with their *oblast* or original *krai* by merging with them. In addition, some *oblasts* have increased their autonomy vis-à-vis the federation, merging into new *kraïs*, or even into an enlarged republic. The Federation encourages subjects to merge since many of them are no longer economically viable. Some of these mergers have already taken place under recent governments. Further mergers have been proposed by the federal authorities or the pro-Moscow factions in the federation. However, since 2008 none have been planned in the near future, although further changes can be expected in upcoming years. According to the constitution, changes in the boundaries of the territories where local government is administered shall be made in consultation with the population of the concerned territories. The process of forming a local government's territorial basis is developed within the framework of federal and regional legislation. The right of secession is however not provided for subjects of the Russian Federation.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The federal Constitution and the 2003 Federal Law 131-FZ on the General Principles of Local Self-Government define the main areas under the jurisdiction of the Federation, the regions (regional transport) as well as shared competencies (minority rights, environment, health, education, science, culture, labour law, social security, family law, and natural disasters).

According to the legal provisions, regions may also 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 including 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 by both the federation and the regions, which creates inconsistencies across layers. Yet, unfunded mandates remain one of the main challenges of the lower-tier governments in Russia. The amended law on the General Principles of Organisation of Local Self-government in the Russian Federation specifies that mandates should be funded by earmarked financing (via subsidies).

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONS	MUNICIPAL LEVEL
1. General public services	Internal administration; Public buildings and facilities	Internal administration; Administrative services (marriage, birth, etc.); Public buildings and facilities
2. Public order and safety	Regional firefighting services	Public order and safety
3. Economic affairs /transports	Regional planning; Labour law (shared competence); Regional roads; Railways; Airports; Ports; Inter-city transport; Pupils transport.	Local economic development; Local road; Local ports; Urban transport; Pupils transport; Urban traffic signs; employment

RUSSIAN FEDERATION

FEDERAL COUNTRY

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONS	MUNICIPAL LEVEL
4. Environmental protection	Environmental protection (shared competence); Natural disaster management (shared competence)	Environmental protection; Local energy; Waste; Park spaces
5. Housing and community amenities		Urban and land use planning; Urbanism; Construction/renovation of social housing
6. Health	Health (shared competence)	Primary healthcare facilities (medical centres); Hygiene
7. Recreation, culture & religion	Culture (shared competence); Regional museums; Cultural heritage	Sport facilities
8. Education	Education (shared competence)	Pre-school, primary, general and vocational education
9. Social protection	Minority rights (shared competence); Social security (shared competence); Family law (shared competence)	Social protection

SUBNATIONAL, STATE AND LOCAL GOVERNMENT FINANCE

Scope of fiscal data: regional institutions ("subjects") of the government of the Russian Federation and extra budgetary units of regional government); local governments and extrabudgetary local government units.	SNA 2008	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. The fiscal framework governing the subnational finance and taxes is primarily based on the Tax Code of Russia and the Budget Code. The Budget Code lays out the regions' taxation powers, determines tax-sharing between the different levels of government and the equalisation scheme. Intergovernmental regulations are subject to the budget reviews for every fiscal year.

Each federal subject is responsible for providing the financial and economic resources to the local government bodies. They must also establish prudential budgetary requirements for their respective jurisdictions, assign to municipalities a share of federal and regional tax revenues, carry out budget adjustments and ensure budget balance, provide guarantees of financial self-sufficiency of local governments, and transfer to local governments the financial resources necessary for the implementation of delegated government functions and own functions.

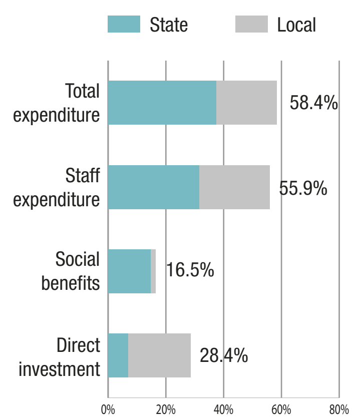
There are substantial economic and social disparities between and within regions, especially between those regions with and without natural resources. In some regions, economic problems are exacerbated by the financial difficulties of local governments to provide the basic services and a heavy dependence on federal subsidies, which remain low in comparison to the assigned duties of lower-tier governments.

Some of the major intergovernmental fiscal reforms that took place at the end of the 1990s and in the early 2000s aimed at clarifying revenue and expenditure assignments of SNGs in Russia, eliminating unfunded mandates, revising the mechanisms for federal transfers and establishing an equalisation formula-based system. However, intergovernmental fiscal relations remained in flux. In recent years, reports suggest that transfers and expenditure allocation among the tiers have changed frequently, which hampers medium- and long-term budgeting, investment and debt planning at the regional and local government level. Since the 1990's, there is an overall trend of stronger dependence on federal and regional resources and less on own resources.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.			% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT EXPENDITURE		
	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total expenditure	5541	3541	2000	22.0%	14.0%	7.9%	100%	100%	100%
Inc. current expenditure	5148	3356	1792	20.4%	13.3%	7.1%	92.9%	94.8%	89.6%
Staff expenditure	1294	729	565	5.1%	2.9%	2.2%	23.4%	20.6%	28.2%
Intermediate consumption	806	467	340	3.2%	1.9%	1.3%	14.6%	13.2%	17.0%
Social expenditure	517	457	59	2.0%	1.8%	0.2%	9.3%	12.9%	3.0%
Subsidies and current transfers	2485	1664	821	9.9%	6.6%	3.3%	44.8%	47.0%	41.0%
Financial charges	47	39	8	0.2%	0.2%	0.0%	0.8%	1.1%	0.4%
Others	0	0	0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Incl. capital expenditure	393	185	208	1.6%	0.7%	0.8%	7.1%	5.2%	10.4%
Capital transfers	140	124	16	0.6%	0.5%	0.1%	2.5%	3.5%	0.8%
Direct investment (or GFCF)	253	61	192	1.0%	0.2%	0.8%	4.6%	1.7%	9.6%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. SNG spending as a share of GDP (22%) or public spending (58.4%) is high compared to the OECD average for federal countries (19.2% of GDP and 50% of public spending in 2016). Many spending obligations are planned and imposed by the federal authorities as SNG governments act primarily as paying agents on behalf of the federal governments. SNGs are key employers with their staff expenditure accounting for more than half of total public staff expenditure. As described above, there is a significant overlap and sharing of responsibilities across government layers. Therefore, the ratios of local expenditure in subnational and public expenditure may not reflect their discretionary power over their budget.

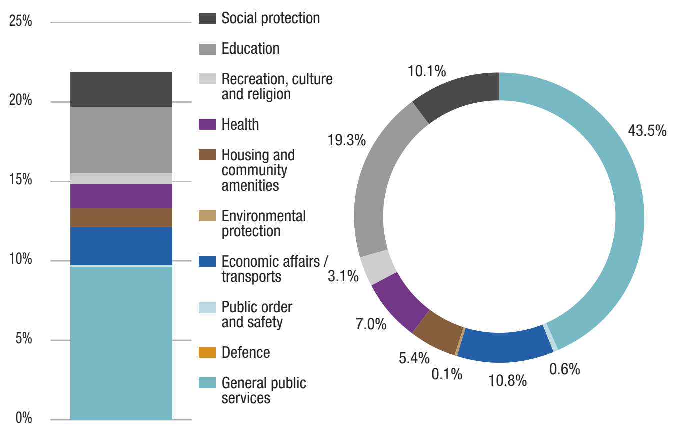
Regions represent 64% of total expenditure while local governments account for the remaining part (36%). They also account for 56% of total SNG staff spending.

DIRECT INVESTMENT. SNG investment significantly decreased between 2013 and 2016, from 44.9% of public investment to 28.4% in 2016 and from 2.2% of GDP to 1.0% in 2016. The share of SNG investment in SNG expenditure has also followed the same trend: from 8.7% in 2013 to 4.6% in 2016. These ratios are very much below the averages of OECD federations (63.2% of public investment, 9.2% of subnational government expenditure and 1.8% of GDP in 2016).

Local government units remained key investors, carrying out 76% of total SNG investment spending, 21.6% of public investment (i.e. 0.8% of GDP).

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

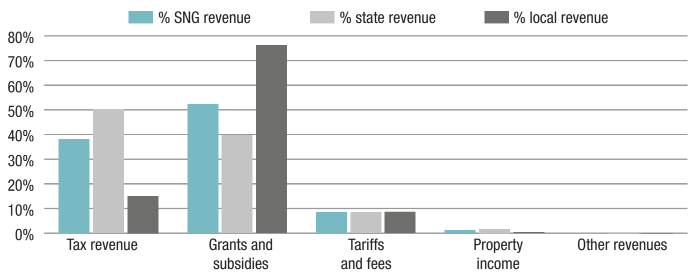
2016	% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT		
	SNG	State	Local	SNG	State	Local
Total expenditure	22.0%	14.0%	7.9%	100%	100%	100%
1. General public services	9.6%	5.3%	4.2%	43.5%	37.8%	53.6%
2. Defence	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
3. Security and public order	0.1%	0.1%	0.0%	0.6%	0.7%	0.4%
4. Economic affairs / transports	2.4%	1.9%	0.5%	10.8%	13.6%	5.8%
5. Environmental protection	0.0%	0.0%	0.0%	0.1%	0.2%	0.0%
6. Housing and community amenities	1.2%	0.7%	0.5%	5.4%	5.2%	5.9%
7. Health	1.5%	1.5%	0.0%	7.0%	10.9%	0.2%
8. Recreation, culture and religion	0.7%	0.4%	0.3%	3.1%	2.8%	3.7%
9. Education	4.2%	2.2%	2.1%	19.3%	15.5%	26.1%
10. Social protection	2.2%	1.9%	0.3%	10.1%	13.4%	4.2%



The primary area of SNG spending is general public services, followed by education, economic affairs/transport, social protection and health. More than 80% of SNG health (98.7%), environmental protection (87.7%), social protection (85%) and economic affairs (80.6%) are undertaken by the state governments. The primary area of local government spending is general public services (53.6% of LG expenditure), followed by education (26.1%); all other expenditure lines are under 10% for LGs. It must be noted however that LGs undertake 50.9% of total SNG defence expenditure (against 49.1% for the regional governments).

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	% GDP			% GENERAL GOVERNMENT (SAME REVENUE CATEGORY)		
	SNG	State	Local	SNG	State	Local
Total revenue	23.1%	15.2%	7.9%	100%	100%	100%
Tax revenue	8.8%	7.6%	1.2%	38.1%	50.1%	15.0%
Grants and subsidies	12.1%	6.0%	6.0%	52.3%	39.8%	76.2%
Tariffs and fees	2.0%	1.3%	0.7%	8.5%	8.4%	8.6%
Property income	0.3%	0.3%	0.0%	1.2%	1.7%	0.3%
Other revenues	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%



OVERALL DESCRIPTION. SNGs have limited revenue autonomy both at regional and local levels. SNGs remain dependent on federal or regional transfers, which accounted for more than 50% of their revenues in 2016, an increase of 5.5% since 2013 (to be compared to 31.5% in the OECD federations in 2016). The system of intergovernmental transfers is still under development. Reports, however, suggest that the regulation of federal transfers is less predictable, very complicated with numerous conditions that the regions must fulfil to gain access to federal financial support. The share of SNG tax revenue in SNG revenue, GDP and public tax revenue is lower than in many other federations. The federal government holds significant tax-setting authority, which limits the fiscal autonomy and financial self-sustainability of Russian SNGs. Other sources of own-revenues are limited.

RUSSIAN FEDERATION

FEDERAL COUNTRY

States' revenues in 2016 represent 65.7% of total SNG revenues and 41.5% of public revenue. Regions also account for the bulk of SNG tax revenue: 86.4% while local governments are funded mainly through grants. Yet, these ratios are primarily due to shared tax bases between the federal and regional governments. Tax proceeds at the regional level remain very volatile and are primarily driven by income from companies and by the national macroeconomic environment. Revenue volatility is lower for local governments (municipalities), as they mostly rely on financial transfers from the regional governments and stable personal income tax (PIT) proceeds.

TAX REVENUE. The regions' ability to set taxes is limited by the Budget Code (introduced in June 1998), which also determines tax-sharing between the different levels of government. The formal rules for assigning different tax bases to lower-tier government units do not necessarily reflect the fiscal autonomy of the regions. Differences in the capacity of tax administration and the disparities across regions in terms of potential revenues bases are some of the rationales that underline the centralised tax system in Russia. As a result, the federal government holds significant tax-setting authority.

Regions receive a share of federal taxes, the most important ones being the corporate income tax (CIT) and the personal income tax (PIT). Regions receive 90% of the CIT collected nationally (the other 10% is for the federal government) and 85% of the PIT. In 2016, the CIT and the PIT alone contributed up to 71% of regional tax revenues and 27% of total regional revenues. In 2009, the tax rate for CIT had been set at 20% (of which 18 percentage points go to the regional governments. The regional governments can reduce the rate by up to 4.5% points for groups of taxpayers.

Other essential tax instruments for the regions include the excise duties, and a natural extraction tax (NRET), especially for natural resource-rich regions. The tax rates for excise duties and natural resource extraction depend on the type of taxable goods and are set by the Tax Code. The Budget Code stipulates that regional governments receive 40%-100% of the proceeds from the excise tax and 60%-100% of the proceeds from the NRET. However, this excludes oil, the proceeds of which are assigned to the federal budget. The regional governments have limited rate-setting power over three regional taxes: the corporate property tax, the gambling tax and the transport tax. All other regional tax revenues (excise, NRET and various other taxes) amounted to only 11.1% of SNG tax revenues in 2016.

Despite these restrictions on regional tax autonomy, most SNG tax revenues benefit the regions. Local governments have few sources of tax revenue. Local governments' tax revenues accounted for only 15% of total revenues. The most important source is the PIT from which municipalities receive 15% of the total revenue collected on their territory. In 2016, PIT accounted for 9.5% of LG revenues, and 63.2% of LG tax revenues. Municipal taxes also include a property tax on individuals and a land tax. Urban districts and settlements have the authority to set the rates and base for both. Other municipal taxes are the agricultural tax, the imputed tax and the patents for individual entrepreneurs.

Overall, the recurrent taxes on property, levied by the regions and the municipalities, represented 1.2% of GDP in 2016, which is higher than the OECD average (1.1% of GDP). Regions received 80% of the total receipts (provided by the corporate property tax (i.e., 0.9% of GDP) while local governments received the remaining 20% (coming from the land tax and the property tax on individuals for 0.2% of GDP).

GRANTS AND SUBSIDIES. In the last decade, successive reforms have taken place to facilitate the financing of federally-mandated spending undertaken by SNGs, and to reduce the stark regional disparities across regions (10 of 83 regions produce more than 55% of Russia's GDP while they represent only one-third of the national population).

Regions and local governments receive grants, which are divided into four categories: Unconditional equalisation transfers; Balancing grants; Earmarked grants; and compensation payments. Unconditional equalisation transfers represent a large share of transfers to regions (30% in 2015); however, transfers have been declining since the late 2000s. These are formula-based and operationalised through the programme entitled Federal Funds for Financial Support of the Regions. They aim at providing the basic level of public services across the nation. Allocation criteria are also based on the assessment of revenue capacities and public service delivery costs. Local economic development, population density and infrastructure development, the major financial indicators of local companies, and the population are also considered significant aspects of the socio-economic environment. Balancing grants are discretionary grants aiming to support the regions that lack adequate resources through equalisation grants and therefore to reduce regional budget deficits. Earmarked grants include grants to finance federally-mandated spending and matching grants to stimulate specific regional expenditure or investments. 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. Since 1 January 2012, the proceeds from excise duties on petrol, oil and oil products, and the transport tax have been considered earmarked grants. The regional governments are obliged to establish a road fund, which is exclusively used for the financing of current and capital expenditure on public roads of the regions; these include the construction, maintenance and modernisation of the regional and inter-regional roads networks. A maximum of 20% of the fund can be used to repay previous federal budget loans that were taken out for road construction.

Fund allocation among the regions is set annually by the federal law on the federal budget for the respective financial year. The regional authorities also provide the financial means to the municipalities in the exercise of their functions. They can either provide grants or offer further tax-sharing arrangements for shared-federal and regional taxes beyond the arrangements set by the Budget Code. Grants covering delegated responsibilities are intended to finance any expenditure that the region has mandated to municipalities. These grants primarily finance the salaries of teachers in the municipalities' schools; they are also used to subsidise the utility bills of low-income citizens. Since 2014, the creation of a municipal road fund became mandatory for all municipal governments. The municipal road fund is comprised of transfers on petrol and oil transfers by the regional governments to their respective municipalities.

It is reported that the federal budget law for 2018-2020 forecasts a nominal decrease of total grants, after the presidential elections in 2018, by around 5%. So far, only a few regions are financially self-sufficient (mainly Moscow and St-Petersburg); the city of Moscow generally accounts for more than a quarter of local and regional government revenues. The least self-sufficient are Ingushetia and Chechnya, whose budgets are predominantly funded (more than 80%) by federal transfers.

OTHER REVENUES.

Tariffs and fees

Tariffs and fees are the third largest revenue source for both state and local governments. However the combined amount (local and state) of tariffs and fees as a proportion of SNG revenues remains relatively small (8.5%) compared to OECD standards (14.9%).

Property income

Property income sources include sales, rents and dividends. In 2016, property income accounted for only 1.2% of SNG revenue, which is on par with the European Union average.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.			% GDP			% GENERAL GOVERNMENT DEBT			% SNG DEBT		
	SNG	State	Local	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total outstanding debt	1 092	890	202	4.3%	3.5%	0.8%	26.5%	21.6%	4.9%	100%	100%	100%
Financial debt*	774	672	102	3.1%	2.7%	0.4%	27.8%	24.1%	3.7%	70.8%	75.4%	50.5%

* Currency and deposits, loans and bonds

FISCAL RULES. The Budget Code imposes various fiscal restrictions and requirements on SNGs, which are sanctioned in case of non-compliance (e.g reductions in transfers). Currently, the regions are not allowed to run budget deficits above 15% of their own revenue. Strict fiscal rules also apply to local government budgets.

DEBT. A federal law passed in 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 invest in 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, which can impose financial sanctions.

SNG debt accounted for 26.5% of total public debt and 4.3% of GDP, which is low compared to other federations (in the OECD federations, SNG accounted for 31.3% of GDP and 27.1% of public debt in 2016). SNG debt is very concentrated with, state governments holding 81.5% of total outstanding SNG debt. Just a few regions make up the bulk of debt stock, including the federal city and the region of Moscow. SNG debt is made up financial debt (70.8%) and other accounts payable (29.2%). SNG financial debt is composed mainly of loans (81.6%), and debt securities (18.4%). At state level, the outstanding debt was composed of financial debt (75%) and other accounts payable (25%). At local level, the share of accounts payable is significantly higher amounting to half of the debt stock, the financial debt accounting for the remainder. Loans make the bulk of the financial debt for the state (87%) while bonds accounted for 57% of local debt in 2016.

It is reported that the refinancing risks of SNG remain very high despite the federal government's plan to sustain debt restructuring of the subnational units. In 2015-2016, the federal government allocated around RUB 1 trillion to SNGs by providing budget loans for one-half of the regions' commercial debt repayments. To date, the bond market is primarily driven by borrowing decisions of those regions that have the largest budgets: Moscow, St. Petersburg, and Moscow *Oblast*.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: OECD
Last update: 02/ 2019

www.sng-wofi.org

Socio-economic indicators: World Bank // UNDP // UN Desa // ILO // Rosstat (2017) Russia in figures.
Fiscal data: IMF GFS // Ministry of Finance (2015) http://www.roskazna.ru/en/government-finance-statistics
Other sources of information: OECD (forthcoming) Fiscal federalism in the Russian Federation and its Asian regions by M. Alexeev and H. Blöchliger in Fiscal decentralisation and Inclusive Growth in Asia, // OECD S&P Market Intelligence (Jan. 2018) Russian LRGs' Smooth Ride May Be Over // European Parliament (2015) Russia's constitutional structure: Federal in form, unitary in function // Alexeev M. et al. (2015) Fiscal decentralization and budget discipline in Russia's regions // OECD (2015) OECD Territorial Reviews: The Krasnoyarsk Agglomeration, Russian Federation // Alexeev M. and Weber S. FitchRatings (2014) Institutional Framework for Russian Subnationals // OECD (2013) Russia: ModernisingThe Economy", "Better Policies" Series) Russian Fiscal Federalism: Impact of Political and Fiscal (De)centralization // Drobot E. (2012) Territorial Fundamentals of Local Self-governance in Russia: Basic Reform Concept.

TAJIKISTAN

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOW INCOME

LOCAL CURRENCY: SOMONI (TJS)

POPULATION AND GEOGRAPHY

Area: 141 380 km^2
Population: 8.920 million inhabitants (2017), an increase of 2.2% per year (2010-2015)
Density: 64.3 inhabitants / km^2
Urban population: 27 % of national population
Urban population growth: 2.6% (2017 vs 2016)
Capital city: Dushanbe (9.5% of national population)

ECONOMIC DATA

GDP: 28.5 billion (current PPP international dollars), i.e. 3 195 dollars per inhabitant (2017)
Real GDP growth: 7.6% (2017 vs 2016)
Unemployment rate: 10.9% (2017)
Foreign direct investment, net inflows (FDI): 107.3 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 30.7 (2016)
HDI: 0.650 (medium), rank 127 (2017)
Poverty rate: 4.8% (2015)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

According to the Constitution, adopted in 1994, Tajikistan is a republican unitary state with a presidential form of government. The National Parliament (*Majlisi Oli*) consists of two chambers, the lower chamber called the the Assembly of Representatives (*Majlisi namoyandagon*) and the upper chamber (*Majlisi Milli Majlisi Oli*). The lower chamber is composed of 33 members serving a five years' term, of which 25 are elected by the regional delegations including the centrally-governed cities and the capital city, and the eight remaining members are elected by the President. The upper-chamber is composed on 63 members of which 41 are elected via direct general elections and 22 via the proportional party list system with a five percent threshold for seat allocation. The latest legislative elections were held in 2015. The president is the head of state and government; and the same incumbent has held on to the post since 1992. By law, former presidents of the Republic are life-long members of the lower chamber.

After the end of the civil war (1992-1994), the Constitution (Chapter V to VI) established an asymmetric decentralized system of government within a unitary system, to check and balance the interests of regional elites. The imperative of national stability has marked institutional reforms and increased the centralization of governance. As a result, it may be argued that subnational governments are deconcentrated bodies rather than decentralized governments with adequate autonomy and under a legal framework protecting their prerogatives. The national multi-level governance framework operates under the concept of 'dual subordination'. This implies that, at subnational level, chairpersons and administrative bodies representing both the national government and elected subnational bodies might operate under dual allegiance: the national republic and/or local regional interest. This has direct impact on the territorial organization of the country. Relations between the national government, local state governments and local self-governments are regulated by specific legislation on the System of State Government, on Local State Governments, on the Status of the Republic of Tajikistan Capital City, on the Autonomous Gorno-Badakhshan Region and on the Mountain Regions. Both the locally-based representative bodies of the national government and the local self-government bodies serve a five-year term.

TERRITORIAL ORGANISATION

2016	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	369 local self-government bodies *(Jamoats)*	7 city (*shahr*) and 45 rural district (*dehot*) of regional subordination and 4 cities and 9 district of national subordination [equivalent to *nohiya* or rayons level]	2 regions' local state government of national subordination *(vilojati)* 1 Autonomous region 1 Capital city	
	Average municipal size: 19 000 inhabitants			
	369	65	4	438

OVERALL DESCRIPTION. The system of subnational governments in Tajikistan is asymmetric and can be grouped into three categories: local state governments of national subordination, local state governments of regional subordination and local self-governments. Under the 1995 Constitutional Law on Procedure of Administrative-Territorial Organization of the Republic of Tajikistan, the country is divided into two regions (*vilojati*), the Gorno-Badakhshan Autonomous region (Pamir Mountains) and the capital city of Dushanbe. All three are subdivided into seven cities (*shahr*) and 45 rural districts (*dehot*). In addition, 13 cities and districts are under direct national subordination, without intermediation of state governments. The first level of local self-government bodies (*Jamoat*), is either urban or rural, is defined in the Tajikistan Constitution of 1994 (Chapter VI) and the Law on Local Self-Government Bodies adopted in 2009.

STATE GOVERNMENTS have representative bodies elected by the citizens for a five-year term. Local state governments of regional subordination (*vilojati*) appoint the chairperson of the local executive body. These are in turn divided into 7 cities (*shahr*) and 45 districts (*dehot*) of regional subordination. Moreover, the Local state governments of national subordination are headed by chairpersons of executive bodies (*rais*) appointed by the central government. In size, they might be considered an intermediate level (PEFA 2017) while they have the same political significance as regions.

LOCAL SELF-GOVERNMENTS have elected councils directly by universal suffrage for a five-years term. The chairperson is elected by the council with the approval of the corresponding district or city government. The legal framework grants local self-governments with limited political and administrative autonomy. Furthermore, local self-government bodies are created within rural districts and play the role of deconcentrated territorial body. Local self-government bodies do not have budgeting rights. Their spending is reflected in the lines of the relevant district budget. Smaller villages (sub-municipal) are not self-governing. There is no inter-municipal cooperation in Tajikistan. According to this law, local self-government bodies can be elected by the citizens of small towns and villages. The members of local self-governments (from 15 to 40) elect the chair and the main decisions are taken by the council (from 7 to 14 members) which includes the Chair and other deputies.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Most of the competences of subnational governments are “joint responsibilities” of the central and local governments. Responsibilities between local state governments and their subordinate cities/districts (intermediate level) are not provided by the national legislation. Local self-governments’ responsibilities are established by the law on Local Self-Government (Article 10 to 13): economics and finances, the rule of law, public order, defense, as well as social protection, community amenities, and municipal services (including maintenance of roads, streets, squares, cultural entities, water supply sources, local markets, cemeteries, waste picking). Besides their own functions, jamoats perform a number of responsibilities delegated by the central government (Article 14): civil status registration, army recruitment, collection of statistical data, tax collection. However, these delegated responsibilities are not adequately funded. Moreover, a number of functions can be delegated to them by regional governments, in accordance with law or on the basis of a contracts.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONS	MUNICIPAL LEVEL
1. General public services	Public buildings and facilities	Own: Public buildings and facilities; Delegated: Marriage; Birth, notary; National statistics; Tax collection
2. Public order and safety	Firefighting services (jointly with the central government); Prevention and liquidation of natural disasters and accidents; Traffic lights and urban traffic signs	Assistance to state government in public order and safety
3. Economic affairs/transports	Regional, city and district roads; Intra- and inter-city transport; Agriculture and rural development	Support to municipal development
4. Environmental protection	Parks and green areas; Waste management; Street cleaning; Sewerage	Street cleaning
5. Housing and community amenities	Construction/renovation of public facilities (jointly with the central government); Public lighting; Urban and land use planning; Urbanism	Distribution of drinking water
6. Health	Hospitals; Primary healthcare (medical centres); Preventive healthcare	
7. Recreation, culture & religion	Regional and local museums; Cultural heritage; Sports; Libraries	Libraries
8. Education	Secondary and higher education; Pre-primary and primary education	
9. Social protection	Elderly and disabled people (benefits and services); Social care for children and youth; Support services for families (jointly with the central government)	Support to state government in reducing unemployment and registering of low-income families

SUBNATIONAL GOVERNMENT FINANCE

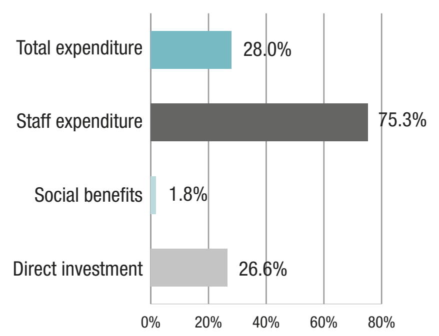
Scope of fiscal data: consolidated data for the two regions and Autonomous region and data for districts and cities of national subordination.	Ministry of Finance	Availability of fiscal data: **Low**	Quality/reliability of fiscal data : **Low**

GENERAL INTRODUCTION. The Constitution grants local state governments the powers to develop and implement their own budgets and to establish local fees, taxes and duties. While local budgets are adopted locally, in practice revenues and expenditures’ amounts are negotiated annually with the Ministry of Finance. Accounts are published yearly but are unaudited (PEFA 2017). Subnational governments’ finance is organized by the law on Public Finances of the Republic of Tajikistan (2011) and additional regulations on government functions. The legal framework determining spending responsibilities remains unclear.
There are no taxes assigned to local self-governments, their spending is negotiation with district government and appears as a line in the district budget. The State Treasury plans to open individual accounts for local self-governments to collect their revenues and execute expenditure independently.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**261**	**9.2%**	**100%**
Inc. current expenditure	198	7.0%	75.9%
Staff expenditure	154	5.4%	59.1%
Intermediate consumption	40	1.4%	15.3%
Social expenditure	2	0.1%	0.8%
Subsidies and current transfers	2	0.1%	0.6%
Financial charges	0	0.0%	0.0%
Others	0	0.0%	0.1%
Incl. capital expenditure	63		24.1%
Capital transfers	0	0.0%	0.0%
Direct investment (or GFCF)	63	2.2%	24.1%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



TAJIKISTAN

UNITARY COUNTRY

EXPENDITURE. SNG expenditure represents a share of 28% of total expenditure in Tajikistan, approximately 261 dollars PPP per capita. Per-capita expenditure varies considerably across SNGs. It is mostly concentrated in the capital city of Dushanbe, the autonomous republic of Gorno-Badakhshan (Pamir) and the city of Rogun, where a hydro-electric plant is under construction. The asymmetric structure of SNG in Tajikistan, moreover, makes comparison with other countries in the region harder.

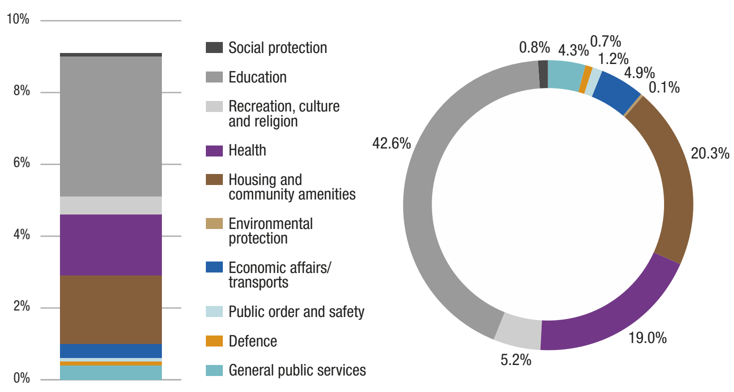
Both regional and local governments enjoy little spending autonomy. Based on the Constitution and the de facto dual subordination, subnational tiers tend to compete over spending powers. With regard to recurrent expenditures, the central government defines wage rates of government employees and the number of local public servants in each public institution. As a result, staff expenditure represents nearly 60% of SNG current expenditure, leaving limited funding for the purchase of goods and services. This is explained by the fact that most labor-intensive functions (healthcare and education) are performed by subnational governments.

In addition, capital expenditures have to be approved by the central government, so that specific funds are assigned to local budgets. Over the last three years the share of subnational governments' expenditure in total public expenditure has reduced from 30% to 28%. This is mainly due to significant investments by the central government in the construction of hydro-electric power plants of national relevance.

DIRECT INVESTMENT. All SNG investments are made from own funds assigned to them by the central government. The central government makes most direct investments in local social infrastructure (i.e., schools, hospitals,) and economic infrastructure (i.e., roads, irrigation systems and other public facilities). This is subject to negotiations between central governmental bodies and local authorities without clear criteria. Dushanbe has the largest percentage of population living in multi-family apartment buildings. The city is therefore investing heavily in communal services (water supply, sewerage, power lines). Moreover, as a capital city, it also invests in roads construction and maintenance, as well as in public recreation facilities. Dushanbe's capital expenditure is 27 times higher than the average of other regional governments. It should be noted that Dushanbe's 'own funds' for investment purposes also seem to be the subject of negotiations with the central government, as its revenues are collected from the shared national taxes which are established every year by the central government.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

% GDP | % SNG EXPENDITURE

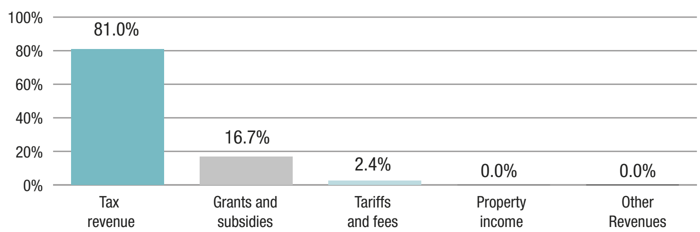


The level of general public services expenditure seems to be very low compared to that of other Eurasian countries. As mentioned, SNGs account for the bulk of education and health expenditures, which represent 68% and 82% of total public spending in corresponding categories, respectively. These expenditures include both compensation of employees and operational costs of relevant institutions. In comparison, most of other SNGs in Eurasian countries have limited, if any, responsibilities in these sectors. In 2010, the central government introduced per capita expenditures on secondary education. However, these funds are not transferred to local governments as earmarked transfers and are eventually reallocated to other necessities. Together with housing and community amenities (81% of public spending) these correspond to the main items of expenditure in SNG budgets. The capital city of Dushanbe spends about 80% of its budget on housing. This is primarily due to the fact that Dushanbe's budgetary revenues are significantly higher than those of other local state governments. This allows budget funds to be directed towards less important types of expenditures than those of social sectors. Moreover, the composition of Dushanbe's expenditures shows that housing and community amenities' expenditure cannot be explained only by the urban focus of the city government's tasks (construction, repair and demolition of the housing stock, subsidies to communal services providers, etc.). Almost a third of Dushanbe's expenditure is devoted to gardening and watering of green spaces (i.e., functions that other local governments cannot afford due to budget constraints). Culture and recreation (5.2%) and economic affairs and transport (4.9%) do not account for a significant share of SNG expenditures. This is partly due to the fact that wages of some SNG divisions (first of all of financial institutions) are paid directly by the central government.

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**257**	**9.1%**	**34.9%**
Tax revenue	208	7.3%	35.5%
Grants and subsidies	43	1.5%	
Tariffs and fees	6	0.2%	
Property income	0	0.0%	
Other revenues	0	0.0%	

% SNG REVENUE



OVERALL DESCRIPTION. Local state government's revenues are established by the Tax Code and the annual State Budget Acts. Tax revenues are the main source of revenue for subnational governments (over 80%). Conversely, non-tax revenues represent only 2.4% of SNG revenue. On average, grants and subsidies do not represent a significant portion of SNG revenue (16.7%). In 2017, a presidential decree was issued that assigned 50% of property tax and certain non-tax revenues to local self-governments, although this decree has not been enforced yet.

The current system of revenue allocation among the different levels of government makes SNG tax revenues unpredictable. Tax collection is centralized and carried out by the National Tax Committee, while the collection of property taxes from individuals and taxes from small businesses in rural areas is delegated to local self-governments. The revenue actually collected generally does not achieve set targets (especially on CIT and VAT taxes), thereby all SNGs are expected to reduce their expenditures or request additional subsidies from the central government. Should the revenues exceed the target, SNG would be requested by law to transfer 20% of the surplus to the central government.

According to the budgetary balance rules, no subnational government can have a current budgetary deficit. SNGs may forecast a total deficit not exceeding 2% of their tax and non-tax revenues. They may use it only for investment purposes.

TAX REVENUE. Local state governments collect two types of local taxes: real estate taxes (land tax and property tax), and tax on vehicles. All property taxes are collected at the regional level, representing an approximate 334 dollars per capita. However, they cannot set either the base or the rate of local taxes. Local taxes represent less than 10% of SNGs' total tax revenues. The remaining amount corresponds to the regional share of national taxes, including PIT, CIT, VAT, excise taxes, taxes on natural resources, small business tax and state duties and fines. PIT represents the single larger share of SNG tax revenue (52%) approximately 610 dollars PPP per capita. These figures must be read keeping in mind the asymmetries of territorial organization. In fact, the allocation of regional shares of national taxes appears to be the result of negotiations between central and local governments, since they differ from one SNG to another (and from one year to another for the same SNG). The central government is considering establishing shared tax rates as part of a three-year regional economic development agreement. These shares would be established and amended each year by the State Budget Act. Over the past three years, the central government has concentrated tax revenues in the central budget and reduced the regional share of national taxes.

GRANTS AND SUBSIDIES. The central government has recently set the objective of reducing subsidies to regions. For now, the legal framework (Law on Public Finance) provides SNG with two categories of grants: general purpose grants and earmarked grants. It was not possible to identify detailed data.

General purpose grants are allocated to local state and local self-governments without any formal procedure. For each SNG the grant appears to be the difference between "negotiated expenditures" and "negotiated revenues" (in accordance with previously "negotiated" tax transfer). Transfers from the central government to subnational governments are not determined by transparent mechanisms and there is no clearly defined allocation criteria.

Earmarked grants only started to be used in 2017. These grants are aimed to provide funding for salaries of civil servants and employees of government institutions. There are no grants for investment purposes.

Moreover, a number of international donors provide grants directly to SNGs. These are in-kind subsidies, not loans, and replace investments in equipment and construction. The value of these subsidies is not shown in budget reports.

OTHER REVENUES. Local state governments have the right to let their properties and receive rents. This non-tax revenue constitutes only a small share of SNG revenues (2.4%). Moreover, state and local governments are entitled to charge for services provided to citizens. However, there is no clear regulation on the list of paid services and their prices. Revenues from paid services are the property of the institution providing the service. Officially, the amount of these revenues represents a small share of local revenues. In practice, most of these revenues are still not officially registered. SNGs also collect fees for driving licenses, for the registration of motor vehicles, agricultural vehicles and inland waterway vessels; annual fees for driving licenses; fees for registration and sale of real estate; and fees for placing outdoor advertising.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES.

DEBT. Regarding the borrowing framework, subnational governments cannot subscribe loans (Article 5 of the Law on State and State Guaranteed Borrowing).

Socio-economic indicators: World Bank // UNDP // UN Desa // ILO
Fiscal data: IMF (2018) - The Government Finance Statistic (GFS) // Ministry of Finance (2018) Statistical Bulletin on the Execution of Municipal Budgets, January-December, 2017.
Other sources of information: Claire Gordon, Tomila Lankina (2016) The Place of Local and Regional Self-Government in Eastern Partnership Policy-Making and Delivery // OECD/UCLG (2016) Subnational governments around the world: structure and finance // Vusal Mirzayev (2015) Study mapping the obstacles to inter-municipal cooperation in Azerbaijan // Jos Wienen, Gudrun Mosler-Törnström (2013) Local and regional democracy in Azerbaijan // Rovshan Agayev et al. (2007) Strengthening Municipalities in Azerbaijan // Sabuhi Yusifov. Local Government Structure, functions and revenues in Azerbaijan.

UKRAINE

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: UKRAINIAN HRYVNIA (UAH)

POPULATION AND GEOGRAPHY

Area: 603 550 km^2
Population: 44.831 million inhabitants (2017), a decrease of 0.5% per year (201-2015)
Density: 74 inhabitants / km^2
Urban population: 69.2% of national population
Urban population growth: -0.3% (2017 vs 2016)
Capital city: Kiev (6.6% of national population)

ECONOMIC DATA

GDP: 368.8 billion (current PPP international dollars), i.e.8 667 dollars per inhabitant (2017)
Real GDP growth: 2.5% (2017 vs 2016)
Unemployment rate: 9.5% (2017)
Foreign direct investment, net inflows (FDI): 2 827 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 16.0% of GDP (2017)
HDI: 0.751 (high), rank 88 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Ukraine is a unitary republic with a semi-presidential system of government. The 1996 Constitution provides for a directly elected President, and an appointed Prime Minister, which both hold the executive power. Ukraine's highest body of executive power is the Cabinet of Ministers, accountable to the parliament. Legislative power is vested in a unicameral parliament (Verkhovna Rada), which consists of 450 deputies elected by universal suffrage, and is headed by a Chairman, elected from amongst the Parliament's members.

Ukraine has a complex three-tier system of subnational governments composed of regions (*oblast*), districts (*rayon*) and villages/settlements. The main general structure, fundamental rights, state organisation, territorial structure and provisions governing the exercise of power at the level of the territorial units were defined in the Constitution of 28 June 1996. These constitutional provisions still apply today. In particular, Article 7 of chapter I states that "local self-government is recognised and guaranteed". Chapter IX determines the territorial structure of Ukraine which is "based on the principles of unity and indivisibility of the state territory", the need for a "balanced socio-economic development of regions that takes into account their historical, economic, ecological, geographical and demographic characteristics, and ethnic and cultural traditions" and the "combination of centralisation and decentralisation in the exercise of state power". This explains why Ukraine has a two-pronged administration at territorial level that mixes state and local self-government in the same institutions. The decentralised system is entwined with central government authorities operating at the regional and district levels, where the central government appoints the executive bodies. Chapter XI is entirely dedicated to "local self-government" (articles 140 to 146), comprising political, organisational and financial provisions, specifying that more precise provisions will be determined by law. The 1997 Law "on Local Self-Government", amended in 2014, the 2009 Law "on Service in Local Government Bodies", the Tax code and the Budget code complement the legal framework for local government in Ukraine.

Ukraine has a long history of decentralisation reform, which has progressed in fits and starts since independence in 1991. Several draft laws have been adopted in 2003-2004 and again 2008-2009 strengthening local self-government but were finally rejected. Decentralisation strategies for Ukraine and white papers for local self-government reforms were also approved but they did not result in concrete changes.

Increased decentralisation with more powers and resources for local governments was, however, one of the key demands of Euromaidan and the Revolution of Dignity. Decentralisation was also a key measure included in the Minsk II ceasefire agreement, which was negotiated following the collapse of the September 2014 Minsk Protocol ceasefire. Therefore, rapidly, local government reform - within the framework of a new regional policy based on European principles - has become a top priority of the government's agenda.

As a result, the 2014-2015 period saw the rapid launch of decentralisation and regional policy reforms. The main legislative framework for decentralisation was defined in the Concept Framework of Reform of Local Self-Government and the Territorial Organisation of Power in Ukraine approved by the Cabinet of Ministers on 1 April 2014. The Concept Framework covers all three areas of decentralisation: political, administrative and fiscal. It also contains proposals for constitutional amendments that are still pending. However, given the lack of constitutional reform necessary to implement this Framework. It includes several decentralisation laws, which were introduced between 2014 and 2018 within the framework of the current Constitution, encompassing municipal amalgamations, inter-municipal cooperation, changes in the budget code towards greater fiscal decentralisation and measures aimed at promoting transparency, fairness and better organisation of existing procedures for local election of councillors.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	Local self-government *(Hromada)*: 665 Unified territorial communities 235 cities of *rayon* significance 9 411 rural councils 719 urban-type settlements	490 districts *(Rayon)* 186 cities with *oblast* significance	24 regions *(Oblasts)* 1 Autonomous Republic of Crimea (ARC) 2 cities of Kyiv and Sebastopol	
	Average municipal size: 4 064 inhabitants			
	11 030	676	27	11 733

OVERALL DESCRIPTION. Ukraine has a three-tier subnational government structure, made of regional entities, further divided into districts (*rayon*) in urban and rural areas and cities of regional importance, while the last tier consists of small cities, townships and settlements. There are also rural settlements with no local councils. At the regional and district levels, locally-elected authorities co-exist alongside local state administrations. On the other hand, leaders and councils at the municipal level are directly elected. There are no hierarchical or formal relations between self-government bodies in Ukraine, in contrast with the strictly hierarchical local state administration. However, in practice, lower-tier councils have traditionally been dependent on their *rayon* and *oblast* administration.

REGIONAL LEVEL. The regional level is composed of 24 regions (*oblasts*) along with the Autonomous Republic of Crimea and the two cities of Kyiv and Sevastopol. Two branches of power co-exist at the *oblast* level: elected regional councils, and regional deconcentrated state administrations, headed by governors appointed by the central level. Regional councils are headed by chairpersons, and are legislative councils without executive functions, which are performed by regional state administrations. The Capital City of Kyiv is an exception, as it has an elected mayor in addition to an executive body nominated by the President.
Economic disparities and territorial inequalities are considerable in Ukraine. Since 2010, disparities have been deepening between "growth clusters" from Central and Central-Western *oblasts*, the growth of the Kyiv metropolitan region, and the affluent industrial regions and the Donbass area, which fell into recession in 2012. As such, almost 60% of national growth over the 2004-14 period was generated by Kyiv city and Kyiv *oblast*, which together generated 28% of GDP in 2015. It is expected that the Kyiv agglomeration will continue driving economic growth for the country in the future.

INTERMEDIATE LEVEL. At the intermediate level, there are 490 districts and 186 cities of *oblast* significance. The number of districts per *oblast* vary from 11 to 27. The districts' governing structure mirrors regional-level arrangements: they are formed of both directly-elected district councils, and deconcentrated district state administrations. District self-governing councils are headed by chairpersons elected from amongst the councils. The 2014 Concept Framework enacted the creation of elected executive committees to support *rayon* council and replace the *rayon* state administration. This is still playing out. In contrast, bill no. 6636, which is currently being debated, aims to address the issue of transformation of *rayon* administration.
Cities of regional significance are the largest cities, with a population generally greater than 10 000 inhabitants. Eleven out of the 15 largest cities in Ukraine form part of an urban agglomeration, and 24 large cities (including Kyiv and Sebastopol) are further sub-divided into boroughs (*rayon v misti*) with their own self-governing bodies (borough councils).

MUNICIPAL LEVEL AND INTER-MUNICIPAL COOPERATION. The third and lowest level of SNGs is composed of small cities, villages and settlements, and boroughs, each with their own local governing bodies (*hromadas*). The main bodies of local self-government of cities are the city council, city mayor, and an executive committee. The city mayor and members of the city council are directly elected by universal suffrage every five years. Villages and settlements with fewer than 90 000 residents are headed by directors of territorial units, together with councillors, all of them elected through a first-past-the-post system.
In response to Ukraine's high degree of municipal fragmentation, two laws on voluntary municipal amalgamations (40. Law No. 157-VIII) and on inter-municipal cooperation (Law no. 1508-VII) of territorial communities were adopted successfully in 2015. Following the amalgamation law, more than 4 018 local self-governments have merged since 2015 to form more than 878 Unified Territorial Communities (UTCs) as of February 2019. However, amalgamations face limitations arising from eligibility criteria, and the lack of constitutional reform to support the process. In addition, this called into question the existence of *rayons*. In fact, as of October 2017, 14 *rayons* were in a situation where all *hromadas* within their jurisdiction had amalgamated.

Similarly, Inter-municipal cooperation has been gaining ground since the Law on cooperation of territorial communities. Indeed, the number of agreements rose from 43 in mid-2016 to over 80 by July 2017. Inter-municipal cooperation, which often precedes the amalgamation process, mainly covers the delivery of services such as waste management, and cooperation in "second-tier" services such as the Internet, administrative and finance functions.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Ukrainian SNG responsibilities are described in the Constitution and further detailed in the Law "on Local Self-Government in Ukraine" (Chapter 3, Articles 27-41), in the Law "on the Capital of Ukraine – the Hero City of Kyiv", as well as in the Budget Code and in a series of sectoral laws (Water Code, Land Code, etc.). A distinction is made between delegated competences (education, health, and social welfare) and exclusive competences. The central government is formally responsible for delegated functions and provides subordinate governments with targeted funds to carry out these tasks. SNGs have more autonomy in the management of exclusive functions (e.g. utilities, planning, housing, communal services, culture, etc.) but they are defined quite vaguely.

Ukraine's territorial structure is asymmetrical, with competences allocated differently for the same levels of local government, and the distribution of competences across levels of government is complex and unclear. The transfer of responsibilities to UTCs, created via voluntary amalgamations, has led to administrative imbalances with the *rayon* level. Together with certain categories of cities, UTCs are the only local government to be empowered to take planning and development decisions, to assume specific devolved responsibilities, and to negotiate their budgets with their corresponding *oblast*.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	SUBNATIONAL GOVERNMENTS
1. General public services	Internal administration; Licensing and registration; Management of municipal properties and enterprises
2. Public order and safety	
3. Economic affairs/transports	Construction and maintenance of local roads; Local transportation; Ensuring integrated social/economic and cultural development of the territory of the community
4. Environmental protection	Waste collection; Sanitation
5. Housing and community amenities	Planning; Local programmes for development of housing; Municipal utilities; Heating; Water management
6. Health	Outpatient clinics; Polyclinics; Hospitals; Maternity centres; Primary medical care centres; First and emergency aid stations
7. Recreation, culture & religion	Local libraries; Museums; Exhibitions; Theatres; Clubs; Philharmonics; Zoos; Sport schools for children and youth; Sport centres and facilities
8. Education	Preschool, general primary and secondary education, including specialised educational institutions; Extracurricular activities
9. Social protection	Support of children and low-income individuals

UKRAINE

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT FINANCE

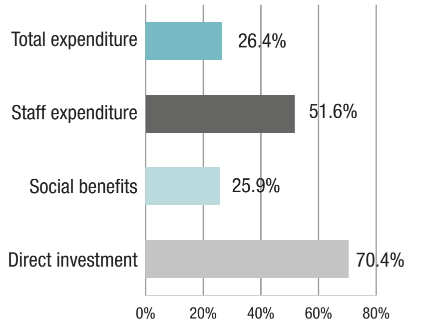
Scope of fiscal data: local governments units include regions, the Republic of Crimea, cities with special status (Kyiv and Sevastopol), municipalities, districts, settlements, villages, and united territorial communities with direct inter-budgetary relations with the state budget.	SNA 2008	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. In Ukraine, the subnational financing structure remains quite centralised, as a large share of subnational expenditure is executed on behalf of the central government. In accordance with the two Laws "on Co-operation of Territorial Communities" and "on Voluntary Consolidation of Territorial Communities", the changes to the State Budget Code realised in 2016 marked a trend toward further fiscal decentralisation. The aim was to facilitate local revenue mobilisation and budget negotiations between local governments and *oblast* administration for amalgamated communities. Whereas an analysis of SNG expenditure at the macro-level shows that the decentralisation process in Ukraine is rather weak, more radical changes have occurred at the micro-level, with a reallocation of spending mandates across SNGs, and with the growing fiscal importance of the Unified Territorial Communities (UTCs), which have their proper independent budget, and direct fiscal relations with the central government.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**1 149**	**14.6%**	**100%**
Inc. current expenditure	980	12.5%	85.3%
Staff expenditure	383	4.9%	33.3%
Intermediate consumption	204	2.6%	17.7%
Social expenditure	324	4.1%	28.2%
Subsidies and current transfers	69	0.9%	6.0%
Financial charges	1	0.0%	0.1%
Others	0	0.0%	0.0%
Incl. capital expenditure	169	2.1%	14.7%
Capital transfers	52	0.7%	4.5%
Direct investment (or GFCF)	117	1.5%	10.2%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)

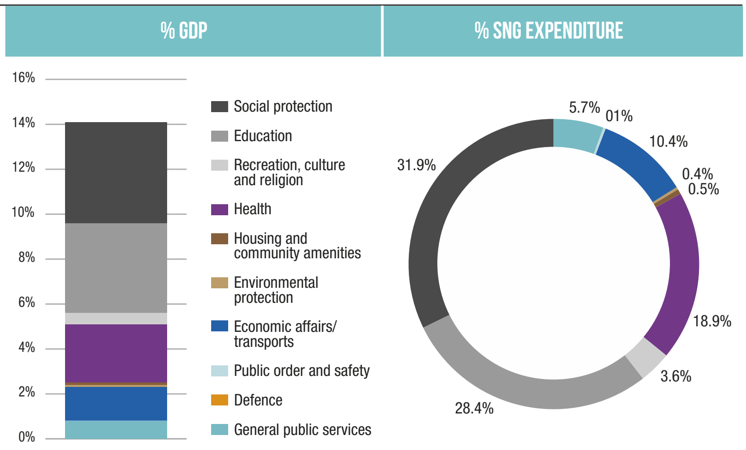


EXPENDITURE. On paper, Ukrainian SNGs are major social and economic actors: their spending decentralisation ratios place the country close to the OECD average concerning the spending-to-GDP ratio (14.6% vs 16.2% of GDP in the OECD) but below as a share of public expenditure (32.7% vs 40.4% in the OECD in 2016). However, approximately 78% of SNG spending is made on behalf of the central government, transiting through local budgets while SNG have little influence on the decision-making process. Similarly, SNGs are major public employers (they account for more than half of total public spending, above the OECD average for unitary countries of 43%). However the bulk of SNG staff expenditure is dedicated to the payment of wages of employees of delegated functions (mainly teachers, social and health staff), making SNGs paying agents, mere bystanders, on behalf of the central government. Regions accounted for 14% of SNG expenditure in 2016. The intermediary level, that of *rayons* and cities of regional importance, represented the largest share of subnational spending in 2016: 68%, and 78% if Kyiv city is included. The local level (cities of district importance, towns, villages and rural settlements) has a very low level of expenditure, representing 8% of the total.

DIRECT INVESTMENT. Ukrainian SNG investment represents a portion of SNG expenditure in line with international averages: 10.2% vs 10.7% on average in the OECD. The share of SNG investment in GDP is also slightly below the OECD average of 1.7% of GDP in 2016. However, SNG investment accounted for a significant share of total public investment, well above the OECD average (56.9% in 2016). This high level is partly explained by a low level of total public investment (2.2% of GDP in 2016), despite huge investment needs in infrastructure due to a long period of underinvestment, in particular regarding transport and municipal utilities (water and heating), and a lack of capacities in the management of public investment at both central and subnational levels. In response, a State Fund for Regional Development was established in 2013 for financing SNG investment programmes. The Fund receives annually 1% of the Central Budget General Fund, which is then redistributed to the regions, according to criteria based on population, GDP and development needs. In addition, two other development funds, the Subsidy for development of infrastructure and the Subsidy for social and economic territorial development, were also created for financing infrastructure projects, targeted at UTCs.

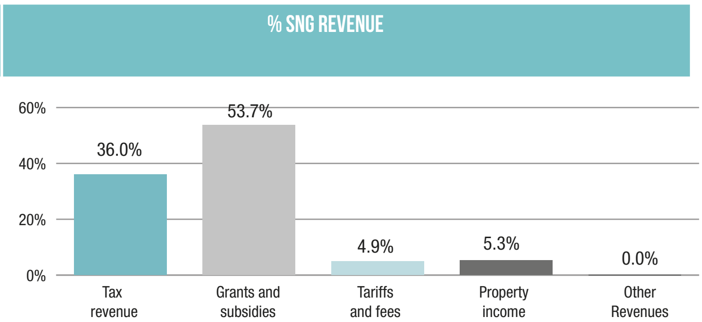
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Major categories of SNG spending include education, social protection and healthcare, SNG delegated functions which represent almost 80% of total SNG expenditure. In health (83.5%), in education (73.1%), as well as in the cultural sectors (70.7%), the bulk of public spending passes through SNG budgets. In the economic affairs/transport sector, more than half of public spending is also channelled through them for the construction and maintenance of local roads and local transport. Overall, SNGs have very limited room for manoeuvre in managing that expenditure since key elements are decided centrally by the relevant ministries.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**1 201**	**15.3%**	**39.7%**
Tax revenue	433	5.5%	21.9%
Grants and subsidies	645	8.2%	
Tariffs and fees	59	0.8%	
Property income	64	0.8%	
Other revenues	0	0.0%	



OVERALL DESCRIPTION. More than half of SNG revenue in Ukraine comes from central government transfers, well above the OECD average (37.2% of SNG revenue in 2016) and EU28 (44.1%) averages. On the other hand, the share of SNG tax revenue is limited, below the OECD and EU averages (respectively 44.6% and 41.1% of SNG revenue in 2016). These shares of transfers and tax revenue have evolved significantly over the last 15 years, and it is interesting to note that in 2001, grants accounted for 30% of SNG revenue and tax revenues for 62%. Currently, local governments in rural areas are the most dependent on central government transfers (up to 75% of SNG revenue), whereas In Kyiv, tax revenue accounted for close to 50% of total revenue in 2015. Overall, subnational revenue in Ukraine is quite centralised, and SNGs have control over only about 30% of their resources. Subnational budget is composed of two parts: a general fund, formed by the PIT, CPT, property tax, single tax, some non-tax receipts, that is dedicated to current expenditures; and a special fund, composed of non-tax revenues and capital grants, earmarked to capital expenditure, debt repayment, and an Environmental fund.

The decentralisation reform started in 2014 with the Budget and Tax Codes, which affected shared, own-source taxes and grants. It marked a significant development in the fiscal framework: SNG own-source revenues increased from about UAH 70 billion in 2014, to UAH 147 billion in 2016 and 193 billion in 2017. In 2019, it is expected to reach UAH 267 billion.

TAX REVENUE. SNG tax revenue accounted for 5.5% of GDP in 2016, below the OECD and EU28 average (respectively 7.1% and 6.4% of GDP). Most SNG tax revenues come from tax-sharing arrangements with the central government level, as defined in the Budget Code. SNGs have no power over the tax rates or base, and all the tax receipts are administered by the Ukraine State Fiscal Service. These arrangements have been significantly modified by the 2014 amendment to the Budget code.

Since the reform, the share of the PIT allocated to SNGs went from 100% (except for Kyiv), to 75%. The horizontal sharing of the PIT across SNG categories has also changed: Regions now receive 15%, the City of Kyiv 40%, Sevastopol 100%, and districts, cities of regional significance and UTCs receive 60%. In an effort to encourage mergers, shared tax revenues have been cut off, since 2015, to local communities that have not merged. As a result, the share of the PIT in SNG tax revenue has dropped from 79% in 2014 to 57% in 2016; yet, it still is the largest source of SNG tax revenue. Other shared taxes include the corporate profit tax (national CPT, of which 10% goes to *oblasts*, ARC and Kiev and ARC, and CPT from local enterprises for other SNG levels), environmental taxes and rents for the use of natural resources for SNGs of regional level.

In addition to shared taxes, SNGs are entitled to raise local taxes, namely the property tax, the single tax, the parking fee and the tourist tax. The property tax was reformed in 2015. It now encompasses three components: 1/ a land tax/rent (the main component, accounting for 93% of property tax receipts) 2/ a tax on "real estate tax other than land" (accounting for approximately 5.7% of property tax receipts) 3/ and a transport tax (1% of property tax receipts). The real estate tax, other than on land in particular is effective since 2015 under its new form. It is now paid by owners of residential real estate properties but also by owners of non-residential properties, both individuals and legal entities, including non-residents. Cities may impose tax rates based on the location (locations bands) and type of real estate property. Local authorities can also decide on exemptions and reduced rates. The property tax (excluding the transport component) accounted for 18% of SNG tax revenue, 6.5% of SNG revenue and 1% of GDP in 2016 (compared to 1.1% on average in OECD countries).

In addition, the single tax (or unified tax) is a local tax levied on entrepreneurs, small businesses and farmers registered as unified taxpayers (it accounted for 11.7% of SNG tax revenues in 2016). Finally, the parking fee and tourist tax are optional, and their rate is to be set by each SNG (they account for less than 1% of SNG tax revenues).

Since the 2014 reform, the power of SNGs over local taxes has increased, as they can set rates and grant exemptions, within certain limits set out in the Tax Code. However, they cannot create new taxes that are not listed in the Tax Code.

UKRAINE

UNITARY COUNTRY

GRANTS AND SUBSIDIES. Intergovernmental transfers are the primary source of Ukrainian SNG revenue. They are mostly earmarked to the financing of delegated functions and staff wages (education, social protection, and health). They comprise, in approximately equal proportions, earmarked transfers and equalisation grants. As of 2016, 2.9% of total grants were capital grants, and 97.1% were current grants.

The 2014 reform simplified the system of earmarked grants through the creation of new sectoral funds, funded directly from line ministries: the social protection grant (approximately 24% of transfers in 2016), the education grant (23%), the utilities grant (23%) and the health grant (23%). The fund allocation, which still has not been implemented, is expected to be based on service delivery standards.

A new system of equalisation transfers was also set up with the 2014 reform. It is mainly composed of basic and reverse grants. The basic grant consists of vertical transfers from the central government to local budgets; whereas the reverse grants consists of funds transferred from local to national budgets to ensure horizontal equalisation across territories. Based on a tax capacity index, local governments may either receive a basic grant (up to 80% of their needs), pay a reverse grant (up to 50% of their revenue surplus), or remain unaffected by the equalisation system (the City of Kyiv is excluded from the system). The index also serves for the calculation of the amount of the grant. In 2016, the basic grant accounted for 2.4% of total transfers, and 1.3% of SNG revenue. Overall, *rayons* are the main beneficiaries of the equalisation process.

OTHER REVENUES.

Tariffs and fees. SNGs receive administrative fees, including fees for registration of real estate ownership rights, registration of companies, registration of residence, passports, etc. They are increasing as SNGs are being allocated new administrative responsibilities. SNGs also receive revenue from the delivery of local public services. They have the power to establish some user charges and fees, but within the strict limits of the complex regulatory system. Overall, tariffs and fees represent 4.9% of SNG revenue in 2016, which remains well below the OECD average (14.9%).

Property income. SNG revenues from property are particularly high by international standards: 5.3% vs 2.0% in the OECD in 2016. They come primarily from property privatisation, and the sale and lease of lands, as well as dividends from municipal enterprises.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**40**	**0.5%**	**0.7%**	**100%**
Financial debt*	40	0.5%	0.7%	100%

* Currency and deposits, loans and bonds

FISCAL RULES. Fiscal rules for subnational government budgets in Ukraine are set by the Budget Code of Ukraine, which is supplemented every year by the law "on the State Budget of Ukraine". SNG fiscal rules are relatively loose and vary according to budget funds (general and special funds). The law allows for the transfer of funds exclusively from the general to the special fund.

DEBT. SNG borrowing framework is determined in the Budget Code and Resolution No. 110 of the Cabinet of Ministers "On Approving the Regulation on Local Borrowings Implementation". SNGs can only access borrowing to fund investment projects ("Golden rule") and with the authorisation of the central government. Most SNG loans are contracted with the national treasury. Cities with more than 300 000 inhabitants also have access to the national capital market within the limits of the law, and under the strict supervision of the central government. In 2016, Ukrainian SNG debt was low compared with OECD countries where SNG debt amounted to 24.5% of GDP and 20.7% of public debt. It was composed mainly of loans (99%), while debt securities accounted for barely 1% of the financial debt. In fact, Kyiv holds the bulk of SNG debt (40%). International financial institutions also contribute to the financing of municipal investments in Ukraine, primarily in the areas of infrastructure, transport, energy and water and waste management.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: OECD
Last update: 02/ 2019

www.sng-wofi.org

Socio-economic indicators: OECD // World Bank // UNDP // UN DESA // ILO // Ukraine Statistical Yearbook 2017
Fiscal data: IMF GFS // State Fiscal Service of Ukraine.
Other sources of information: OECD (2018) Maintaining the Momentum of Decentralisation in Ukraine // Kompaniiets A. (2018) Decentralisation Projects in the Context of Resolving the Crisis in Ukraine, Gagra Institute // European Committee of the Regions (2017) Regional Development in Ukraine: Priority Actions in Terms of Decentralisation // World Bank (2017) Ukraine - Public finance review // Tony Levitas & Jasmina Djikic (2017) Caught Mid-Stream: "Decentralization," Local Government Finance Reform, and the Restructuring of Ukraine's Public Sector 2014 to 2016 // Council of Europe (2015) Promoting Local Democracy in Ukraine, Council of Europe Action Plan for Ukraine 2015-2017 // Aasland A., Lyska O. (2015) Local democracy in Ukrainian cities: civic participation and responsiveness of local authorities // Council of Europe (2013) Local and regional democracy in Ukraine // OECD (2013), Territorial review: Ukraine.

UZBEKISTAN

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: UZBEKISTANI SOM (UZS)

POPULATION AND GEOGRAPHY

Area: 447 400 km^2
Population: 32.387 million inhabitants (2017), an increase of 1.6 % per year (2010 - 2015)
Density: 72 inhabitants / km^2
Urban population: 50.6% of national population
Urban population growth: 1.5% (2017)
Capital city: Tashkent (7.6% of national population)

ECONOMIC DATA

GDP: 222.3 billion (current PPP international dollars), i.e. 6 865 dollars per inhabitant (2017)
Real GDP growth: 5.3% (2017 vs 2016)
Unemployment rate: 5.0% (2017)
Foreign direct investment, net inflows (FDI): 95.8 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 32.1% of GDP (2017)
HDI: 0.701 (high), rank 105 (2017)
Poverty rate: 62.1% (2003)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

According to the 1992 Constitution (with 2017 amendments), Uzbekistan is a unitary republic with a presidential form of government. The president is directly elected by universal suffrage for a five-year term. Since 2004, the Supreme Assembly (*Oliy Majlis*) constitutes the bicameral parliament, which is composed of the Senate and the Legislative Chamber. The Senate (upper chamber) is composed of 100 members. In total, 84 senators are indirectly elected by elected legislative bodies of cities, districts and regions. There are a total of 6 senators by regional jurisdiction, while the remaining 16 seats are appointed by the president. The Legislative Chamber (lower chamber) is composed of 150 members, of which 135 are elected via universal suffrage. Since the 2008 amendments to the electoral code, the remaining 15 seats are reserved to the Ecological Movement of Uzbekistan (EMU). The EMU, founded in 2008, is rather considered as a multi-stakeholder body comprised of non-governmental organizations than as a political party, mainly concerned with legislative efforts in solving the dire environmental situation in the country. This indirect electoral process is based on the designation of regional EMU delegates from all regions whom, in turn, elect the 15 representatives in the Legislative Chamber.

The system of local government is acknowledged in the 1992 Constitution and has been established according to the 1993 Law on Local Public Administration. It establishes a dual system of appointed local state administration and elected local governments. The office of the president of the Republic is the central piece of the governance framework and public administration with powers to appoint and dismiss the head of the regional state administration (namely, *governor* or *hokims*). Regional *hokims* are in charge of appointing the head districts' and cities' head of state administration. At all levels, the head of the *hokims* are the appointed chairperson of the elected local council. Local councils have a symbolic say in approving the nomination and receive a formal report from the local state administration of their respective jurisdiction. The central government, in coordination with the relevant head of local state government, appoints the heads of the agencies acting in the jurisdiction. This system is supplemented by a third level of "self-governing community" organizations (*mahallas*) established by the 1993 Law on Community Self-government (revised in 1999) for the purpose of resolving local issues. These mahallas are a reformed structure of the Soviet system and, in practice, are supporting the local state administration. All levels of subnational public administration are highly dependent on the central government.

The 2016 elections were an important milestone for the country, marked by the first change of president since 1992. In 2017, the President's Decree "on Approving the Concept of the Administrative Reform in the Republic of Uzbekistan" stated the need to strengthen the role of local self-governing bodies and increase the efficiency and effectiveness of their role in the system of public administration. The President called for the introduction of direct elections for regional and district hokims. In 2017, after the enactment of the Law on elections to district (city) Councils of people's representatives of Tashkent city, election were held for the new city council. This is the start of a governance reform programme, including a new Law on Local Self-Government. The draft Law is to be presented in 2019.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	Local assemblies *(mahallas)*	170 districts *(tumans)* 30 cities of regional significance 1 city of republican significance	12 regions *(wiloyats)* The Republic of Karakalpakstan The capital city of Tashkent	
		Average district size: 162 000 inhabitants		
		201	14	215

OVERALL DESCRIPTION. The subnational government structure follows a dual system of elected local councils and appointed local state governments organized in a three-tiered territorial structure. In 2018, there are 12 regions in addition to two territorial units with special status: the capital city of Tashkent and the Autonomous Republic of Karakalpakstan. The regions and the Autonomous Republic of Karakalpakstan are subdivided into 170 districts and 31 cities of regional and republican significance. The *mahallas* are the lowest level of administrative and territorial jurisdiction.

MAHALLAS. *Mahalla* assemblies are chaired by the local patriarch (*aksakal*) elected by the citizens' assembly for two-and-a-half-year term according to the regulations of the Law on the Elections of an Assembly Chair and his Advisors. According to a 1999 President's Decree *mahalla* can be established in villages (*kishlaks* or *auls*) inhabited by no less than 500 families. The territorial jurisdiction of each *mahalla* is established by the relative district chair (district *hokim*).

DISTRICTS AND CITIES. Each of these local state government units has a legislative local council (*kengash*) and an executive body. The local councils are elected for a five-year term by the residents of the respective jurisdictions via universal suffrage. Until recently, local councils have performed a rather formal role. According to article 99 of the Constitution, all local councils are headed by a *hokim*, who is also vested with the local executive powers. All *hokims* are appointed and dismissed by the chief executive of the upper tier of government. Districts are also in charge of overseeing lower territorial jurisdictions, namely 88 cities of district subordination, more than one thousand urban-type settlements and more than 11 thousand rural settlements. According to 2015 census, the largest cities are Samarkand (513 thousand inhabitants), Namangan (489 thousand inhabitants), Andizhan (413 thousand inhabitants) and Nukus (300 thousand inhabitants). Moreover, districts and cities are authorized to engage into inter-municipal cooperation. According to Article 4 of the Law on Local Public Administration, this can take a contractual form (i.e. joint ventures, business associations) to improve service delivery or perform common duties in the interest of a larger territory.

REGIONS. There are three types of regional governments. The regions (*wiloyats*) are the upper level of subnational government, in charge of overseeing the districts and cities of regional significance. They are headed by a *hokim*, appointed and dismissed by the President of the Republic.

Secondly, according to Article 6 of the Constitution, the capital city of Tashkent has a regional status. There are no specific regulation regarding such status and Tashkent follows a similar structure of government as regions. With the enactment of the Law on elections to district Kengashi of people's deputies of the city of Tashkent, the first elections for the *hokim* of the capital city were held in December 2017. Tashkent is further subdivided into eleven administrative districts. Each of them is headed by their own *hokim* and composed of several *mahallas*.

According to article 70 of the Constitution, the Republic of Karakalpakstan enjoys certain autonomy, established by its own Constitution, but remains part of the Republic of Uzbekistan. According to article 80 of the Karakalpak Constitution, the Supreme Council (*Zhokargy Kenes*) is the regional government body, headed by a chairperson indirectly elected by the members of the council. The Chairperson can serve for two consecutive mandates and is in charge of appointing and dismissing district and city *hokims* of the Republic, in coordination with the President of the Republic and approval of the respective local councils.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The responsibilities of the local state administration and the *mahalla* are respectively established by the 1993 Law on Local State Governments and the 1999 Law on Local Self-Governance of Citizens (revised in 2013). In addition, the competences of each level of state administration are established in the Budget Code, yet, there are overlaps in the assignment of responsibilities, resulting in unfunded mandates and a strong vertical power-sharing structure. The Law on Local Self-government bodies only vaguely refers to *mahalla*'s responsibilities and competences: *mahallas* approve local development plans aimed at complex development, landscaping and nature preservation; they also have the right to identify families in need of social subsidies. These are more generally identified and determined by the special earmarked funds to *mahallas* in each district or city budgets. The amount of this fund and specific lines of expenditures are subject to the approval by the *mahalla*.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONAL LEVEL	DISTRICT LEVEL	LOCAL LEVEL
1. General public services	Regional/city administration and operation of general services; Public buildings and facilities	District/city administration and operation of general services; Public buildings and facilities	Monitoring district works in the *mahalla*
2. Public order and safety	Recruitment for the army service		Management of citizens' voluntary contribution to fight disasters
3. Economic affairs/transports	Agriculture, irrigation and forestry; Subsidies to public transport companies	Veterinary services; Local roads	Approval of local development plans; Collection of statistical data on farmers' enterprises
4. Environmental protection	Parks & green areas	Parks & green areas; Waste management; Street cleaning	Approval of local nature preservation plans
5. Housing and community amenities	Housing renovation; Drinking water distribution; City improvement	Housing renovation; City and village improvement	Approval local landscaping plans; Management of voluntary works on community improvements
6. Health	General and specialized (incl. emergency) hospitals	Primary healthcare (medical centres); Preventive healthcare	
7. Recreation, culture & religion	Sports facilities and events; Recreation facilities; Cultural facilities and events	Sports facilities and events; Recreation facilities; Cultural facilities and events; Musical and arts schools for children	Management of cultural and sports events (shared with districts)
8. Education	Specialized secondary education (boarding schools); Afterschool centres; Orphanages	Pre-primary, primary and secondary education; Afterschool centres	
9. Social protection	Care to elderly and people with disabilities (benefits and services); Services support services and subsidies for low income families	Care people with disabilities (benefits and services)	Management of social subsidies; Management of district government social care programs for elderly citizens; Women's rights protection

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: autonomous Republic of Karakalpakstan, regions and the city of Tashkent (consolidated data).	SNA 2008	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Low**

UZBEKISTAN

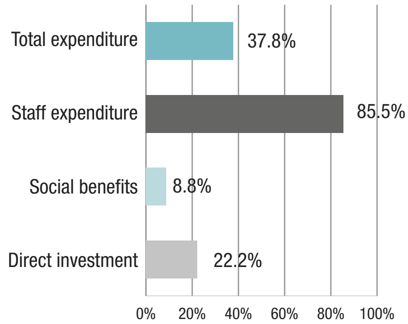
UNITARY COUNTRY

GENERAL INTRODUCTION. General rules for Local State Administrations and local councils budgeting are established by the national Budget Code. Since 2010, the country is engaged in a budget system reform to improve accountability and transparency. With the support of UNDP and the World Bank, a new public procurement system has been drafted and the legislative framework should be adapted. In 2016, *mahallas* were deprived of budgeting powers. SNG yearly budget plans are to be approved by relevant local council. Uzbekistan is one of the countries in the Eurasian region that has been the slowest to bring fiscal decentralization system in line with the international standards. Local state governments own and administer public properties assigned to them by the central government; they retain taxes and other revenues as indicated by national legislation; and they develop and execute their budgets with the approval of the central government.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**703**	**10.8%**	**100%**
Inc. current expenditure	658	10.1%	93.5%
Staff expenditure	541	8.3%	77.0%
Intermediate consumption	49	0.7%	6.9%
Social expenditure	49	0.8%	7.0%
Subsidies and current transfers	10	0.1%	1.4%
Financial charges	0.1	0.0%	0.0%
Others	9.0	0.1%	1.3%
Incl. capital expenditure	46	0.7%	6.5%
Capital transfers			
Direct investment (or GFCF)	46	0.7%	6.5%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



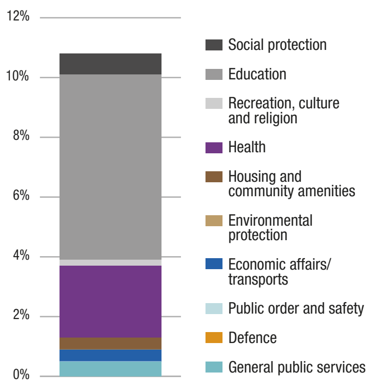
EXPENDITURE. In 2016, regional government expenditure accounts for 37.6% of the general governmental budget. This is relatively similar to the share of the other countries in the Eurasia region (i.e. Russia, Belarus and Kazakhstan). The highest share of regional current expenditure (at 77%) is allocated to staff wages, specifically teachers and doctors. This is accounted for by the fact that wage rates of public servants are mandated by the central government. However, the assigned expenditure does not match with adequate funds. In order to comply with the central government mandatory rates, regional governments allocate very low share to the remaining categories.

DIRECT INVESTMENT. Capital expenditures from local funds are rather low (at 6.5% of subnational government spending) as construction of infrastructure is mostly covered by the central government via several earmarked funds to specific investment purposes, such as Reconstruction and Development Fund; Roads Fund; Fund for Development of Educational and Health Infrastructure; Irrigation Fund; Ecological and Waste Management Fund; Fund for the Development of Aral Sea Region and the Drinking Water Fund. However, regional governments account for 22% of total capital spending. In addition, subnational tiers of government are often empowered by the central government to monitor and even manage the investment process within their jurisdictions.

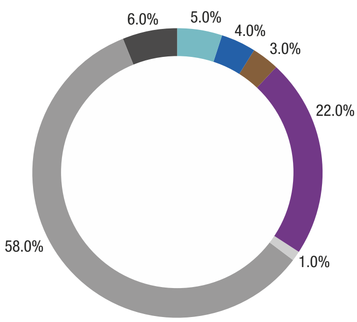
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Education appears to be the largest expenditure line (more than half of the total), followed by health (about a quarter). These functions are almost entirely (more than 80%) delegated to sub-national governments. General public service expenditure seems rather low (only 5% of total expenditures). One possible explanation is that sub-national executive bodies are territorial representations of the central government: public servants within these institutions are paid via the central budget.

% GDP



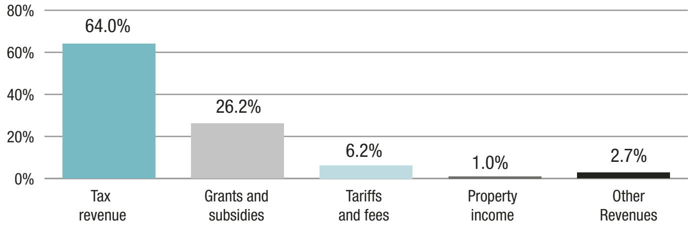
% SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**726**	**11.1%**	**33.2%**
Tax revenue	464	7.1%	29.2%
Grants and subsidies	190	2.9%	
Tariffs and fees	45	0.7%	
Property income	7	0.1%	
Other revenues	19	0.3%	

% SNG REVENUE



OVERALL DESCRIPTION. In Uzbekistan, tax revenue accounts for the largest share of subnational government revenue (at 64%), amounting to 7% of the GDP and 29% of general government revenue. While the National Tax Code does not define local taxes specifically, Article 52 of the Budget Code lists two types of taxes: “nationwide” and “local”. It also assigns particular taxes to central and regional governments. The latter include: shares of national taxes (set by the law on the national budget for the coming fiscal year); local taxes; non-tax revenues grants. Regional governments share their revenues with district/city governments at their own discretion.

TAX REVENUE. All taxes in Uzbekistan are being collected by the National Tax Committee. According to the Budget Code, subnational governments’ tax revenue is composed of shares of national taxes and locally raised tax revenue.

Shared taxes are viewed as a kind of a balancing transfer of revenues from central government. SNGs do not have the authority to change tax rates or the tax base of local taxes. Neither can they provide tax benefits on local taxes. The particular sharing rates of shared taxes vary from year to year and differ for different local governments. They are established by the law on the central government budget for the coming fiscal year. As a result of the sharing rates policy in 2016, the three main national taxes (PIT, CIT and VAT) respectively account each for around 13.8%, 12.4% and 13% of subnational government revenue and approximately 1.5% of the GDP. Other shared taxes include small business simplified tax, tax on imputed income, excises (5.1% of SNG revenue), natural resources tax, and water resources tax.
Local taxes are made up of gasoline tax, property tax, land tax and simplified land tax. The property tax gains a significant share of local tax revenues (18.5%) and local revenues (11.8%), which is one of the largest compared to the Euro-asian countries with similar scope of local government sector. It amounted to 1.3% of GDP in 2016, which is high by international comparison.

GRANTS AND SUBSIDIES. The Budget Code includes a special section on intergovernmental fiscal transfers. However, the adopted system of grants lacks transparency and formalization. The Budget Code divides grants into several categories: categorical grants, social transfers and current balancing grants. By law, shared taxes are included in grants, but accounted for as tax revenue. There is no capital grants provided to regional and local governments.

Categorical grants are allocated to provide funding for the corresponding devolved functions allocated to regional and local governments by the central government. Social transfers are allocated to pay teachers’ and doctors’ salaries. The non-spent categorical grants and social transfers are to be returned to the central government. Current balancing grants also serve to balance revenues and expenditures on top of shared tax revenues. They aim at fiscal equalization of local governments.
Mutual settlements represent the core of intergovernmental fiscal relations between levels of government in Uzbekistan. They appear to be the major tangible result of in-year negotiations between upper and lower levels of state administrations. The amount of each settlement is set at the discretion of the upper level of government and is used to compensate for changes in local spending assignments initiated by the central government within the fiscal year term. The mutual settlements may be transferred in both directions (from and to the central government).

OTHER REVENUES. Tariffs and fees, property income and other revenues account for 10% of subnational government revenue. They include revenue from the privatization of public property, stamp duties, fines and penalties. There is little if any autonomy of regional and district governments in influencing these revenues.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. Subnational governments are not permitted to run budget deficit. Their adopted revenues and expenditures for the next fiscal year have to be equal. They can increase their expenditures only in case their revenue collections exceed the forecasted amount adopted in the budget decree.

DEBT. Subnational governments cannot provide guarantees in favor of third parties or grant budget loans to non-governmental entities or individuals. SNGs can attract short-term loans from the upper level of government, to be repaid by the end of the fiscal year. They cannot borrow from anywhere else.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: UCLG
Last update: 02/ 2019

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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO // Uzbekistan National Statistical Committee.
Fiscal data: IMF GFS.
Other sources of information: Anthony Bowyer (2018) Political Reform in Mirziyoyev’s Uzbekistan: Elections, Political Parties and Civil Society - Central Asia-Caucasus Institute & Silk Road Studies Program // Rustam Urinboyev (2018) Local Government in Uzbekistan in Global Encyclopedia of Public Administration, Public Policy, and Governance // Akmal Saidov (2011) Country Profile: Uzbekistan UCLG – GOLD II: Local Government Finance the challenges of the 21st century // World bank (2018) Project Appraisal document for a Medium-Size cities integrated urban development project.

REPUBLIC OF ALBANIA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: ALBANIAN LEK (ALL)

POPULATION AND GEOGRAPHY

Area: 28 750 km^2
Population: 2.87 million inhabitants (2017), a decrease of 0.12% per year (2010-2015)
Density: 100 inhabitants / km^2
Urban population: 59.4% of national population (2017)
Urban population growth: 1.5% (2017)
Capital city: Tirana (16.6% of national population)

ECONOMIC DATA

GDP: 37.2 billion (current PPP international dollars), i.e. 12 943 dollars per inhabitant (2017)
Real GDP growth: 3.8% (2017 vs 2016)
Unemployment rate: 13.8% (2017)
Foreign direct investment, net inflows (FDI): 1 022 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 25.22% of GDP (2017)
HDI: 0.785 (high), rank 68 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The 1998 constitution, amended on 13 January 2007, established the Republic of Albania as a unitary parliamentary republic. The unicameral Parliament, "The National Assembly", consists of 140 deputies and is responsible for the election of the President and the Prime Minister.

According to article 13 of the Constitution, the local government of Albania is "founded upon the basis of the principle of decentralization of power and is exercised according to the principle of local autonomy". In its Part Six on local government, (articles 108 to 115), the Constitution states that communes or municipalities and regions are the units of local government.

The deliberative body of the municipality is the municipal council while the executive power is represented by the mayor. Councillors and mayor are both elected by direct universal suffrage for a four-year term.

Regions are not full self-governing entities as they are not directly elected by universal suffrage but emanate from their constituent municipalities. However, they have their own budget and administration, although with limited responsibilities. Municipalities delegate members to the regional council in proportion to their population. Mayors are always members of the regional council. Other members are elected among the municipal councillors and the president of the regional council is elected by regional councillors.

Policy decision-making in the Republic of Albania remained highly centralised until the early 1990s. In 1992, a first phase of decentralisation was launched with the creation of "local government units" (LGUs), which were recognised in the 1998 constitution (see above). The second phase, from 1999 to 2003, went a step further, notably with the presentation of the National Strategy for Decentralisation and Local Autonomy in 1999, the ratification of the European Charter of Local Self- Government in 2000 and the adoption of a legislative package in 2000 that included the New Organic Law on Local Government no. 8652/2000, law no. 8654/2000 on the "Organisation and Functioning of the Municipality of Tirana" and law no. 8653/2000 on Administrative-Territorial Division.

Following its application for EU membership in 2011, the Republic of Albania launched new initiatives to further the decentralisation process, including the territorial reform and administrative reform in 2014 (law no. 115/2014 "On Administrative-Territorial Division of the Local Government Units in the Republic of Albania"), the National Crosscutting Strategy for Decentralisation and Local Governance (NCSDLG) 2015-2020 and the new law on Local Self-Governance no. 139/2015 which further details the duties and power of SNGs, granting them a more prominent role in the provision of public goods and services.

Finally, another step towards decentralisation was made in 2017 on the fiscal side. Until the adoption of the new law on local government finance no. 68/ 2017, the financial autonomy of SNGs remained limited and the historical underfunding of SNGs persisted, despite several laws adopted in 2001, 2002 and 2008, which increase SNG fiscal autonomy. This new law is the first-ever comprehensive Law on Local Government Finances bringing together all principles and procedures with regard to local government sources of revenues, expenditure management and related intergovernmental dialogue and consultation.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	61 municipalities *(bashkite)*		12 regions *(qarks)*	
	Average municipal size: 4 064 inhabitants			
	61		12	73

OVERALL DESCRIPTION. Albania has a two-tier subnational government structure, made up of 12 regions (*qarks*) and 61 municipalities (*bashkite*).

MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION. The 2014 territorial reform reduced the number of LGUs from 373 (308 communes and 65 municipalities) to 61 new municipalities. Communes do not exist anymore as subnational government. Average LGU size increased from 8 700 inhabitants to 47 150 today, with a median size of around 26 100 inhabitants. There are still large discrepancies among the new municipalities, from 3 290 inhabitants for the smallest to Tirana, which had 557 500 inhabitants in 2016. Municipalities can be divided into several administrative units (*administrative njësia*) that have traditional, historical, economic and social links, most of them being former communes. They comprise towns/cities (*qytete*) and villages (*fshatra*). Cities can be further subdivided into neighbourhoods (*lagje*). The 61 municipalities so far encompass 72 cities and 280 villages. Each administrative unit is part of the municipal administration and is directed by an *administrator*, appointed by the mayor. The capital city of Tirana has a special status defined by law no. 8654. While the city is subdivided into 24 administrative units with extended competences like other municipalities in the country, the administrative units are structured as large boroughs with access to municipal services. Despite the constitution, which grants LGUs the right to form unions and joint institutions with one another, "cross-local cooperation" is not widespread. There are only few examples in sectors such as solid waste management and economic development.

REGIONS. The 12 regions were created in 2000 while the previous districts were abolished. The average size of regions is 240 000 inhabitants but there are great variations among regions, the least populated amounting to 66 000 inhabitants (Gjirokastër) to Tirana region, which counts more than 860 000 inhabitants (i.e., 30% of the national population). Tirana region is followed by the three regions that each accounted for around 10% of the Albanian population in 2017. Despite this large difference between Tirana and the other regions, regional disparities are considered moderate. GDP per capita varies by a factor of 1 to 2 between Kukës and Tirana.

STATE TERRITORIAL ADMINISTRATION. Albania is administratively divided into 36 districts (*rrethe*) and 12 prefectures (*qark*). The prefectures are headed by the prefects who are appointed by the Council of Ministers. These structures are deconcentrated levels of the state with no real competences, except ensuring supervision of the local government activities' legitimacy on behalf of central government. In addition, there are regional/local directorates/offices of sector ministries.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

SNGs are attributed exclusive, shared and delegated competencies, which are carried out in coherence with the prevailing subsidiarity principle.

Regions have few competences compared to municipalities. Their main function is to coordinate and harmonise national policies with local governments, although they do not have hierarchical power over municipalities. The regions' exclusive functions consist of developing and implementing regional strategies and policies. Regions can also be called upon to provide services delegated by the central government as well as by municipalities according to an agreement between the parties.

Municipalities have exclusive and shared competencies mainly with the central government. Shared responsibilities are mostly in social services, healthcare and education. The 2015 TAR is expected to enhance SNG administrative and technical efficiency to deliver public services to their respective constituencies.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONS	MUNICIPALITIES
1. General public services	Regional administration	Municipal administration
2. Public order and safety		Public order and civil security (shared)
3. Economic affairs/transports	Regional development strategies and plans; Urban development of the region; Regional urban cadastre; Maintenance of the rural roads	Local economic development programs; Public markets; Tourism; Local roads; Urban public transport
4. Environmental protection		Public parks and green areas; Drainage system; Protection of environment (shared)
5. Housing and community amenities		Waste collection and treatment; Drinking water supply and sewerage; Public lighting; Urban heating; Street cleaning; Cemeteries; Social housing (shared); Urban planning
6. Health	Management of health central government funds	Primary healthcare and public health (shared); Oversight of healthcare centres
7. Recreation, culture & religion		Sports; Local museums; Preservation and development of cultural and historical sites
8. Education	Management of central government funds for the maintenance of higher education facilities	Pre-university education including pre-schools and nursing homes (shared) and primary education (teachers' salaries, construction and maintenance of schools)
9. Social protection	Management of the regional unit for protection of children's rights	Oversight of shelters and orphanages (shared); Family support social services centres (shared) ; Social assistance and poverty mitigation (shared)

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: since the 2015 reform, 61 municipalities and 12 councils of regions.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. SNGs in Albania are guaranteed financial autonomy through the constitution and other legal provisions, including law no. 9632/2006 on Local Taxes, law no. 9896/2008 on local governments' borrowing and the new law 68/2017 on local self-governance finance. This new law, adopted in April 2017, indicates that fiscal decentralisation remains an essential part of the reform agenda. It aims at giving SNGs more financial autonomy to cope with their tasks as public goods providers.

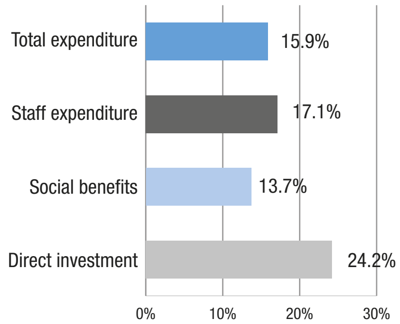
REPUBLIC OF ALBANIA

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**530**	**4.6%**	**100%**
Inc. current expenditure	387	3.4%	73.1%
Staff expenditure	132	1.1%	24.9%
Intermediate consumption	79	0.7%	14.9%
Social expenditure	160	1.4%	30.3%
Subsidies and current transfers	15	0.1%	2.9%
Financial charges	0	0.0%	0.1%
Others	0	0.0%	0.1%
Incl. capital expenditure	143	1.2%	26.9%
Capital transfers	0	0.0%	0.0%
Direct investment (or GFCF)	143	1.2%	26.9%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



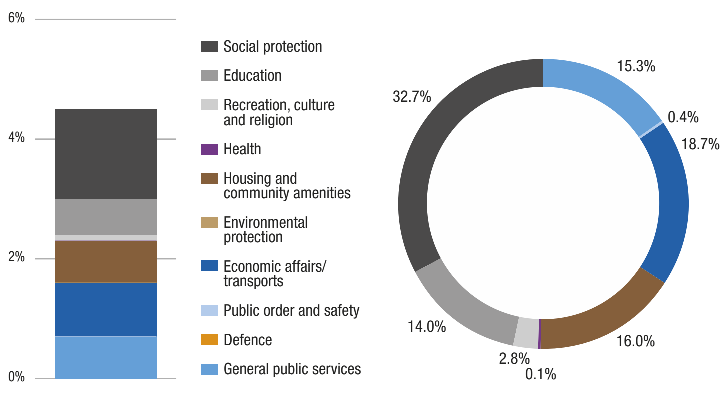
EXPENDITURE. In 2016, SNG expenditure ratios are slightly higher than in 2013 (15.9% of public expenditure and 4.6% of GDP in 2016 compared to respectively 14.6% and 4.1% of GDP in 2013), reflecting the ongoing decentralisation reform. They, however, remain significantly below the averages of EU countries (15.5% of GDP and 33.5% of public expenditure in 2017). Between 2013 and 2016, the composition of SNG total expenditure has also slightly changed, with a reduction in current expenditure and an increase in direct investment as a share of SNG expenditure. Staff expenditure has however increased significantly (+4.2 percentage points) resulting from the transfer of central government employees to local governments, as part of decentralisation reform. In 2016, SNG public employees accounted for around 9% of all employment in public administration.

DIRECT INVESTMENT. Investment is a key function of SNGs, representing close to 27% of their expenditure in 2016 – a ratio that has increased from 24.3% in 2013 and much higher than the EU average (8.7% in 2016). The increase in investment appears to be driven by a more pronounced involvement of SNGs in carrying out infrastructure-related projects, notably related to construction and rehabilitation of local roads and public spaces, as well as the reform of the water and sewage sector. Although investing is a key function of SNGs compared to management responsibilities, the weight of SNG investment in public investment remains low, particularly compared to the EU average (52% in 2016). The decentralisation strategy promotes the use of PPPs in the provision of social housing, with municipal governments as key actors in reaching these agreements.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

In 2016, social protection was the most significant expenditure item of SNGs in Albania, followed by "economic affairs", "housing and community amenities", "general public services" and "education". The remaining budget items each account for less than 3% of total SNG expenditure. The structure of SNG spending can be regarded as a reflection of the ongoing reform. The SNG education budget has doubled within three years, from 7% in 2013 to 14% in 2016. It must be noted that SNG spending on "housing and community amenities" represents 43% of total public spending in that category, indicating a substantial involvement of SNG in that area. With the decentralisation process, the role of SNGs in that category (reform in the water supply and sewerage sector) and transport, as well, (i.e. local roads) should increase. It is also expected that the local social service will gradually be further decentralised, and related competences transferred to the municipalities. Today, social services are a shared responsibility and municipal involvement in social protection is essentially that of an agent of the central government. The decentralisation strategy states that local governance shall have full administrative, service, investment and regulatory competences in this area.

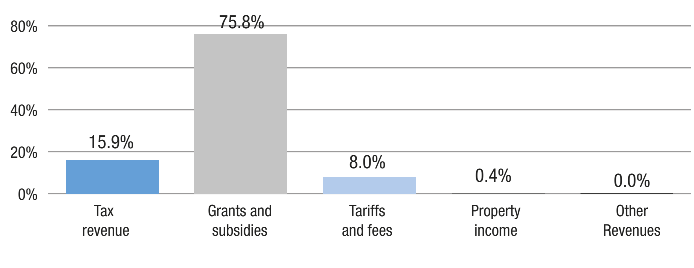
% GDP | % SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**540**	**4.7%**	**17.7%**
Tax revenue	86	0.7%	4.1%
Grants and subsidies	409	3.5%	
Tariffs and fees	43	0.4%	
Property income	2	0.0%	
Other revenues	0	0.0%	

% SNG REVENUE



OVERALL DESCRIPTION. Despite progress made in the last decade with regard to fiscal reform package, which increased the autonomy of municipalities to generate revenues from local taxes and fees, fiscal decentralisation did not improve during 2009-2013. SNGs remain heavily dependent upon top-down fiscal grants, which represented 76% of their total revenues in 2016 while tax revenues – including shared and own-source taxes – only stood for approximately 16%. These ratios contrast with the EU averages (44% for grants and subsidies, and 41% for tax revenues) and is an indication of strong fiscal vertical imbalances. Regions are not allowed to raise tax revenue and are almost exclusively financed through grants. The impact of the new 2017 law on local public finance is yet to be felt. However, it is expected that SNG discretion in setting the tax rate and base (depending on the type of tax) will be increased.

TAX REVENUE. While regions do not have access to an autonomous tax authority and do not, by law, benefit directly from a share of nationally-collected taxes, municipalities receive both shared and own-source taxes. However, municipal tax revenue accounted for only 4.1% of public tax revenue and 0.7% of GDP, to be compared to respectively 24% and 6.4% in the EU in 2017. Shared taxes include 18% of the motor vehicle tax, 97% of revenues from the property transaction tax, 25% of revenues from the used vehicle circulation tax, 5% of revenues from the mineral rent tax and 2% of the yield of the Personal Income Tax (PIT). Own-tax revenues include the tax on immovable property, the small business tax (SBT) and other minor local taxes. Property tax is the most important tax representing 43.4% of municipal tax revenue in 2016 (but only 6.9% of total SNG revenue). The level of property tax in GDP is particularly low: 0.3% vs 1.1% in the OECD on average. Municipalities have the possibility to increase or decrease by 30% the indicative level of the property tax for every applicable category of taxpayers. The small business tax accounted for a mere 6% of municipal tax revenue, and has been in sharp decline (it was the biggest tax revenue for municipalities several years ago). Other local taxes are a local infrastructure impact tax due to new building, a tax on billboards, a tax on donations, inheritances and testaments, and revenues from local lotteries. The different taxes on goods and services accounted for 51% of municipal taxes in 2016.

GRANTS AND SUBSIDIES. Central government transfers include unconditional and conditional grants. The concept of unconditional transfer was adopted in the State Budget Law of 2001 and developed further with the 2002 fiscal reform package. SNG grants consist mainly of current grants, which represent 81% of total SNG grants and 61.3% of SNG revenue. Unconditional grants are the largest share of SNG revenue. Municipal unconditional transfers are allocated through a formula published in the annual budget law and which include several variables (population size and density, the number of pupils in the pre-university education system, municipal fiscal capacity) as well as an equalisation threshold (horizontal equalisation). Regional unconditional transfers include quotas from the budgets of constituent municipalities (0-3% of annual budget) for the performance of shared and own functions. Conditional transfers are given for projects that are considered of local, regional or national interest. Regions receive conditional transfers for the performance of the functions and powers delegated by municipalities. A competitive grant scheme was introduced in 2006 as a mechanism to increase performance and objectivity in funding SNG investments. In 2010, this scheme was substituted by the Regional Development Fund (Fondi I Rajoneve) which operates as a vertical equalising instrument to manage conditional grants.

OTHER REVENUES. Municipalities and regions can collect fees and user charges for public services. The fees compensate for the cost of the service provided, and municipalities can only charge fees for services whose consumption is measurable and attributable to users or beneficiaries. The amount is determined by the SNG council unless stated otherwise by specific laws. The main fees and charges are related to the occupation of public space, waste collection and disposal, water supply and sewerage, irrigation and drainage, licenses and permissions and authorisations defined by laws. Overall, the weight of tariffs and fees in SNG revenues in Albania (8.0%) remain low by international standards (14.9% in the OECD and 11.6% in the EU28 in 2016). SNGs may raise revenues from the rental or lease of locally-owned assets. In addition, revenues from economic activity such as dividends to the SNG from publicly-owned but commercially-operated enterprises are also classified as property income.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**353**	**3.1%**	**3.7%**	**100%**
Financial debt*	212	1.8%	2.7%	60.0%

* Currency and deposits, loans and bonds

FISCAL RULES. National and subnational budgetary systems are governed by the same legal and regulatory framework. Municipalities and regional councils approve their own budgets, which are subject to a conformity/legality check by the Prefect. The annual budgets of SNGs have to be balanced, except where a loan has been approved for financing an investment project. The new 2017 law on local finances reinforces reporting requirements, tightens monitoring, and provides mechanisms for dealing with local governments that face financial difficulties.

DEBT. Law 9936/2008 on local government borrowing was adopted to remove the prohibition on local short-term and long-term borrowing with the objective of increasing SNG fiscal autonomy. However, borrowing remains strictly controlled by the central government. All borrowing has to be approved by the Minister of Finance. Short-term debt is authorised to finance cash flow budget deficits and limitations are defined in the law. Long-term debt is authorised to either finance capital investment serving an essential local government function ("Golden Rule") or to refinance outstanding long-term indebtedness previously issued to finance capital expenditure. Limits are the following: (i) the ratio of operational surplus of the previous fiscal year to the amount of debt should be at least 1.4:1; (ii) the ratio of debt stock to total operational revenues shall not be higher than 1.3:1; The maximum annual limit of debt service to the local government's average fiscal revenues of the last three years shall not exceed 20%. Besides these limitations, the total of short-term and long-term debt is subject to the national annual debt law, which implies that additional requirements and limitations can be imposed on SNGs in order to shore up the sustainability of public finances.

Total subnational financial outstanding debt remains low, and well below the EU average (1.8% of GDP vs 11.9% of GDP in the EU and 2.7% of public debt vs 14.6% in the EU in 2017). However, the share of SNG debt in GDP and public debt has increased in recent years, which could be explained by the needs of local governments to finance public investments and their new responsibilities. 60% of the total local outstanding debt is composed of loans while the remaining 40% are made up of "other accounts payable" (debt with suppliers and arrears, including VAT refund arrears).

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Lead responsible: OECD
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Socio-economic indicators: World Bank // UNDP Human Development report // UN Desa // ILO // Instat Albania (2017) Regional Statistical Yearbook, 2012-2016.
Fiscal data: IMF Government Finance statistics // OECD (2018) Subnational governments in OECD countries (brochure and database).
Other sources of information: USAID (2018) Decentralization Progress in Albania // Assembly of European Regions (2017) Regionalisation in Albania: a must for EU accession // Merkaj, Zhllima & Imami (2017) Fiscal Decentralization in Albania: Trends and Challenges at the Dawn of Territorial Reform // Ecorys (2017) Public Expenditure and Financial Accountability (PEFA) assessment of Tirana Municipality, Albania // Aurora Ndreu (2016) Local governance units as Public Manager in Albania // Totoni & Frasheri (2016) Regionalism in Albania (Assembly of European Regions) // Council of Europe (2015) Albania: Programmatic Co-operation Document 2015-2017 // Institute for Democracy and Mediation (2015) On drafting the National Crosscutting Strategy for Decentralization and Local Governance (2015-2020) // Ministry of State for Local Issues (2015) National Crosscutting Strategy for Decentralization and Local Governance (2015-2020).

AUSTRIA

FEDERAL COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: EURO (EUR)

POPULATION AND GEOGRAPHY

Area: 83 879 km^2
Population: 8.809 million inhabitants (2017), an increase of 0.6% per year (2010-2015)
Density: 105 inhabitants / km^2
Urban population: 58.1 % of national population
Urban population growth: 1.2% (2017 vs 2016)
Capital city: Vienna (21.6% of national population)

ECONOMIC DATA

GDP: 461.6 billion (current PPP international dollars), i.e. 52 398 dollars per inhabitant (2017)
Real GDP growth: 3.0 % (2017 vs 2016)
Unemployment rate: 5.5 % (2017)
Foreign direct investment, net inflows (FDI): 15 608 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 23.5 % of GDP (2017)
HDI: 0.908 (very high), rank 20 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Republic of Austria is a federal state and parliamentary democracy, composed of nine autonomous federal provinces (*Bundesländer* also referred to as *Länder*). The Head of the Federation is the Federal President, elected to universal suffrage for a six-year mandate. At the federal level, there is a bicameral system composed of two chambers, the National Council (*Nationalrat* - lower house), composed of 183 members, and the Federal Council (*Bundesrat* - upper house, also referred to as the Chamber of Provinces), composed of 61 members (as of 2018). Members of the National Council are elected every five years by universal suffrage through a proportional system. In contrast to the National Council, Members of the *Bundesrat* are not directly elected, but they are delegates elected by the Provincial Parliaments of the nine Federal Provinces for mandates corresponding to the legislative period of the *Diet*. Depending on their population, the number of representatives for each province varies from 3 to 12.

The Austrian Constitution, enacted in 1920 and amended in 1929, and the Federal Constitutional Law (1948) guarantee the autonomy of the nine autonomous states (Art. 2) and the principle of subsidiarity and local self-government of municipalities (Art. 116). The *Länder* legislate the municipalities law, which is framed by national framework legislation (Art. 115). The revision of federal principles enshrined in the constitution must be approved by referendum in addition to a two-thirds majority in Parliament. According to the jurisdiction of the federal Constitutional Court, the federal principle has three substantive elements: 1) the distribution of legislative and administrative competencies; 2) the participation of the *Länder* in federal legislation and administration (called "indirect federal administration"), where policy is implemented by the state governor; the constitutional autonomy of the *Länder*. The Senate represents the interests of the *Länder* at the federal level, but as its members are selected by political parties and do not form *Länder* caucuses, in practice it does not play a significant role in the Austrian Federal System.

Each of the nine provinces has its own provincial parliament (*Landtage*), whose members are elected according to the same electoral principles as the National Council, i.e. by direct universal suffrage for five years. The *Landtage* is responsible for electing a provincial government, headed by a Governor (*Landeshauptmann*), elected by the *Land* Parliament according to either a proportional or a majority system. As such, *Länder* have their own provincial electoral authorities and electoral legislation, as well as their own constitution.

At the local level, municipalities are governed by municipal councils, with members elected by direct universal suffrage for 5 to 6 year terms, depending on the *Länder*. They appoint the members of the local administrative board, the municipality's executive body, except for the mayor, who is - in some *Länder* - elected by direct universal suffrage. In the case of Vienna, the city council also serves as the *Landtag,* the city senate as the provincial government, and the mayor as the Governor.

Austrian federalism is often defined by the principles of co-operative federalism, which is characterised by a high level of harmonisation within the various government levels of the federation. This translates into harmonised public services, tax bases and loose budget constraints for local-level jurisdictions. Austrian federalism has, however, a few shortcomings, including strong vertical fiscal imbalances, overlaps in responsibilities across levels of government and complexity. The 2003 Austrian Constitutional Convention was supposed to carry out a wide reform of the federation but it closed in 2005 without any significant agreement being reached. In 2013, Austria launched a wide administrative reform concerning all levels of government, which was intended to identify margins of efficiency and appropriate measures to reach savings on spending for administration and public subsidies. More recently, the federal, states and local governments have agreed to prepare a federal government reform by the end of 2018, based on the work of the Austrian Convention, in particular addressing the issues of fiscal autonomy.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	2 098 municipalities *(Gemeinden)*		9 states *(Bundesländer)* including Vienna	
	Average municipal size: 4 200 inhabitants			
	2 098		9	2 107

OVERALL DESCRIPTION. The Austrian federal system of subnational governments comprises two tiers: states (*Länder*) and municipalities (*Gemeinden*).

REGIONAL LEVEL. The federal entities consist of nine states. The average population of the states is around 975 000 inhabitants but it ranges from around 292 000 inhabitants in Burgenland to 1 868 000 in Vienna (21% of the national population in 2017) while the area varies from 415 km2 in Vienna to 19 180 km2 in Lower Austria. Except Vienna, the number of municipalities varies from 96 in Vorarlberg to 573 in Lower Austria. The gap in per capita GDP between the richest and poorest region has decreased in Austria over the last sixteen years. In Burgenland, GDP per capita increased by more than 20% over the period 2000-16, while it stagnated in Salzburg, the richest region. Interregional disparities are relatively low, below the OECD average. Among the countries with the lowest regional disparities in GDP per capita, Austria ranks in the top 25%. For administrative purposes, Austrian states are divided into 80 districts (*Bezirke*), deconcentrated entities with primarily administrative functions.

Co-operation between *Länder* are facilitated by the Land Governors Conferences (*Landeshauptleutekonferenzen)*, which are supported by a permanent liaison office of the *Länder* set up in 1951 (*Verbindungsstelle der BundesLänder*). They also gather during informal preparatory meetings at technical level (*Landesamtsdirektorenkonferenz*).

MUNICIPAL LEVEL AND INTER-MUNICIPAL CO-OPERATION. The municipal level, governed by state legislation, comprises 2 098 entities, including 15 statutory cities (*Statutarstädte*), 201 urban municipalities, 770 market towns and villages. The statutory cities have a special statute, grouping the power and responsibilities of a municipality and an administrative district.

Austrian municipalities are among the smallest within the OECD, with an average municipal size of 4 166 inhabitants (to be compared to 9 700 inhabitants in the OECD; 5 900 in the EU28), and 55% of municipalities have fewer than 2 000 inhabitants. Overall, only 11% of municipalities have more than 5 000 inhabitants. In several *Länder*, the number of municipalities has decreased through mergers since the 1970s, and most recently in Styria in 2014 (from 539 to 287 municipalities) and in Upper Austria in 2015 (from 444 to 442). Besides mergers, inter-municipal co-operation is promoted by most *Länder*. Inter-municipal co-operation arrangements are designed and implemented by individual states but the Constitution states that municipalities may join forces by agreement or by law to form municipal associations (*Gemeindeverbände*). A 2011 federal constitutional amendment further reinforced the ability of municipalities to engage in inter-municipal associations. The 2017 fiscal equalisation act also stipulates inter-municipality co-operation. There were 766 municipal associations in 766, including 49% in the education sector (school community associations), 25 % for administrative purpose (citizenship and registry offices), 9% in the cultural sector (Music school associations) and the rest in the social assistance and local transport sectors, among others. Beyond inter-municipal co-operation, there is a strong tradition and practice of horizontal co-operation and co-ordination in Austria, in particular through the Austrian Municipalities Association and the Austrian Association of Cities and Towns.

Vienna, the capital-city, has a special statute as both a municipality and a federal state. As the functional area of the city goes beyond its administrative borders and covers parts of the *Länder* of Lower Austria, and in order to ensure communication and co-ordination among the various institutions in the absence of an inter-municipal planning body, an association was founded in 2006 between the City and Land of Vienna and the Land of Lower Austria, the *Stadt Umland Management* (SUM). The SUM budget is co-financed by the provinces involved and a European cross-border programme (Creating the Future).

Austria does not have a national urban policy, but the Austrian Spatial Development Concept (OREK 2011), covers urban areas, and includes the development of an Austrian agglomeration policy. OREK 2011 emphasises coherence between multiple levels of government and participation by non-governmental stakeholders. It is intended to inform and foster co-operation among the federal government, *Länder*, cities, municipalities and stakeholder representatives.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Austrian federalism and division of competences is symmetrical, as the nine *Länder* have equal rights concerning their legislative competencies and their constitutional autonomy, except Vienna. Article 15 of the Constitution assigns large exclusive competencies to the federal government (public security, taxes, civil and penal law, industrial affairs, education, healthcare), and many amendments have led to the transfer of additional powers to the federal level since 1920.

Länder have devolved own competences over which they have legislation and administration powers (primarily in spatial planning, environmental protection, agriculture, public order and supervision of municipal affairs). In addition, they also have the constitutionally guaranteed right to exercise their competences and pass bylaw legislation in many areas regulated under federal laws. In this sense, health care services are provided on both federal and regional levels, and *Länder* are responsible for health administration, the running of hospitals and half their financing. In the education sector also, the Federal Ministry of Education has legislative authority for school education, and federal schools comprise academic secondary schools and full-time upper-secondary vocational schools, whereas primary, general lower-secondary and part-time vocational schools are run by the *Länder*. Moreover, Art. 12 B-VG of the Constitution enables *Länder* to finance any projects within the realm of the federation or state without being restricted to their exclusive competencies.

On the other hand, local governments are responsible for the delivery of local services and infrastructure, through own and delegated competences from the federal or Land government. As a result, municipal responsibilities may vary from one *Land* to another. They hold significant responsibilities regarding strategic spatial planning and land-use plans within their jurisdictions. Besides services provided by inter-municipal bodies, many municipalities deliver services in sectors such as water supply, wastewater treatment and garbage removal through an important network of approximately 1 800 local public companies all over Austria.

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FEDERAL COUNTRY

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	STATE LEVEL	MUNICIPAL LEVEL
1. General public services	Supervision of municipal affairs; Building regulations	Local administration
2. Public order and safety	Police and emergency services	Public order, safety
3. Economic affairs / transports	Transport, energy distribution; Traffic regulation; Agriculture	Roads, local and urban transport; Local energy supply
4. Environmental protection	Environmental protection	Sewerage and household refuse
5. Housing and community amenities	Spatial regional planning; Urban development	Town planning; Local housing, water supply and management
6. Health	Health administration; Hospitals (shared with the federal level)	Primary healthcare (medical centres); Preventive healthcare
7. Recreation, culture & religion	Sports and Leisure	Culture, local sport facilities
8. Education	Primary, general lower-secondary and part-time vocational schools	
9. Social protection	Social assitance, family policy (youth protection and welfare)	Basic social welfare

SUBNATIONAL, STATE AND LOCAL GOVERNMENT FINANCE

Scope of fiscal data: at the regional level, 8 *Länder* i.e. not including Vienna which has a dual status of both a state and a municipality. For Public Accounts Statistics and National Accounts, Vienna is classified as local government unit. The state government sector also includes 324 other state government organisations (as of 2017) such as public hospitals, state health funds, or state real estate companies. At the local level: municipalities including Vienna and around about 2 200 other local units such as municipal associations, local infrastructure and real estate entities on the local government level; economic promotion agencies; 35 social welfare associations and about a dozen municipal hospitals (e.g. in Vienna).	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. The Federal Constitutional Law and Fiscal Constitutional Law (1948) is the main act governing fiscal decentralisation in Austria. Relations between all levels of government are further set up by the Austrian Stability Pact (*Österreichischer Stabilitätspakt*) and the Fiscal Equalisation Law (*Finanzausgleichsgesetz* - FAG). The FAG details the rules of tax sharing, intergovernmental transfers and cost bearing between levels of government.

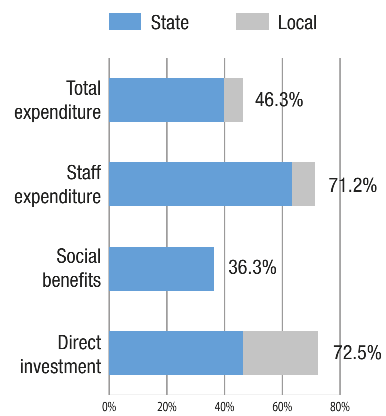
For a federal country, the degree of autonomy of SNGs in Austria is relatively low on the revenue side, whereas they have a relatively high discretion over spending, resulting in strong fiscal imbalances. Due to their reliance of intergovernmental transfers, incentives for *Länder* and municipalities to maintain and develop their own tax base and enhance their own resources are rather weak. The last 2017 FAG, which regulates financial agreements across the three levels of government until 2021, has done little to address the issue.

In 2016, a new fiscal sharing arrangement was adopted for the period 2017-2021, which provides for additional funds for state and local governments amounting to EUR 300 million yearly, in addition to a grant of EUR 125 million for expenses related to migration and integration. However, the weakness of provinces' autonomous tax management and mixed funding remain unresolved issues. A comprehensive reform was announced in the new government programme published in December 2017 for the period 2017-2022. In this framework, the various levels of government have ratified several initiatives that could improve the efficiency and quality of public spending, such as regular spending reviews, more task-oriented financing, benchmark systems at the subnational level, as well as the commitment to agree on a general reform of subnational competencies by the end of 2018. In addition, several working groups have been set up to prepare proposals for increasing tax autonomy at the subnational level, including through property taxes.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.			% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT EXPENDITURE		
	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total expenditure	9 110	4 836	4 273	18.0%	9.6%	8.5%	100%	100%	100%
Inc. current expenditure	8 021	4 284	3 738	15.9%	8.5%	7.4%	88.1%	88.6%	87.5%
Staff expenditure	2 965	1 649	1 315	5.9%	3.3%	2.6%	32.5%	34.1%	30.8%
Intermediate consumption	1 725	748	976	3.4%	1.5%	1.9%	18.9%	15.5%	22.8%
Social expenditure	1 401	791	610	2.8%	1.6%	1.2%	15.4%	16.4%	14.3%
Subsidies and current transfers	1 718	959	759	3.4%	1.9%	1.5%	18.9%	19.8%	17.8%
Financial charges	80	65	15	0.2%	0.1%	0.0%	0.9%	1.3%	0.3%
Others	133	72	62	0.3%	0.1%	0.1%	1.5%	1.5%	1.4%
Incl. capital expenditure	1 088	553	536	2.2%	1.1%	1.1%	11.9%	11.4%	12.5%
Capital transfers	461	346	115	0.9%	0.7%	0.2%	5.1%	7.2%	2.7%
Direct investment (or GFCF)	627	207	420	1.2%	0.4%	0.8%	6.9%	4.3%	9.8%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. SNG spending in Austria is below the average of the nine OECD federal countries (19.2% of GDP and 50.0% of public expenditure in 2016) and ranks last among OECD federal countries in terms of share in total public spending. States and municipalities have a similar weight in SNG expenditure (34% for the states and 31% for the municipalities), and their respective shares in public spending, (16.7% and 18.9%), have remained stable since 2000. States and municipalities altogether represent more than half of total public spending on staff expenditures and goods and services, and approximately 79.8% regarding subsidies and current transfers.

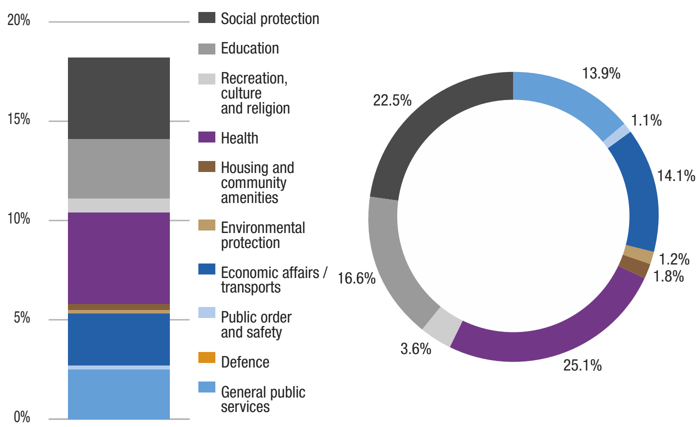
DIRECT INVESTMENT. Public investment, which accounted for 3.0% of GDP in 2016, in line with the OECD average, is a shared responsibility across all levels of governments in Austria. Austrian SNGs role in public investment is well below the average of OECD federal countries (62.3% of public investment on average in 2016). The recent implementation of the last revision of the SNA in 2008 has led to significant changes in fiscal data in Austria, and regarding public investment in particular, through the inclusion of research and development and weapons systems in the calculation of the gross fixed capital formation. Therefore, there was a sharp decrease of the share of SNG investment in public investment prior and after the implementation of the reform, from 55.5% in 2013 to 41.3% in 2016. 4.3% of states budget was dedicated to investment in 2016, compared to 9.8% for municipalities, and SNG investment represented 1.2% of the GDP, compared to 1.8% on average in the OECD for federal countries. In 2016, 35.4% of SNG investments in Austria was dedicated to economic affairs (maintenance of infrastructures in transport, industry, agriculture), followed by healthcare, a main category of investment spending because Austrian states are responsible for hospital expenditure, including their operations and financing. It is followed by education and general public services. Future investment priorities set at the central government level include new technologies, smart production and the digital transition (a "Digital Roadmap" was introduced in 2017 at federal and *Länder* levels).

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG (OR OTHER CLASSIFICATION OR ESTIMATION)

2016	% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT		
	SNG	State	Local	SNG	State	Local
Total expenditure	18.2%	9.7%	8.5%	100%	100%	100%
1. General public services	2.5%	1.2%	1.4%	13.9%	12.1%	16.0%
2. Defence	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
3. Security and public order	0.2%	0.1%	0.2%	1.1%	0.5%	1.8%
4. Economic affairs / transports	2.6%	1.6%	1.0%	14.1%	16.5%	11.5%
5. Environmental protection	0.2%	0.1%	0.2%	1.2%	0.5%	2.0%
6. Housing and community amenities	0.3%	0.2%	0.2%	1.8%	1.7%	1.9%
7. Health	4.6%	2.7%	1.9%	25.1%	27.8%	22.1%
8. Recreation, culture and religion	0.7%	0.2%	0.5%	3.6%	1.8%	5.6%
9. Education	3.0%	1.6%	1.4%	16.6%	16.4%	16.9%
10. Social protection	4.1%	2.2%	1.9%	22.5%	22.6%	22.4%

SNG EXPENDITURE AS A % GDP

% OF TOTAL SNG EXPENDITURE



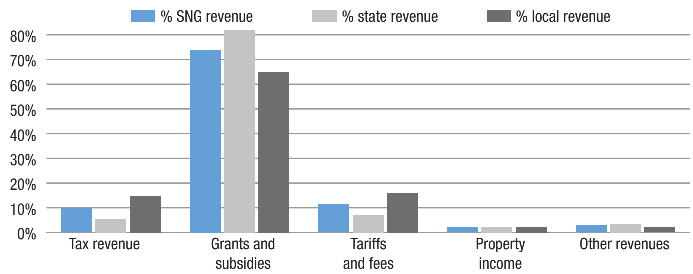
As of 2016, health and social protection altogether represented almost half of SNG total expenditures. In both categories, SNG spending is shared between municipal and provincial governments, the latter being responsible for respectively 58.9% and 53.3% of SNG spending. The third spending category for both levels of SNG is education, followed by general public services and economic affairs/transport. Austrian SNGs are responsible for the large majority of total public spending on housing and community amenities (90.3%), amounting to 0.3% of GDP.

The largest spending categories for *Länder* and local government are the same, i.e. health, social protection and education, as local governments exercise most shared responsibilities delegated by the regional level. Municipalities are responsible for the majority of expenditure in the fields of environmental protection (76.5% of SNG expenditure in 2016, against 23.5% for *Länder*), recreation, culture and religion (72.8%) and public order and safety. On the other hand, 62% of SNG spending on economic affairs and transport came from provincial governments.

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	% GDP			% GENERAL GOVERNMENT REVENUE (SAME REVENUE CATEGORY)		
	SNG	State	Local	SNG	State	Local
Total revenue	17.6%	9.2%	8.4%	35.9%	18.8%	17.1%
Tax revenue	1.7%	0.5%	1.2%	6.3%	1.9%	4.5%
Grants and subsidies	13.0%	7.5%	5.5%			
Tariffs and fees	2.0%	0.7%	1.3%			
Property income	0.4%	0.2%	0.2%			
Other revenues	0.5%	0.3%	0.2%			

% SUBNATIONAL, STATE AND LOCAL GOVERNMENT REVENUE



GENERAL DESCRIPTION. Austria's subnational fiscal framework is characterised by significant vertical fiscal imbalances, with regional and local spending powers that are higher than their revenue-raising responsibilities, in particular regarding autonomous taxes. In 2016, SNG revenue in Austria was below the OECD average for federal countries both as a share of GDP (18.6%) and of public revenue (53.1%). Moreover, tax revenues represented around 10% of SNG

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FEDERAL COUNTRY

revenues, well below the OECD average for federal countries of 47.5% in 2016. On the other hand, grants and subsidies make up 81.8% of states' revenues, against 65.1% of municipal revenue. Other sources of revenue for SNGs include tariffs and fees, and to a lesser extent property income and income from public companies. It is important to note that before the 2008 reform of the SNA (implemented in 2014), revenues coming from the sharing of national taxes (PIT, CIT, VAT, etc.) were considered as tax revenue while, since the reform, there are considered as grants from the federal government.

TAX REVENUE. 2016, tax revenue represented a small share of SNG revenue, amounting to 14.6% of local revenue and 5.6% of *Länder* revenues. As a share of GDP and public tax revenue, SNG tax revenue in Austria is well below the OECD average for federal countries (8.8% of GDP and 42.4% of public tax revenue).
Approximately 95% of all tax revenue is levied by federal revenue offices as tax administration is carried out mostly at the federal level. Municipalities levy slightly more than 4% and *Länder* less than 1% of the total tax revenue. Municipalities can only regulate local taxes if they are entitled to those taxes by either the federal or state law.

States receive a negligible amount of tax income but include the contribution to chamber of commerce by employees (classified as part of the PIT and which accounted for half or their tax revenue in 2016), the tourist tax and the fishing and hunting licenses. In 2018, the tax autonomy to raise the housing subsidy contribution (*Wohnbauförderungs-beitrag*, currently 1% of payroll) was transferred from the central government to the *Länder*.

Tax revenues are slightly more significant for municipalities, which can collect the municipal business tax (*Kommunalsteuer*) and the property tax (*Grundsteuer*). The *Kommunalsteuer* makes up the bulk of municipal tax revenue (68% in 206). It is a general payroll tax of 3% on total salaries and wages paid each month by permanent establishments based in Austria. The payroll tax base and rate are both fixed uniformly across all local jurisdictions by the federal government. The property tax is levied on both land and buildings. The tax base is defined at the federal level, but municipalities have some discretion regarding the rate of the real property tax within limits set by regional regulations. The property tax represented around 16% of municipal tax revenue in 2016 (i.e. 2.3% of their total revenue). It amounted to only 0.2% of GDP, a level which is significantly below the OECD average (1.1% of GDP in 2016). With the implementation of the new programme for 2017, there are several proposals for increasing tax autonomy at the subnational level, including through property taxes.

GRANTS AND SUBSIDIES. Austria has a strong fiscal equalisation system based on tax-sharing, which in practice has a levelling effect across regions. The Fiscal Equalisation Law (FAG), periodically negotiated between the federal Minister of Finance and representatives of the *Länder* and the local governments, defines the revenue sharing system between the three levels of government. According to the FAG, around 85% of total tax revenues are "joint taxes", including revenues from personal income tax (PIT), corporate income tax (CIT), and VAT, which are shared among all three governmental levels. In addition, 12.8% of the municipalities' share in shared tax revenues is allocated via the *Länder* and dedicated to most needy municipalities and to capital investments in infrastructure projects.

According to the Federal Ministry of Finance, the total revenue collected in 2016 at the federal level was shared as follows: 56% for the federal government, 22% for the *Länder* (excluding Vienna), 9% for the city of Vienna and 9% for the municipalities. Furthermore, since 2018 and in line with the fiscal reform announced in 2017, the share of tax revenue allocated to municipalities will now be partly distributed according to the child care and schooling services they supply. Of the total transfers from the federal government to provincial and municipal level, 97.5% were current grants, and 2.5% capital grants.

Besides tax-sharing schemes, the FAG also distinguishes between grants to cover special needs or purposes of other governments, non-earmarked block grants, special need transfers and earmarked grants. General grants are aimed at equalising the average revenue of *Länder* and municipalities resulting from tax sharing (horizontal equalisation). They mostly cover expenditure in public administration and public services. Other transfers from the federal government include earmarked grants on education, culture and transportation. Other transfers exist for housing development, environmental purposes and infrastructure as well as transfers from the Federal Natural Disasters fund. This Fund covers expenditures for protection against natural disasters and supports *Länder* for reconstructing infrastructure of *Länder* and municipalities. For the period 2014-17, the federal government has considerably increased earmarked subsidies to *Länder* for financing child day-care.

OTHER REVENUES. Revenues derived from user charges and fees from local public companies are an important source of revenue for *Länder* and most particularly municipal governments (they represented 16% of municipal revenues in 2016). Municipalities receive user fees levied on water, sewerage and waste, entertainment. In addition to asset sales and property income, other revenue represent a significant source of revenue compared to the OECD average for federal countries, due to Austria's important network of 1 800 local public companies. The recognition and valuation of assets of Austrian SNGs will improve with the implementation of the new accounting regulation, planned to enter in force by 2019 for states and municipalities with populations of greater than 10 000 inhabitants, and by 2020 for all the municipalities.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.			% GDP			% GENERAL GOVERNMENT DEBT			% SNG DEBT			% SNG FINANCIAL DEBT		
	SNG	State	Local	SNG	State	Local	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total outstanding debt	**5 472**	3 355	2 117	**12.8%**	7.9%	5.0%	**12.6%**	7.7%	4.9%	**100%**	100%	100%			
Financial debt*	4 534	2 769	1 765	10.6%	6.5%	4.1%	11.0%	6.7%	4.3%	82.9%	82.5%	83.4%	100%	100%	100%

* Currency and deposits, loans and bonds

FISCAL RULES. The Austrian Stability Pact, first established in 1999, regulates the national budgetary co-ordination between the federal government, states and municipalities, and sets deficit and surplus targets for the federal, regional and local governments, in order to involve all levels of government in the consolidation of public finances. The last Pact, adopted in 2013 (Public Law Gazette I No. 30/2013), requires that, from 2017, the central government, the state governments and the municipalities have to achieve structurally balanced budgets as a basic principle. The Pact contains a series of rules: on a structurally balanced general government budget ("debt brake"), with the structurally balanced budget defined as a structural general government deficit not of less than -0.45% of GDP; ceiling on annual expenditure growth (expenditure brake); rule on public debt reduction as defined in ESA terms (adjustment of the debt ratio); rule defining ceilings for public guarantees granted by the central government, the states and the municipalities and rules to strengthen budgetary co-ordination and medium-term budgetary planning of all governments, mutual exchange of information and transparency. Compliance with the fiscal rules is ensured by adequate sanctions. In addition, all *Länder* governments autonomously implemented a ban on speculation of public entities, and are implementing budget reform projects. The Austrian Fiscal Advisory Council (*Fiskalrat*) was created in 2013 as an independent fiscal institution to promote sustainable public finances, fiscal discipline and compliance with EU fiscal requirements, including at subnational level. The medium-term budgetary plans of the three layers of government are co-ordinated under the Fiscal Equalisation Law.

DEBT. States and municipalities are free to borrow in the form of loans and bonds, but municipalities rarely issue bonds. Austrian municipalities borrow mostly from public banks and state-owned enterprises. Borrowing and bond financing from the municipalities are in fact regulated by each *Land*. *Länder* usually have a control committee that approves municipal loans based on a set of prudential rules, which differ from one *Land* to another. As a general rule, municipalities can only borrow to finance investment projects ("Golden Rule"). In 2016, Austrian SNG debt represented around 13% of GDP and 13% of total public debt, two ratios which are well below the OECD average (24.5% of GDP and 20.7% of public debt), especially the OECD average for federal countries (31.3% of GDP and 27.1% of public debt). States accounted for 61% of total SNG debt and local governments for 39%. Financial debt ("Maastricht debt") accounted for 83% of total outstanding debt, while "other accounts payable" amounted to the remaining part (17%). Within the financial debt, loans represented 80% of SNG debt and bonds 22%. Loans accounted however for 95% of local government debt while they accounted only for 68% of state debt. According to Austria's Federal Budgetary Law, the Federal Ministry of Finance is allowed to borrow and issue bonds on behalf of *Länder* through the Austrian Federal Financing Agency. The amount of debt issued by the federal government for the financing of the states cannot exceed 20% of total general government expenditure in a given year.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: OECD
Last update: 02/ 2019
www.sng-wofi.org

Socio-economic indicators: OECD // Eurostat // World Bank // UNDP // UN DESA // ILO // Statistics Austria.
Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // Eurostat // Austrian Federal Ministry of Finance.
Other sources of information: Federal Ministry of Finance (2018) Austrian Stability Program, Update for the period 2017 to 2022 // IMF (2018) Austria : Fiscal Transparency Evaluation // OECD (2018) Regions and cities at a glance // OECD (2017) Effective Public Investment Across Levels of Government // OECD (2017) OECD Economic Surveys: Austria 2017 // Deloitte (2017) Taxation and Investment in Austria 2017 // Köppl-Turyna M, Pitlik H (2016) Do Equalisation Payments Affect Subnational Borrowing? // European Committee of Regions (2016) Division of Powers // Patti D. (2013), Governance in the Metropolitan Region: The Vienna-Bratislava Case // OECD (2015) OECD Economic Surveys: Austria 2015 // OECD (2012) "Austria: The reform of the fiscal equalisation law", in Reforming Fiscal Federalism and Local Government: Beyond the Zero-Sum Game.

BELGIUM

FEDERAL COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: EURO (EUR)

POPULATION AND GEOGRAPHY

Area: 30 326 km^2
Population: 11.348 million inhabitants (2017), an increase of 0.63% per year (2010-15)
Density: 374.2 inhabitants / km^2
Urban population: 98.1% of national population (2017)
Urban population growth: 0.4% (2017)
Capital city: Brussels (18.1% of national population) (2018)

ECONOMIC DATA

GDP: 540.9 billion (current PPP international dollars), i.e. 47 662 dollars per inhabitant (2017)
Real GDP growth: 1.7% (2017 vs 2016)
Unemployment rate: 7.1% (2017)
Foreign direct investment, net inflows (FDI): -31 065.19 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 23% of GDP (2017)
HDI: 0.916 (very high), rank 217 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The 1831 Constitution established Belgium as a unitary parliamentary monarchy. However, a process of federalisation started in the 1970s to better take into consideration linguistic, cultural and socio-economic differences, in particular between the regions of Flanders and Wallonia. Six constitutional reforms took place in 1970, 1980, 1988-89, 1993, 2001 (Revision of the Constitution Special Act and Lambermont Agreement) and the last one in 2011, which has been in effect since 2012-14.

The country's federal structure of government has gradually but significantly evolved over the past decades towards a greater devolution of decision-making power to the six federated entities, made up three regions (the Flemish Region, the Walloon Region and the Brussels-Capital Region) and three communities (the Flemish Community, the French Community and the German-speaking community). The determining characteristic of a region is its geographical area while that of a community is its culture and language.

At the federal level, the legislative power is exercised by the Federal Parliament, composed of two assemblies: the Chamber of the Representatives and the Senate. Following the 6th Belgian state reform, members of the Senate, the upper house which serves as a chamber of the communities and regions, are designated by the federated entities (50/60) or co-opted (10/60), and no longer elected (Art. 67 of the Constitution). Senators have no veto powers over federal legislation.

At the state level, there are five legislatures, all elected for a 5-year term and five governments, elected by the Parliament, which in turn elects a president: the Flemish Parliament and Government (which represent both the region of Flanders and the Flemish community which were immediately combined into one Flemish federated entity since its creation), the Walloon Parliament and Government, the French Community Parliament and Government, the Brussels Region Parliament and Government, and the German-speaking Community Parliament and Government.

At local level, provinces and municipalities are governed by regional legislation since the federalisation of the country. Their organisation, responsibilities and finance differ from one region to another, according to regional decrees (Flemish and Walloon regions) and ordonnances in the Brussels-Capital region (for municipalities).

Belgian federalism severely limits the scope for governments to interfere in each other's areas of competence. However, there are inter-governmental coordination mechanisms. A Concertation Committee, which includes the Prime minister, ministers presidents of federated entities, and ministers of finance of federal and federated entities plays a decision-making role and formalises of the distribution of budgetary efforts across the different levels of government. The local governments (municipalities, provinces) are represented by their associations in their respective region (a "united" national association also exists) and participate in committees at the federal level, although no formal consultation mechanism is in place. They are more active at the regional level.

The 6th State reform of 2014 was a major reform that transferred additional responsibilities to regions in the areas of labour market policies, mobility and justice and to communities in the areas of family allowance, long-term care and healthcare. The reform also increased regions' own-source tax resources.

Both Flanders and Wallonia are also engaged in local government reforms that both decreased responsibilities and taxing power at the provincial level and increased autonomy, scope of action and revenues for municipalities.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	589 municipalities *(communes, gemeenten)*	10 provinces *(provinces, provincies)*	3 regions (regions, gewesten) *and 3 communities (communautés, gemeenschappen)*	
	Average municipal size: 19 267 inhabitants			
	589	10	6	605

OVERALL DESCRIPTION. In 2018, Belgium had three tiers of SNGs: six federated entities, 10 provinces and 589 municipalities (581 since 1 January 2019).

STATE LEVEL. The federated level is composed of the 3 regions and the 3 communities. The Flemish Region (*Vlaams Gewest*) represents 44% of the Belgian territory but 57.5% of its population while the Walloon Region (*Région Wallonne*) accounts for 55% of the area and 32% of the population. The Brussels capital-region (*Région de Bruxelles-Capitale*) accounted for 0.53% of Belgian territory but 10.5% of the total population in 2017. The three communities cut across the regions. In particular, the Flemish Community comprises all the inhabitants of Flanders and Brussels-based Flemings (i.e. around 6.4 million inhabitants). The French Community comprises all the residents of Wallonia and Brussels-based French-speaking inhabitants (around 4.2 million inhabitants). The German-speaking Community comprises all the inhabitants of the nine German-speaking municipalities in the east of Belgium (i.e. around 77 000 inhabitants).

PROVINCIAL LEVEL. The intermediary layer of SNGs includes 10 provinces, with five provinces in the Flemish region and five others in the Walloon region. Regions, however are very diverse in terms of population size and land mass. Provinces have existed for a long time in their current boundaries, except for half of the province of Limburg, which became part of the Netherlands in 1839 and the province of Brabant which has been split into two new provinces (Flemish Brabant and Walloon Brabant) and the Brussels-Capital Region in 1995. The Brussels Region directly exercises provincial responsibilities. The provincial government consists of three main institutions: the provincial council which is the deliberative body elected every six years by direct universal suffrage and chaired by a president (elected among its members); the deputation (in Flanders) or provincial college (in Wallonia), which is the executive body (its representatives are appointed by the provincial council among their own members), and the Governor, who is appointed by the regional government. Provinces are themselves sub-divided into administrative districts.

The role of the provinces is the subject of much debate. In December 2018, the Walloon Government agreed to transfer a range of powers from the provinces to the Region "to improve the institutional readability, to make more effective the exercise of regional powers and strengthen support for municipalities”. In Flanders, provinces will focus more on “territory-related powers”, losing the “person-based powers” as well as part of their resources (tax and grants).

MUNICIPAL LEVEL. The lower-tier comprises 589 (581 since 2019) municipalities, which have also been governed by regional legislation since 1988. The deliberative body is the municipal council whose representatives are elected every six years by direct universal suffrage. The executive body is the college of burgomaster and aldermen (known as the college communal in the Walloon region). Aldermen are elected by the municipal council while the burgomaster is nominated according to different rules depending on the regions.

The number of municipalities has been stable for around 45 years, following a process of compulsory mergers between 1975 and 1983. In particular, the 1975 royal decree reduced the number of municipalities from 2 359 to 596. In 2018, the Flemish region had 308 municipalities, while the Walloon region has 262 and Brussels-capital 19. The average municipal size in Belgium is twice the OECD average municipal size. There are very few small municipalities (1% of less than 2000 inhabitants). The majority (62%) have between 5 000 and 19 999 inhabitants.

The regions of Flanders and Wallonia have started reforming the municipal level in their respective territories. In Flanders, 15 municipalities have merged into seven new municipalities since 1 January 2019, reducing the number of Flemish municipalities from 308 to 300. In its 2017 regional policy statement, the new Walloon government also announced its willingness to encourage municipal mergers on a voluntary basis both by financial and regulatory incentives and by administrative and technical support.

Flemish and Walloon Regions are also currently encouraging “supra-municipalities”. In Flanders, there are five legal forms of inter-municipal cooperation: “interlocal association”, “project association”, “service providing association”, “association with a clear assignment”, and “association with a clear assignment and private sector participation”. The first form consists in a basic contract while the other four forms result in establishing a separate judicial entity. Inter-municipal cooperation is widespread, taking place in various sectors such as drinking water provision, waste water management, waste management, management of crematoria, distribution of gas and electricity, communication (internet, TV), economic development, etc.

One common form of inter-municipal cooperation is inter-municipal companies (intercommunales), which are public law entities that are subject to both private and public law. Intercommunales can be limited companies, cooperative companies with limited responsibility (SC or CV) or non-profit-making associations (ASBL). If they have only municipalities as shareholders, they are “pure” inter-municipal companies. If they bring together public and private shareholders, they are “mixed” inter-municipal companies. There were around 320 such intercommunales in 2015 in Belgium.

The 6th State Reform enshrined the creation of a metropolitan community of Brussels, with the aim of enhancing dialogue between the various levels of powers on interregional matters.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Exclusive competences are assigned to the regions and communities and the residual ones are assigned to the federal government (foreign affairs, national defence, justice, finance, social security, parts of national health and domestic affairs). The distribution of competences between the regions and communities and the federal level is subject to judicial control, exercised by the Constitutional Court of Belgium, which can undo legislation that contravenes the division of powers, and by the Council of State.

Extensive competences are assigned to the regions and communities. The 6th State reform of 2014 has transferred additional responsibilities to regions on labour market policies and mobility (but they remain mixed responsibilities) and communities (family allowance, long-term care). Although justice remains a mainly federal matter, the so-called “justice homes” have become a responsibility of the communities since the 6th state reform and not a responsibility of the regions. Concerning health, certain aspects of the healthcare policy have been transferred to the communities, but the major part of health remains a federal responsibility.

Regions are competent in territorial matters (economic affairs, transports, environment protection, spatial planning, housing, etc.) but also for employment while communities are competent for person-related matters (culture, health policy, social protection, education, etc.).

BELGIUM

FEDERAL COUNTRY

Provincial and municipal responsibilities are not clearly defined in the legislation and they often overlap. Besides implementing federal, community and regional regulations, provinces are usually responsible for general provincial affairs, the maintenance of infrastructure, urban planning, and initiatives in sport, education, culture and social policy. In the framework of provincial reform, provincial responsibilities are being reduced. In the Flemish region for example, since 2014, the provinces have only been able to exercise person-related powers when those powers have been granted to them by decree. On 1 January 2018, the list of their tasks was shortened further and confined to territory-related powers. Except for provincial education, all person-related powers, which were still exercised by the provinces, were transferred to the Flemish Community or to the municipalities. In the Walloon region, some provincial responsibilities were transferred to the regional level. In particular, provincial roads were transferred to the Region in 2015, and since then the provinces have also ceased to be responsible for housing policy and energy policy.

Municipal responsibilities are very extensive, covering missions attributed by higher authorities (federal government, region and province such as management of civil administrative functions) and those of "municipal interest". Own attributions cover large areas such as economic affairs and transports, education, environment, housing and community amenities, culture, etc.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	STATE LEVEL	INTERMEDIATE LEVEL	MUNICIPAL LEVEL
1. General public services	Regions: supervision of provincial and municipal law and local utility companies; Research & Development & innovation	Provincial administration; Implementation of federal and regional regulations	Municipal general affairs; Administrative functions delegated by the region/province e.g. public registry office (delegated by the federal state)
2. Public order and safety	Communities: justice homes		Public order (delegated); Local polices; Participation to Fire and Rescue Services Zones
3. Economic affairs /transports	Regions: water policy; Transport (except the national railway company); External trade; Energy; Agriculture and fisheries; Economic policy (including direct support, guarantees, business sites and cluster policy); Employment	Roads and waterways; Public transport; Social housing subsidies; Public works	Local economic development; Maintenance of road infrastructures; Public transportation; Tourism
4. Environmental protection	Regions: environment policy; Nature conservation	Interventions in some areas	Green areas
5. Housing and community amenities	Regions: urban policy and spatial planning; Public works and infrastructure; Public housing	Urban planning	Town planning; Water distribution; Sewerage; Waste management
6. Health	Communities: sanitary education and preventive medicine	Medical prevention	
7. Recreation, culture & religion	Communities: museums; Theatres; Libraries; Audio-visual media; Use of languages	Some intervention in the cultural and recreational sector	Sports; Culture
8. Education	Communities: education and training (pre-primary to higher and adult education); Scientific research	Some interventions in secondary and higher education	Pre-schools; Primary education; Secondary and higher education for large cities
9. Social protection	Regions: minor aspects of social security (such as reduction of social security contributions for targeted groups). Communities: social welfare; Aid to families; Protection of youth; Immigrant assistance services	Some interventions in the area of social policy	Social welfare via public social welfare centres (CPAS in Walloon region, OCMW in the Flemish region and CPAS/OCMW in the Brussels Capital Region)

SUBNATIONAL, STATE AND LOCAL GOVERNMENT FINANCE

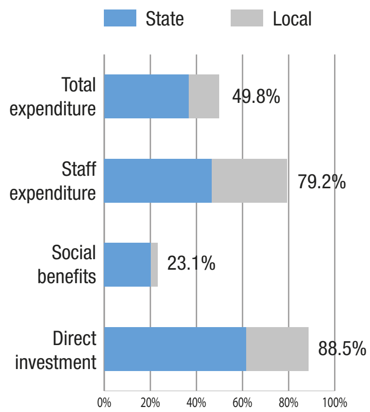
Scope of fiscal data: state government level: six regions and communities and related entities; local government level: provinces, municipalities, local police zones, local rescue zones, and public social assistance centres (OCMW/CPAS), Metropolitan Brussels, water boards, fire departments and other local public entities (municipal syndicates).	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. The 1989 Special Financing Act (amended the first time by the Special Act of 13 July 2001) has been instrumental for fiscal decentralisation in Belgium as it dealt with the refinancing of communities and the extension of fiscal competences for regions. The aforementioned 6th State Reform also included the revision of the 2001 version of the Financing Act, strengthening the financial autonomy of federated entities, in particular by increasing their own-source tax revenue. Authority over expenditure and revenues is spread across the various levels of government, with complicated sharing arrangements and sometimes overlapping spending responsibilities. Due to the complex political and institutional setting of SNGs in Belgium, negotiation, consensus and deeper reforms, both fiscal and structural, are difficult to achieve. The federated entities decide on the financing arrangements for the municipalities and provinces in their respective territories, leading to different local finance systems depending on the region. In this area, local finance systems are being reformed by the regions.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.			% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT EXPENDITURE		
	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total expenditure	12 364	9 055	3 309	26.6%	19.4%	7.1%	100%	100%	100%
Inc. current expenditure	11 128	8 131	2 996	23.9%	17.5%	6.4%	90.0%	89.8%	90.5%
Staff expenditure	4 561	2 682	1 879	9.8%	5.8%	4.0%	36.9%	29.6%	56.8%
Intermediate consumption	1 397	872	526	3.0%	1.9%	1.1%	11.3%	9.6%	15.9%
Social expenditure	2 714	2 367	347	5.8%	5.1%	0.7%	21.9%	26.1%	10.5%
Subsidies and current transfers	2 244	2 053	191	4.8%	4.4%	0.4%	18.1%	22.7%	5.8%
Financial charges	206	158	48	0.4%	0.3%	0.1%	1.7%	1.7%	1.5%
Others	5	0	5	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
Incl. capital expenditure	1 236	923	313	2.7%	2.0%	0.7%	10.0%	10.2%	9.5%
Capital transfers	324	290	34	0.7%	0.6%	0.1%	2.6%	3.2%	1.0%
Direct investment (or GFCF)	912	633	279	2.0%	1.4%	0.6%	7.4%	7.0%	8.4%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



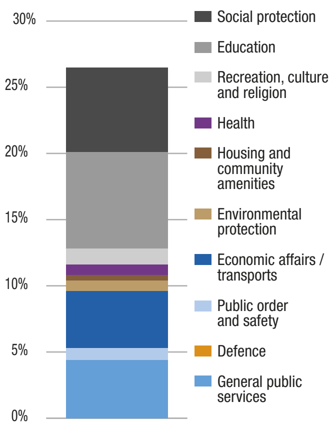
EXPENDITURE. Belgium SNGs play a significant role in public spending, being responsible for half of public spending at the country scale in 2016, corresponding to 27% of GDP. This marks a significant increase of 7 percentage points since 2013, partly due to the implementation of the 6th federalisation reform in 2014. As a result of this increase, SNG share in public spending is at the same level that the OECD average of the nine federal countries (50.0% of public expenditure) and well above the average when the share in GDP is considered (19.2% of GDP). SNGs are key public employers accounting for almost 80% of all public staff spending, to be compared to 76.5% in OECD federal countries. Regions and communities make the bulk of SNG expenditure, accounting for 73% of SNG expenditure and 36.5% of total public expenditure. By contrast, local government expenditure represents a relatively small share of SNG expenditure (27%) and total public expenditure (13.3%), stable since 2013, with no significant change despite the reform. However, municipalities and provinces are key employers. They spend more than half of their total budget on staff expenditure and account for 41% of SNG staff expenditure. In 2016, local authorities employed 317 000 persons, representing just over one-third of total employment in public authorities. The weight of staff spending is also linked increased cost of financing their statutory officials' pensions, which represents today a financial challenge.

DIRECT INVESTMENT. In Belgium, public investment is mainly the responsibility of regional and local governments. They are major public investors, carrying out the great majority of public investment in the country in three sectors: education, research and development, and transportation. In 2016, they were responsible for 88.5% of total public direct investment. Regions and communities' role is particularly significant, as they represent 69% of total SNG direct investment in 2013, against 31% for local governments. Yet, the level of public investment in Belgium remains low compared to other OECD countries (2.2% of GDP vs 3.0% in the OECD on average). Regional and federal authorities have recently taken steps to enhance investment in transport infrastructure and are developing a framework for public-private partnership.

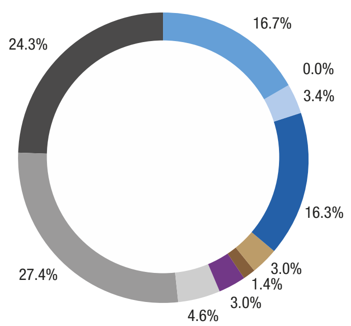
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

2016	% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT		
	SNG	State	Local	SNG	State	Local
Total expenditure	26.5%	19.4%	7.1%	100%	100%	100%
1. General public services	4.4%	3.2%	1.2%	16.7%	16.5%	17.2%
2. Defence	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
3. Security and public order	0.9%	0.0%	0.9%	3.4%	0.2%	12.2%
4. Economic affairs / transports	4.3%	3.7%	0.6%	16.3%	19.1%	8.4%
5. Environmental protection	0.8%	0.3%	0.5%	3.0%	1.4%	7.2%
6. Housing and community amenities	0.4%	0.1%	0.2%	1.4%	0.7%	3.2%
7. Health	0.8%	0.8%	0.0%	3.0%	3.9%	0.5%
8. Recreation, culture and religion	1.2%	0.6%	0.6%	4.6%	3.0%	9.1%
9. Education	7.3%	5.7%	1.5%	27.4%	29.5%	21.5%
10. Social protection	6.4%	5.0%	1.5%	24.3%	25.6%	20.6%

SNG EXPENDITURE AS A % GDP



% OF TOTAL SNG EXPENDITURE

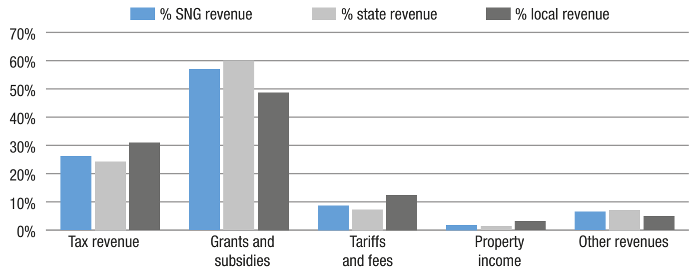


Consistently with the large array of their responsibilities, SNG principal expenditure categories include education, social protection, general public services and economic affairs, split between regions and communities' competences. The largest area of regional and community spending is by far education (27.4%), for which SNGs have exclusive powers. It is followed by social protection (24.3%), general public services (16.7% including research and development), and economic affairs/transports (16.3%). Increase in the share of total SNG spending on healthcare and social assistance result from the devolution of additional responsibilities to the Belgian regions and communities in employment, healthcare and social assistance (elderly and disabled) and family support since the 6th State Reform. At the local level, priority areas are social protection and education. Security and public order represent 12% of local spending, with the existence of 195 “local police zones”. Today, the growing use of integration allowances and increased cost of social services represent a financial challenge for local governments.

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	% GDP			% GENERAL GOVERNMENT (SAME REVENUE CATEGORY)		
	SNG	State	Local	SNG	State	Local
Total revenue	**26.7%**	19.5%	7.3%	**52.6%**	38.3%	14.3%
Tax revenue	**7.0%**	4.7%	2.2%	**23.1%**	15.7%	7.4%
Grants and subsidies	**15.2%**	11.7%	3.5%			
Tariffs and fees	**2.3%**	1.4%	0.9%			
Property income	**0.5%**	0.3%	0.2%			
Other revenues	**1.7%**	1.4%	0.4%			

% SUBNATIONAL, STATE AND LOCAL GOVERNMENT REVENUE



OVERALL DESCRIPTION. The share of SNG revenue in total public revenue in 2016 increased of 9 percentage points since 2013, from 43.8% to 52.6%, as a result of the 6th reform of the state. The 6th reform, through the special law of 6 January 2014 on the Reform of the Financing of the Communities and Regions, led to the strengthening 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.

Almost three quarters of SNG revenue are attributed to regions and communities, against 27% for local governments. The ability to finance their expenditure through own-source revenues remains however limited for regions, and quasi non-existent for communities, whom competences have no clear territorial basis. In 2016, the major part of combined SNG revenue remains grants and subsidies (56.9%). Local governments are less reliant on those grants as it constitutes 48.7% of their revenues, against 60% for state governments.

TAX REVENUE. Despite the 6th reform which increased SNG tax revenue, SNG tax revenues accounted for 26.1% of SNG total revenue, which is well below the average of the OECD federal countries (47.5%), which are mostly funded through taxes (except Mexico and Austria). The shares of SNG tax revenue in GDP and public tax revenue are also much lower than in the OECD federations (8.8% of GDP and 42.2% of public tax revenue on average).

At regional level, there are great disparities regarding regions and communities on that matter as communities enjoy few tax revenue. Regional taxes comprises both shared taxes and own-source taxes. In particular, regions receive a fraction of the personal income tax (PIT) collected in their territory. Since 2014, the regions can levy a regional personal income tax (PIT) by means of a regional additional tax on PIT. PIT in Belgium consists now of two major components: federal (central government) PIT and regional PIT. Region’s tax competencies are also increased regarding tax bases, tax rebates, exonerations and refundable tax credits. The regions also perceive around 12 other own-source taxes, including registration duties on sales of real estate, inheritance and gift tax, tax on vehicles, the withholding tax on real estate (property tax levied on owned land, buildings and industrial equipment, based on the presumed notional rental value of the property), taxes on goods and services, excises taxes on tobacco, alcohol and soft drinks, etc. By contrast, the 3 communities do not have fiscal revenues of their own, and are mainly financed by shared tax revenues from the PIT collected in their area and VAT tax.

Belgium local taxation system differs from other countries, in the sense that local governments can create new local taxes and have large leeway over both rates and bases. The main local own-taxes are surtaxes (additional centimes or percentages) on the PIT, on the vehicle tax and on the regional withholding tax on real estate, and local taxes such as the waste and leisure tax, over which they have full discretion. Provinces also levy taxes under the form of additional centimes on the withholding tax on real estate as well as other local taxes such as tourist tax or tax on second homes. In Flanders, as part of the provincial reform, the additional centimes levied on the property tax will be limited as of 2018. Provinces will lost the most of their taxing power.

Overall, PIT levied at subnational level as shared or own-source tax accounted for 45% of SNG tax revenue (49% for the state level and 35% for the local level) and 12% of total SNG revenues. PIT represented 3.1% of GDP and 26% of PIT collected at general government level. The recurrent taxes on property, levied both by regions and local governments, accounted for 1.3% of GDP (higher than in the OECD on average where it stands at 1.1% of GDP in 2016), 19% of SNG tax revenue (1.2% for the regions and 56.2% for the local level) and almost 5% of SNG revenue (and 17.4% of local government revenue).

GRANTS AND SUBSIDIES. Belgium system of decentralisation has long been characterized by strong fiscal imbalances, with a high level of decentralisation of expenditure compared to a more centralised distribution of revenues. This imbalance remains despite the 6th reform of the state. Grants and subsidies accounted for amost 57% of SNG revenues, and even higher for the state level. The existence of equalisation mechanism from the federal government to federated entities, called “National Solidarity Intervention” (Dutch: *Nationale Solidariteitsbijdrage* (NSB); French: *Intervention de solidarité nationale* (ISN) is still effective. Under this equalisation scheme, equalisation is carried out at the level of the regions on the basis of PIT collections and unemployment.

Local governments receive funds and specific allocations from their regional government, both earmarked and general grants, amounting to almost 49% of their total revenue in 2016. The Municipal and Provincial Funds, which are managed by the regions since 1989, are the most important. Each Region (and – since 2005 – the German-speaking Community which became supervisory authority for the nine German-speaking municipalities in 2005) applies its own growth rate to its Municipal Fund and allocates its resources among the municipalities according to its own rules. These general-purpose transfers include financial equalisation mechanisms. Therefore, resources from the Municipal Funds are allocated to municipalities according to some of their specific characteristics, taking into account centrality, demographic variables and socioeconomic factors. In each region, the funds are allocated in inverse proportion to the fiscal capacity of the municipality's residents in terms of the additional centimes on PIT and property tax. The municipalities can make free use of the resources that they receive from the Municipal Fund. As far as provincial funds are concerned, it has been abolished in the Flemish regions in 2015, as part of the provincial reform. The Walloon Region cut down its Provincial Fund resources in 2015. These reductions were associated with the transfer of responsibilities to the Region, and economies are also planned in 2018.

Other earmarked funds include operation subsidies to cover specific current and capital spending responsibilities. However, the trend is to include more and more these specific funds in the municipal funds. For example, in the Flemish Region, various grants have been transferred to the general funding in recent years, coming now under the Municipal Fund, but are not adjusted in line with the growth rate laid down in the decree and are awarded automatically to the local authorities. The Cities Fund was also incorporated in the Municipal Fund. In the Brussels-Capital Region it was also decided in 2017 to reform the Municipal Fund, by incorporating three specific allocations in the general allocation.

OTHER REVENUES.

Tariffs and fees. SNGs can generate their own income from user tariffs and fees (around 8.7% of SNG revenues, and 12% for municipalities and provinces only). Proceeds from sales of goods and services include charges paid for various services provided by the CPAS / OCMW (meals, child care or home care), parking fees, refuse collections bags or containers. In April 2016, regional governments introduced a new toll on heavy trucks. The levy is charged for using motorways, as well as a number of regional and municipal roads.

Property income. SNGs also raise income from financial and physical assets (rentals, dividends, interests, etc.), which accounted for 1.8% in 2016. In the past two decades, income from assets have strongly declined for two main reasons: the sale by local authorities of substantial shareholdings, notably in the energy sector, leading to the disappearance of the dividends; the low interest rate that depressed income from assets.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.			% GDP			% GENERAL GOVERNMENT DEBT			% SNG DEBT		
	SNG	State	Local	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total outstanding debt	**8 875**	6 374	2 501	**22.5%**	16.2%	6.3%	**17.5%**	12.6%	4.9%	**100%**	100%	100%
Financial debt*	7 819	5 531	2 288	19.8%	14.0%	5.8%	15.9%	11.3%	4.7%	88.1%	86.8%	91.5%

* Currency and deposits, loans and bonds

FISCAL RULES. Belgium has an internal stability pact covering the period 2015-2018. This is the first time this internal pact concerns all levels of government, including local authorities, which are formally integrated in accordance with the coordination mechanisms established by the Cooperation Agreement of 13 December 2013. This Cooperation Agreement on fiscal coordination was concluded between the federal government and the regional and community governments. It introduces a structural government budget balance rule at general government level. Furthermore, it formalises established coordination practice by making official the role of the intergovernmental "Consultative Committee" in the process and reinforce the advisory and monitoring role of the High Council of Finance (Public Borrowing section). This High Council of Finance (HCF), established in 1936, is an independent fiscal institution whose members are nominated by the federal, community and regional levels. It recommends fiscal targets and provides normative policy assessments. Its newly Section "Public Sector Borrowing Requirements" (PSBR) enacts specific competences for intergovernmental fiscal coordination.

At local level, the equilibrium principle was introduced for municipal finances in the 1990s, eliminating local deficits. Since the federalisation process, regions have taken over responsibility for budgetary supervision of local governments and have made a number of additions and revisions which have strengthened the budgetary framework, resulting in sound finance at local government level.

DEBT. 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"). In 2016, SNG debt amounted to 17.5% of the general government debt, and represented 22.5% of GDP (an increase of 3.5 percentage points since 2013). Regional debt represents 72% of total SNG debt. It is made up of 62% of loans, 25% of bonds, and 13% of other accounts payable. Local debt comprises mainly loans (85% of outstanding local debt), and introduced recently some share of bonds (6%). Overall, SNG financial debt ("Maastricht debt") accounted for 88% of SNG outstanding debt, mainly composed of loans (77.5% and even 93.1% for the local level) and bonds (22.5%).

SNGWOFI
World Observatory on Subnational Government Finance and Investment
Lead responsible: OECD
Last update: 02/ 2019
www.sng-wofi.org

Socio-economic indicators: OECD // Eurostat // World Bank // UNDP // UN Desa // ILO // STATBEL.
Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // Eurostat.
Other sources of information: NBB (2018) Local government finances in Belgium NBB Economic review // Belfius (2017) Study of local finance – Budget 2017 // OECD (2017) OECD Economic Survey: Belgium 2017 // Bonnet-Pineau E. and C. Vandermotten (2016), Territorial divisions in Europe, in EchoGéo 2016/07 // Council of Europe (2014) Local and regional democracy in Belgium.

BOSNIA AND HERZEGOVINA (BIH)

FEDERAL COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME LOCAL CURRENCY: CONVERTIBLE MARK (BAM) (KM)

POPULATION AND GEOGRAPHY

Area: 51 210 km^2
Population: 3.507 million inhabitants (2017), a decrease of 1.0% per year (2010-2015)
Density: 68 inhabitants / km^2
Urban population: 47.9% of national population
Urban population growth: 0.5% (2017 vs 2016)
Capital city: Sarajevo (9.8% of national population)

ECONOMIC DATA

GDP: 46.0 billion (current PPP international dollars), i.e. 13 108 dollars per inhabitant (2017)
Real GDP growth: 3.2% (2017 vs 2016)
Unemployment rate: 25.1% (2017)
Foreign direct investment, net inflows (FDI): 463 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 18.0% of GDP (2017)
HDI: 0.768 (high), rank 77

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Bosnia and Herzegovina is a multi-ethnic country with an asymmetrical and complex governance structure. The Dayton Peace Agreement of 1995 that put an end to the armed conflict in Bosnia and Herzegovina (April 1992–December 1995) and the 1995 Constitution divided Bosnia and Herzegovina into two entities: The Federation of Bosnia and Herzegovina (FPiH) and the Republic of Srpska (RS), to which was added, in 1999, the autonomous District of Brčko.

According to the 1995 constitution, the collegial Presidency is composed of three members from the constituting nations: one Bosniak and one Croat from the Federation of Bosnia and Herzegovina (FBiH) and one Serb from the Republic of Srpska (RS), all three directly elected. The Head of State is the Chairman of the Presidency, and the Government is led by the Chairman of the Council of Ministers. Legislative power is vested in a bicameral parliament, composed of the House of Representatives, with 42 members, two-thirds of whom are elected from the FBiH, and one-third from the RS, and of the House of People, with 15 delegates, two-thirds from the FBiH and one-third from the RS. Moreover, the FBiH and the RS each have their own constitution, government and parliament (houses of representatives), with directly-elected members. While the constitution does not mention the autonomy of local governments, it sets the power of the constituent entities to organise their own territories.

The Federation of Bosnia and Herzegovina is a federation composed of 10 self-governing cantons, according to the 1994 Constitution, enacted prior to the Dayton Peace Agreement. The cantons were established by the 1996 Law on Federal Units, and have their own Constitution, Parliament (unicameral Assembly), Government (prime minister and cantonal ministries) and judicial powers. The constitution establishes the responsibilities of the cantons and municipalities but does not explicitly recognise the autonomy of local governments.

On the other hand, the Republic of Srpska was established by its 1992 Constitution as a unitary state, a territorially unified legal entity, with a single-tier of subnational government, composed of municipalities. The RS Constitution recognises local self-government as one of the fundamental principles of the Republic (art. 5) and assigns a set of responsibilities to the municipalities although it does not address their autonomy.

The District of Brčko is a former municipality, which was divided between the two entities (FBiH and RS). An international arbitration tribunal in 1999 prescribed the establishment of Brčko as a District. It is since then a condominium over which FBiH and RS formally agree to share equal dominium and exercise their rights jointly, without owning it. State legislation directly applies to the District and its fields of competences are nearly the same as the ones of the Entities.

TERRITORIAL ORGANISATION

2016	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	79 municipalities *(općina)* and cities in FBiH 62 municipalities and cities *(opština)* in the RS	10 cantons *(kantoni)*	2 entities (one federal state and one unitary state) District of Brčko	
	Average municipal size: 24 700 inhabitants			
	141	10	3	154

OVERALL DESCRIPTION. BiH has an asymmetric governance system, composed of three entities independently divided between cantons and cities/municipalities.

ENTITIES. The Federation of Bosnia and Herzegovina (FBiH) represents 51% of the BiH total surface area and around 63% of the total population, which has a Bosniak and Croat majority (estimates). It has a three-tier federal government organisation, composed of ten federal units, the cantons, three of which have a Croatian majority, two a mixed Croatian and Bosniac population, and five a Bosniak majority. Their size varies from 26 000 for the smallest canton (Bosnian-Podrinje Canton Goražde) to between 440 000 and 480 000 for the two most populated Cantons, Tuzla Canton and Sarajevo Canton (which thus accounts for around 40% of the FBiH population). In 2013, it was proposed to reform the cantons, but the reform was not approved. Cantons are further divided into 79 cities and municipalities as local self-government units. The Republic of Srpska accounts for 48% of the total territory and 35% of the total population, with a Serbian majority. It has a single level of local government constituted of 62 municipalities and cities (a decrease from 80 in 1996). For statistical purposes, the RS can also by divided into seven regions that have no local administration. Territorial Development Plans are developed for the RS according to regional and sub-regional divisions (the last plan dates back to 2008-2015). The Brčko District, with around 95 000 inhabitants, is a special unit of local self-government with its own institutions, laws and regulations, powers and status.

CANTONAL LEVEL. In FBiH, cantons are headed by a premier (*premijer*), assisted by cantonal ministries and agencies. Cantons all have specific laws so as to ensure equality amongst citizens from various ethnicities.

MUNICIPAL LEVEL. Municipalities usually consist of an urban area and its surrounding villages and rural areas. Cities are defined as municipalities with more than 30 000 inhabitants, and an urban core with at least 10 000 inhabitants. They amalgamate and co-ordinate policies among urban municipalities (in RS, since 2016, cities are distinct entities which cannot be composed of municipalities). In 2013 (last census), there were 17 cities in total in all BiH, and four cities with more than 100 000 inhabitants. While the average municipal size can be estimated at around 25 000 inhabitants, municipalities range from small municipalities of around 1 000 inhabitants to larger ones of around 125 000 inhabitants. Sarajevo is both the FBiH and federal capital, while Banja Luka is the de facto capital of RS. Sarajevo is situated both in the FBiH and RS, distributed on both sides of the internal boundary called the Inter-Entity Boundary Line (IEBL), which led to the development of a new urban area in East Sarajevo specifically based in the RS. The urban area of Sarajevo counted around 343 000 inhabitants in 2017, but it encompasses more than 555 000 inhabitants if Sarajevo Canton, East Sarajevo and nearby municipalities are included. Municipalities and cities all have municipal assemblies, and local executive power is vested in the mayor. Municipal councillors and the mayor are both elected by direct universal suffrage for four years. In addition, local governments are governed according to each entity's constitution, which provide for different competences and local autonomy. In 2018, the government of FBiH submitted a draft law to the national parliament in order to establish seven new cities within the FBiH that currently hold the status of municipalities.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The Constitution of BiH provides that the Entities have powers in all areas not expressly attributed to the Federal Government, which is responsible in all matters regarding the sovereignty of the nation. According to the FBiH constitution, the cantons are competent in all areas that are not expressly attributed to the entity of FBiH, although they share some responsibilities. The constitution also lists several competencies that are specifically assigned to the cantons, and provides the legal grounds for the attribution of power to municipalities (further specified by each canton through laws on local self-governments), including the possibilities for the cantons to delegate specific responsibilities to the latter (e.g. education, culture, tourism, local business and charitable activities). This delegation of responsibilities is mandatory when most of the population in a municipality is from a different ethnicity from that of the canton. In the RS, local governments have both exclusive and shared competences. Municipalities have exclusive competences in all fields of local interest, and their shared competences encompass pre-elementary, primary and secondary education, health, public safety, civil affairs registry, culture, urban planning, trade, tourism and local media.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	CANTONAL LEVEL (FBIH)	MUNICIPAL LEVEL	
		FBIH	RS
1. General public services		Assessment of the implementation of policies in healthcare, social welfare, education, culture and sport	Civic affairs registry; Management of natural resources
2. Public order and safety	Police forces	Advisory role regarding public order and safety of people and property; Recovery from natural disasters	Firefighting; Municipal police
3. Economic affairs /transports	Cantonal tourism policy	Economic development and employment; Maintenance of local roads and bridges; Public car parks; Local public transport	Trade and tourism; Employment; Local roads and streets; Gas supply
4. Environmental protection	Environmental policy	Parks; Wastewater treatment; Solid waste disposal	Environmental protection; Sanitation
5. Housing and community amenities	Housing policy; Land-use; Building regulations for residential buildings	Spatial Planning; Urban and implementation plans; Zoning; Housing policies and construction; Cemeteries; Street lighting; Water supply	Spatial, urban and regulation plans; Land-use planning; Construction sites; Regulations on building and business premises
6. Health	Health policy	Public hygiene	Healthcare centres; Public health (geriatric centres)
7. Recreation, culture & religion	Development and implementation of cultural policy	Management of cultural institutions; Construction of cultural and sport facilities	Theatres and galleries; Sport and culture halls
8. Education	Development of educational policy	Pre-school educational policy; Public institutions for preschool education and elementary educational institutions	Preschool, primary and secondary schools
9. Social protection	Social welfare policy		Centres for social work

SUBNATIONAL, STATE AND LOCAL GOVERNMENT FINANCE

Scope of fiscal data: municipal level only in RS and FBiH. Fiscal data for the Entities and the cantons are not included.	SNA 2008	Availability of fiscal data: **Low**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. The central government in BiH is relatively weak regarding its fiscal powers compared to the two entities of FBiH and RS. In FBiH, the bulk of fiscal power lies in the cantons, while it lies in the entity in RS. Each entity has its own Ministry of Finance and laws concerning financial and fiscal rules. SNG finance is regulated by the Law on Public Revenue allocation in FBiH, and the Law on the Budget System in RS. Local governments in each entity are therefore evolving in two different subsystems and is treated differently. A series a laws were adopted in the RS in 2015-2016 regarding the local government system, including the Law on Amendments to the Law on property rights (2015), the Law on Amendments to the Law on Income Tax (2015), the Law on Pre-school Education (2015), the Law on Fiscal Responsibility (2015), the Law on Territorial Organisation (amended several times between 2012 and 2016), and the new Law on Property Tax (2015). The new Law on self-government passed in 2016 organised the tasks of legal representation of local governments before courts regarding property and legal disputes on the collection of tax revenue, fees and charges.

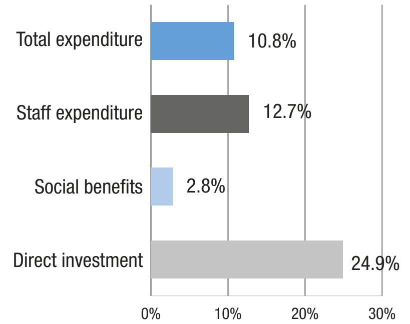
BOSNIA AND HERZEGOVINA (BIH)

FEDERAL COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**547**	**4.5%**	**100%**
Inc. current expenditure	435	3.6%	79.5%
Staff expenditure	170	1.4%	31.1%
Intermediate consumption	115	0.9%	20.9%
Social expenditure	55	0.5%	10.0%
Subsidies and current transfers	87	0.7%	15.9%
Financial charges	9	0.1%	1.7%
Others	0	0.0%	0.0%
Incl. capital expenditure	112	0.9%	20.5%
Capital transfers	39	0.3%	7.0%
Direct investment (or GFCF)	74	0.6%	13.4%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)

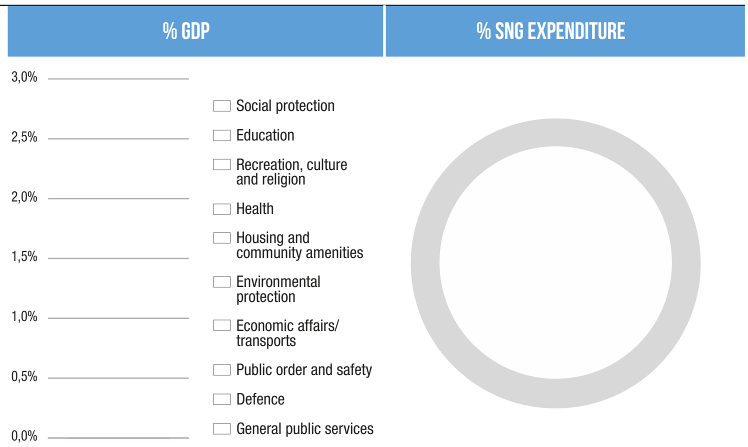


EXPENDITURE. TSNG expenditure levels as a share of total expenditure and GDP in BiH are relatively low compared to the EU28 average (respectively 33.4% and 15.5% in 2016). Current expenditure represents 79.5% of SNG total expenditure, among which staff expenditure accounts for 31% of SNG expenditure, and SNG investment 13%.

DIRECT INVESTMENT. Direct investment by SNGs accounted for 0.6% of GDP and 24.9% of public investment in BiH in 2016. Local investment in FBiH was substantially affected by the 2008 financial crisis (prior to the crisis, it represented about one-third of all public investment in the federation, dropping to 11% in 2013). The situation has reversed since 2015, and local investment increased to 42% of public investment in the federation. Similarly, local investment in RS accounted for 78% of total public investment in 2008 and decreased significantly until 2015, to account for less than 20% of total public investment. Municipal investment aims to extend basic services, especially to rural areas.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

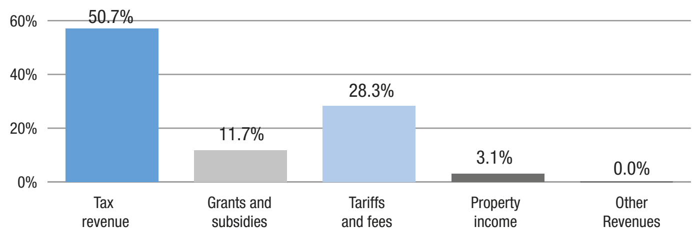
SNG spending allocation varies according to each entity, but overall BiH municipalities and cities tend to spend a large share of their budget on general public services, much more than their EU counterparts, as well as on subsidies to municipal utilities. Local financing of basic services relies primarily on funds from local tariffs and fees determined locally, and therefore service delivery is very uneven across cities and municipalities in particular regarding waste, water, roads and sanitation.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**568**	**4.7%**	**10.9%**
Tax revenue	323	2.7%	11.7%
Grants and subsidies	66	0.5%	
Tariffs and fees	161	1.3%	
Property income	17	0.1%	
Other revenues	0	0.0%	

% SNG REVENUE



OVERALL DESCRIPTION. Shared tax revenue represent the most important source of SNG revenue in BiH. They are collected by the central level and then divided between the State, the entities and the Brčko District according to a formula stated in the Law on Indirect Taxation in BiH. Then, the allocation of indirect taxes within each entity, as well as the regulation of local taxes, are regulated by each entity's legislation. Communal fees and charges account for another significant part of local revenue. In 2016, tax revenues accounted for 57% of SNG total revenue followed by tariffs and fees with 28.3% while property income (revenue from assets) accounted for 3.1% of SNG total revenue.

TAX REVENUE. SNG revenues in BiH are regulated by each entity's laws, while the central government has authority on VAT and most indirect taxes. The most important source of SNG revenue comes from the sharing of the VAT (68.8% of SNG tax revenue and 39.2% of SNG total revenue in 2016), as part of the intergovernmental transfer scheme. It is followed by the sharing of the personal income tax (PIT), and the local collection of property taxes (respectively 16.2% and 14.1% of SNG tax revenues in both FBiH and RS). In RS, local tax revenues are regulated by the 2004 Law on the Budget System and collected by the RS tax administration. Besides the share of the VAT that is redistributed across SNGs depending on their size, cities and municipalities also receive 25% of the shared taxes on PIT generated within their jurisdictions. Other local taxes include the property tax (under 0.5% of GDP), tax on citizens' income from agriculture and forestry, and local business registration tax. In 2015, following amendments to a new law on the property tax, the tax base was defined as the estimated market value of the property as of 31 December of the preceding year. In FBiH, revenues of local government are regulated by the 2006 Law on Principles of cantonal and local governments and the 2009 Law on Public Revenue Allocation. SNG tax revenues are composed of both own-tax revenue, for which local units can set the rate in accordance with the law, and shared tax revenue. Municipalities in the FBiH are entitled to at least 34.46% of the PIT revenues that are collected within its territory (the other 65.54% remains with cantonal governments). In the Sarajevo canton, this share corresponds to 1.79% for municipalities and 98.12% for the canton. Municipalities are also entitled to tax revenues from the property tax, whose regulation varies across the 10 cantonal governments. It is administered by cantonal governments, which set its base and rate, and it is then redistributed to local governments, each entitled to receive the funds collected within its jurisdiction.

GRANTS AND SUBSIDIES. Grants to local governments stood for 11% of SNG revenue in 2016, among which 82% were current grants. All VAT revenue, custom fees, excise fees and road fees flow into a single account at the central level, before being transferred to each entity, which then share them among the municipalities as unconditional transfers. In the FBiH, the total amount is split according to fixed percentages: 51.23% to cantons, 8.42% to cities and municipalities, 0.25% to the city of Sarajevo, and the remaining 36.2% to the budget of the FBiH. The share allocated to the municipalities is further distributed according to a formula that takes into account the population size (68%), and other coefficients. In addition, municipalities also receive conditional grants, either from the FBiH entity or from the cantons. The grants tend to be used for investment projects. In the RS, grants and transfers represent more than 60% of municipalities' total revenues. They include an unconditional transfer accounting for 24% of the entity's share of indirect taxes, allocated according to the following formula: 75% on a per capita basis, 15% based on the territory and 10% based on the number of secondary school students. In addition, underdeveloped and extremely underdeveloped municipalities receive an equalisation transfer, calculated based on a series of criteria. Municipalities are also entitled to conditional grants (between 3 and 5% of local governments' budgets in the RS between 2013 and 2017). The grants are primarily used for investment expenditure.

OTHER REVENUES. Tariffs and fees are the second biggest source of revenue for local governments in BiH after tax revenue. Their share in SNG revenue is well above the EU average (11.6% in 2016). In the RS, local fees and charges include fines, municipal administrative fees, communal fees, municipal fees for the use of natural and other resources of general interest and land development fees. They are collected by the entity, and either redistributed entirely to the local administration, or shared between the RS government and municipalities (for instance, 15% of road fees go to local governments). In the FBiH, local public are entitled to fees and charges, whose levels are set by the council in accordance with the law, as well as revenue from property use and sales, and from local public companies and other legal entities owned by local governments. There is no unique system or precise rules for the setting of fees and charges, nor the collection process, which often leads to disparities across jurisdictions. According to the Register of Fees and Charges released in 2017 with USAID, there exist approximately 350 different fees in FBiH, with an average of 20 fees per municipality.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**478**	**3.9%**	**7.1%**	**100%**
Financial debt*	191	1.6%	3.9%	40.1%

* Currency and deposits, loans and bonds

FISCAL RULES. The fiscal council of BiH, established in 2008, oversees all fiscal activities of the various entities and ensures their compliance with the budgetary calendar. It is comprised of representatives from all entities in BiH and is chaired by the Council of Ministers. Its main attributions include the co-ordination of fiscal policies and the setting of fiscal targets and debt ceilings for territorial institutions (RS, FBiH, District of Brčko). The Global Framework for Fiscal Balance and Policies in BiH is issued every three years as an agreement on fiscal policies by BiH, FBiH and RS. In RS, a law on fiscal responsibility was adopted in 2015, which led to the creation of a fiscal council with the authority to request local government authorities to release their fiscal information. Article 6 of the Budget Law also stipulates that the budget of the RS government units shall be balanced. In FBiH, article 42 and 43 of the Law on the Budgets set the rules for fiscal responsibility across government units, and requires that a budget for any given fiscal year must be either in surplus or balanced, except in the case of a natural disaster.

DEBT. In FBiH, the breakdown of domestic public debt is as follows: 79.83% for the entity government, 15.7% for the cantonal government and 4.48% for city and municipal administration. In RS, municipal and city debt accounted for 12.44% of the total public domestic debt. Overall in BiH, the FBiH accounted for 54.28% of total public debt in 2016, against 45.04% for the RS, 0.24% for the Brčko district and 0.44% for the central government. Regarding cities and municipalities only, their debt reached 3.9% of GDP in 2016. Financial debt accounted for 40.1% of total local debt, i.e., 1.6% of GDP and 3.7% of the total public debt, in addition to other accounts payable. Local financial debt was mostly composed of loans (92.1%). In FBiH, according to the 2010 Law on Debt, Borrowing and Guarantees, municipalities and cities can contract long-term debt if their debt service payment in a given year does not exceed 10% of the previous year's revenues. In specific cases, municipalities and cities need permission from the Federal Ministry of Finance to borrow.

In RS, municipalities and towns can borrow to finance capital investment expenditures by up to 10% of the actual revenues generated in the previous fiscal year. They can also borrow from the RS to cover for a short-term deficit due to unpredicted current expenditures or because of a fluctuation in revenues, with the agreement of the Ministry for investment expenditures. A municipality's total borrowing obligations, cannot exceed 20% of the actual revenue generated by the municipality in the previous fiscal year.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: OECD
Last update: 02/ 2019

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Socio-economic indicators: World Bank // UNDP // UN DESA // ILO.
Fiscal data: IMF Government Finance Statistics // OECD (2018) Subnational Governments in OECD countries: key data.
Other sources of information: NALAS (2018) Fiscal Decentralization Indicators for South-East Europe // NALAS (2017) Fiscal decentralization indicators for South-East Europe: Report: 2006-2015 // Muhamed Mujakić (2016) Constitutional Position and Territorial Organisation of Local Self-Government in Bosnia and Herzegovina: Current State and Challenges // Bosnia and Herzegovina, Ministry of Finance and Treasury (2017) Report on the Outstanding Public Debt of Bosnia and Herzegovina as of 31 December 2016 // CEMR (2016) Local and Regional Governments in Europe Structures and Competences // Aquilué I. and Roca E. (2016) Urban development after the Bosnian War: The division of Sarajevo's territory and the construction of East Sarajevo // Law on the Fiscal Council in Bosnia and Herzegovina (63/08).

BULGARIA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: BULGARIAN LEV (BGN)

POPULATION AND GEOGRAPHY

Area: 110 372 km^2
Population: 7.076 million inhabitants (2017), a decrease of -0.6% per year (2010-2015)
Density: 64 inhabitants / km^2
Urban population: 74.7% of national population
Urban population growth: -0.3% (2017 vs 2016)
Capital city: Sofia (18.0% of national population)

ECONOMIC DATA

GDP: 148.2 billion (current PPP international dollars), i.e. 20 948 dollars per inhabitant (2016)
Real GDP growth: 3.8% (2017 vs 2016)
Unemployment rate: 6.2% (2017)
Foreign direct investment, net inflows (FDI): 2 182 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 19.2% of GDP (2017)
HDI: 0.813 (very high), rank 51 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Bulgaria is a parliamentary democracy, governed by the 1991 Constitution. The unicameral Parliament is composed of 240 deputies, directly elected by the population for four-year terms. Members of the Parliament appoint the Prime Minister and Head of Government, who chairs the Council of Ministers. The President, i.e., the Head of State, is also directly elected by universal suffrage for five years.

Bulgaria is a unitary country, with a single-tier of subnational government, composed of municipalities. The principles of self-governance are enshrined in articles 135-146 of the 1991 Constitution. In addition, the Local Self-Government and Local Administration Act, adopted later in 1991, consolidated the guidelines provided by the Constitution, regulated the administrative-territorial structure of Bulgaria and defined the organisation and functions of local self-governments. The period 1994–2005 was characterised by the adoption of a package of laws: in 1995, the Act on Administrative and Territorial Structure of the Republic of Bulgaria; in 1996, the Referendum Act and Municipal Property Act; in 1997 Local Taxes and Fees Act; in 1998 the Municipal Budgets Act (replaced by the 2014 Law on Public Finance) and in 2005 the Municipal Debt Act.

In 2002, the process of decentralisation took a new step with the adoption of a Concept paper on fiscal decentralisation. It was then boosted by the EU accession process, resulting in the adoption in 2006 of the Strategy for Decentralisation: 2006-2015. The strategy was revised in 2010 and monitored by the Council for Decentralisation of State Governance, which was set up in 2006. The main objectives were the decentralisation of services, powers, and resources from higher to lower levels of government. A progress report was published in 2016, within the framework of the new Decentralisation Strategy: 2016-2025. According to the Ministry of Regional Development and Public works, the results of the 2006-2015 phase were unsatisfactory as only 39% of the measures were implemented. The review highlighted, however, the fact that the process of decentralisation slowed considerably because of the impact of the global crisis and the financial policy during that period. The municipalities were the most affected by the public institution crisis.

The new 2016-2025 strategy has four main strategic objectives: the transfer of powers and functions from central to local authority in key sectors; fiscal decentralisation with better assignment of revenues across levels of government to expand municipalities' revenue bases; development of civil control of public institutions; and increasing the role of regional institutions for the implementation of co-ordinated policy for regional development.

The last priority aims at creating conditions for the balanced development of regions by establishing regional institutions and strengthening their capacity through adequate powers, responsibilities and resources. This could lead to the creation of deconcentrated institutions at regional level and possibly pave the way for a second level of self-governance to emerge. Currently, there are six planning regions in Bulgaria but they do not have an administrative structure or their own budget. They act as conduits for regional planning and programming pertaining to EU structural funds. The Regional Development Act, promulgated in 2008 and amended in 2009, introduced regional development councils whose members are appointed by the central government.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	265 municipalities *(obshtini)*			
	Average municipal size: 26 702 inhabitants			
	265			265

OVERALL DESCRIPTION. Municipalities are the basic administrative territorial unit and only tier of local government. There are 265 municipalities, comprising the administrative centre and its surrounding settlements.

Municipalities are governed by municipal councils (*obshtinski savet*), which are deliberative bodies, and mayors who constitute the executive branch. Municipal councillors, whose number varies according to the council size, are elected by direct universal suffrage for a four-year term. They are headed by a chairperson elected from among its members. Mayors (*kmet*) are elected by direct universal suffrage based on a majority system, also for a four-year term.

The 1995 Act on Administrative and Territorial Structure of the Republic of Bulgaria states that municipalities with more than 300 000 inhabitants (i.e. Sofia, Plovdiv and Varna) shall be subdivided into wards (*gradski rayon*). There are currently 24 in Sofia, six in Plovdiv and five in Varna. Other municipalities are also subdivided into smaller towns and villages (*naseleno myasto*), totalling 4 991 at the end of 2017 (hence 19 on average per municipality). Around 2 500 of these settlements are "mayoralties", i.e. deconcentrated municipal units established by decision of the municipal council, governed by elected mayors and comprising at least 350 inhabitants. Smaller settlements have mayor's representatives appointed by the mayor.

Overall, the average municipal size is quite large compared to the OECD average (9 700 inhabitants) and, especially, to the EU28 average (5 900 inhabitants). While the median size is around 10 300 inhabitants, 19% of municipalities have fewer than 5 000 inhabitants (vs 47% in the EU28). The majority of Bulgarian municipalities have between 5 000 and 20 000 inhabitants (55% vs 27 in the EU28).

According article 9 of the Local Self-Government and Local Administration Act, municipalities may co-operate on a voluntary basis. Amendments in 2006 set out the regulatory framework for inter-municipal co-operation. However, it is not widespread and the 2016-2025 strategy aims at developing inter-municipal co-operation further.

The National Association of Municipalities in the Republic of Bulgaria plays an important role in vertical co-ordination between the central government and municipalities, in particular in negotiating annual standards and grant allocation mechanisms.

Deconcentrated government units comprise 28 districts (*oblast*) at the intermediary level. The districts were created in 1999, as deconcentrated levels of state authority. Districts are in charge of monitoring the legality of municipal council decisions, co-ordinating municipal activities, and co-ordinating with the national level. They are headed by a district governor, appointed by the Council of Ministers. *Oblast* development councils include one representative of the municipal council of each *obshtina* and a delegated representative of the national organisations of employers and employees and are chaired by the governor.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The competences of SNGs are stipulated in the Local Self-Government and Local Administration Act adopted in 1991. Municipal responsibilities are divided into two categories: state-delegated responsibilities (education, social protection and healthcare) and exclusive responsibilities. Municipalities' own responsibilities cover several areas such as housing and community amenities, economic affairs and transport, environmental protection, utilities, culture, etc.

Municipalities also operate through their local companies. Although it is unclear how many local companies operate in Bulgaria, they are estimated to total around 800. Their financial importance is not well known, either. Municipality-owned enterprises are diverse in their activities – waste collection, engineering, real estate management, waste recycling, maintenance of green areas, sport facility maintenance, etc.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPAL LEVEL
1. General public services	Municipal administration; Civil registers; Issuance of building permissions; Management of municipal property; Management of municipal companies
2. Public order and safety	
3. Economic affairs/transports	Municipal roads; Urban public transport; Tourism
4. Environmental protection	Environmental protection; Waste management; Sewerage systems
5. Housing and community amenities	Spatial planning; Water supply; Housing
6. Health	Municipal hospitals; Nursery schools (delegated)
7. Recreation, culture & religion	Theatres, Libraries; Local media; Sport; Leisure
8. Education	Pre-school education; Early, primary and secondary education (delegated); Construction and upkeep of buildings; Canteens and extra-curricular activities
9. Social protection	Centres for homeless children; Home-based assistance for the elderly; Residential homes for senior citizens (delegated)

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: municipalities and municipally-owned hospitals.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. Financial provisions are provided by the Constitution (changed in 2007 to grant taxing powers to municipalities), the Local Self-Government Act and the Local Administration Act, the Local Taxes and Fees Act (enacted in 1999 and amended in 2018) and the 2014 Law on Public Finance, which contains the legal basis for preparation of the autonomous budgets of municipalities. According to the legislation, exclusive municipal responsibilities are financed through local taxes, whereas delegated activities are financed by transfers from the national budget. However, each local council may assign additional funding from its own revenue to finance the provision of delegated tasks. Thereby, the level of own revenue is decisive for financing delegated services above the national average, which may create imbalances and disparities between municipalities. Since 2000, a series of reforms have been implemented to provide municipalities with more fiscal autonomy, which remains - however - low. In 2018, expert groups were set up to discuss further amendments to the Local Taxes and Fees Act, in order to enhance municipalities' own-revenue base. Proposals included the introduction of a municipal personal income tax, increasing local discretion on tax assessments, and the creation of new fees for street lighting and urban congestion.

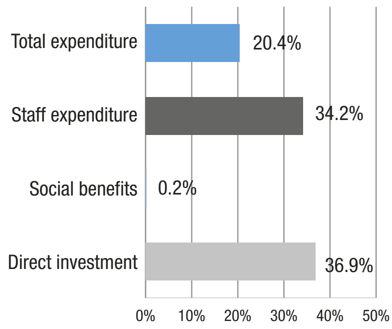
BULGARIA

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**1 314**	**6.8%**	**100%**
Inc. current expenditure	1 144	5.9%	87.0%
Staff expenditure	593	3.1%	45.1%
Intermediate consumption	368	1.9%	28.0%
Social expenditure	6	0.0%	0.4%
Subsidies and current transfers	170	0.9%	13.0%
Financial charges	7	0.0%	0.5%
Others	0	0.0%	0.0%
Incl. capital expenditure	170	0.9%	13.0%
Capital transfers	0	0.0%	0.0%
Direct investment (or GFCF)	170	0.9%	13.0%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



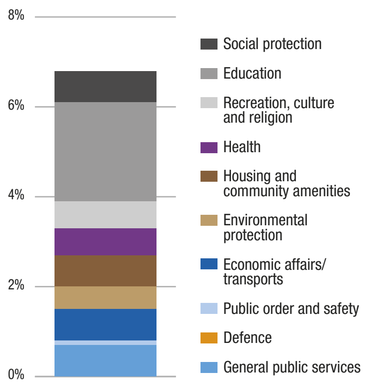
EXPENDITURE. Despite the decentralisation process, the level of SNG expenditure in Bulgaria remains significantly below the EU28 average (15.5% of GDP and 33.4% of public expenditure). Staff expenditure represents a relatively important share of SNG expenditure, well above the EU average (45.1% of SNG expenditure in Bulgaria vs 32.9% in the EU28), resulting from the fact that municipalities are, in charge of, among other things, paying the salaries of teachers, nurses and doctors working in hospitals. Despite this, municipal staff expenditure accounted for 34.2% of public staff expenditure, which is below the EU28 average (50.9%). Overall, current expenditure accounted for 87% of total spending, leaving little space for capital expenditure.

DIRECT INVESTMENT. In 2016, SNG investment accounted for 0.9% of GDP and 36.9% of total public investment, two ratios below the EU average (1.4% of GDP and 50.9% in 2016) and which have been decreasing in recent years. In 2013, SNG investment amounted to 2.0% of GDP and almost 52% of public investment. The drop resulted from the global crisis; however, in addition, Bulgaria, like other EU countries benefiting substantially from cohesion funds for their investment, suffered from a "cliff effect" that saw SNG investment decline after the 2015 deadline for payments under the last EU programming period. In 2016, 45% of local investments were dedicated to housing and community amenities, including water supply and sewerage systems; 13% were dedicated to economic affairs, including transport and municipal roads; and 12% went to the education sector (building and maintenance of school infrastructure).

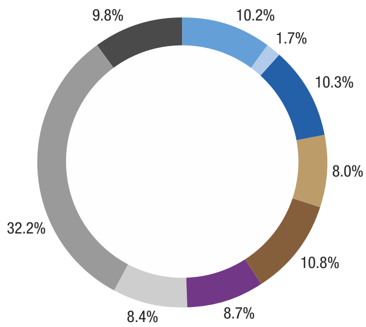
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Education is by far the biggest area of SNG expenditure, well above the EU28 average (18.4%). Local expenditure on education accounts for almost 64% of total public expenditure in this category. It is followed by housing and community amenities, economics affairs and transport and general public services, which all account for the same weight in SNG spending. The general public services sector has expanded slightly in recent years, due to the latest public management reforms. SNGs accounted for more than 85% of public expenditure in the environmental protection sector.

% GDP



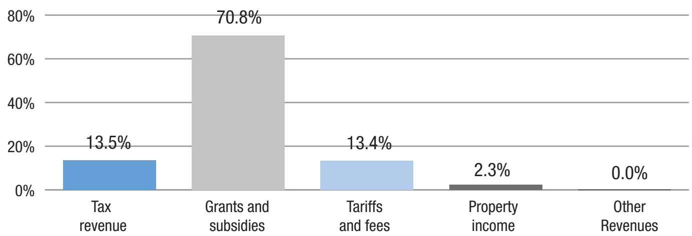
% SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**1 327**	**6.9%**	**19.6%**
Tax revenue	179	0.9%	4.4%
Grants and subsidies	940	4.9%	
Tariffs and fees	177	0.9%	
Property income	30	0.2%	
Other revenues	0	0.0%	

% SNG REVENUE



OVERALL DESCRIPTION. In 2016, SNG revenue accounted for a relative small share of GDP and public revenue. Despite recent reforms aimed at increasing tax revenues, the share of grants and subsidies in SNG revenue remains very high, well above the EU28 average (44.1%). As a consequence, the share of tax revenues is significantly below the EU28 average (41.1%) while other revenues (tariffs and fees and property income) accounted for a relatively large share of revenue (15.7% vs 12.8% in the EU28).

TAX REVENUE. In 2003, important tax reform shifted the focus from tax sharing arrangements (based on shared personal income tax) to a system based on own-source taxes. The tax reform was further developed in 2006 with the decentralisation of tax collection and the establishment of local tax administration. In 2007, municipalities were devolved the power to set the rates of local taxes independently (within legal limits). However, they cannot set the local tax base, or provide additional (or remove the existing) legal breaks for certain taxpayers. Municipal tax revenues are currently composed exclusively of own-source taxes, encompassing the property tax, the tax on property transactions, the vehicle tax, which form the bulk of tax revenue (78% of total local tax revenue and 10.5% of local revenue) as well as other smaller taxes such as the inheritance tax, the patent tax and the tax on tourism.

The property tax itself represented 35% of subnational tax revenue in 2016 and 4.7% of local revenue. It is paid by property owners and levied on buildings and land. Since a reform went into effect in 2005, the tax is now based on the assessed value of the property. In 2016, this tax amounted to 0.3% of GDP, i.e., well below the OECD average (1.1%). The inheritance tax accounted for 29% of local tax revenue and the vehicle tax 14%. The recent amendment of the Local Taxes and Fees Act in 2018 modified the vehicle tax, which is now based on two components: property and environmental impact. Each municipality is entitled to determine, within legal limits, the variable property component and the ecological component.

GRANTS AND SUBSIDIES. The 2003 reform that eliminated PIT sharing was accompanied by a change in the inter-governmental system. The share of block and conditional grants were increased. Municipalities first receive a general grant aimed at financing state-delegated responsibilities. It accounts for approximately 75% of total grants. The grant is composed of a portion of PIT revenues and a subsidy calculated according to the amount of expenditure and to the national average of revenue capacity. This grant is conditional and is therefore allocated to education (70% of the subsidy), social assistance (10%), culture and healthcare. Municipalities also receive a general equalisation grant (around 10% of all transfers). It is unconditional and local governments have full autonomy in how they spend it. The general equalisation grant aims to ensure a minimum level of local service provision by each municipality. It is based on two criteria (defined in the annual Budget law, they may vary from year to year): revenue potential – it benefits municipalities whose per capita own-revenues fall below 90% of the national average; and expenditure needs, combined with surface area. Municipalities with per capita expenditures of less than 100% of the national average are entitled to 100% of the difference. Municipalities, whose expenditures are higher than the national average, receive 50% of the difference.

Finally, a small share of transfers is made up of earmarked grants for capital expenditure, mainly for rebuilding roads and streets. Bulgarian municipalities have also received nearly EUR 4 billion in grants from the European Union to improve their environmental, social and technical infrastructure (municipalities receive up to 60% of the EU funds allocated to Bulgaria).

OTHER REVENUES. Since 2003, SNGs have been given full discretion over local fees. They can set these rates and fees by municipal order. As a result, user charges represent a significant source of own-sources revenue for municipalities (13.4% vs 11.6% in the EU28). Local fees include household waste disposal, retail and wholesale markets, fairs, kindergartens, specialised social services institutions, technical/administrative services, dog ownership, and the use of sidewalks, squares, and roadways, etc. The Local Taxes and Fees Act was amended in 2008, providing for changes related to the determination of garbage collection fees. Although these changes were postponed to 2022. Sale and management of municipal property, fines, penalties, dividends from municipal enterprises and revenues from concession contracts also represent a significant source of revenue. Revenues from assets represent 2.3% of SNG revenues, which is above the EU28 average (1.2%).

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**471**	**2.4%**	**6.4%**	**100%**
Financial debt*	235	1.2%	4.0%	50.0%

* Currency and deposits, loans and bonds

FISCAL RULES. The 2014 Public Finance Act strengthened fiscal rules. It requires municipalities to have balanced budgets. The law strengthened the medium-term budgetary framework (MTBF) and enforced fiscal discipline. It also introduced a new fiscal rule determining that the average growth of local expenditure must not exceed the average growth rate of local expenditure as reported over the previous four years.

DEBT. According the Municipal Debt Act adopted of 2005, municipalities can tap into the credit and capital markets by issuing bonds. There are however some prudential rules: long-term borrowing is authorised only for investment projects ("golden rule"), refinancing of existing debt, ensuring payments required for municipal guarantees, and for municipal public-private partnerships projects. The 2014 Public Finance Acts clarified the legal requirements regarding municipal debt and municipal guarantees. Municipalities' annual debt payments must be lower than 15% of the annual average sum of own revenues and of the block equalising grant for the last three years. SNGs can take out loans from the "Fund for Local Authorities and Governments in Bulgaria -FLAG", which provides long-term and short-term funding to Bulgarian municipalities (or groups of municipalities) to implement projects funded by EU programmes. Local authorities may also borrow through interest-free loans from the central budget and financial leasing. Municipal debt has steadily increased with the global crisis but it has started to decrease since, reaching 2.4% of GDP and 6.4% of public debt in 2016, a level well below the EU average (14.3% of GDP and 14.4% of public debt in 2016). Financial debt ("Maastricht debt") represented 50% of the outstanding debt in 2016, the remaining part being made up of "other accounts payable" i.e. commercial debt, arrears, etc., which is particularly high. The breakdown of outstanding financial debt was as follows: 89% loans and 11% bonds.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: OECD
Last update: 02/ 2019
www.sng-wofi.org

Socio-economic indicators: OECD // Eurostat // World Bank // UNDP // UN Desa // ILO // National Statistical Institute of Bulgaria.
Fiscal data: Eurostat // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // OECD (2018) Key Data on Local and Regional Governments in the European Union.
Other sources of information: Kalcheva D., Nenkova P. (2018) Bulgarian municipalities' capacity to invest and factors affecting local government capital spending for the period 2003-2017 // NALAS (2018) Fiscal decentralisation in South-East Europe, Seventh Edition // Desislava Nikolova (2017) Privatization in Bulgaria: State Ownership Is Dead, Long Live State Ownership! // Ministry of Regional Development and Public works (2016) Decentralisation Strategy 2016 – 2025 // Troeva, V. (2016) Regionalism in Bulgaria. The Assembly of European Regions // Kalcheva, D. (2016) Debt Financing and Bulgarian Municipalities // European Committee of Regions (2016) Division of Powers // Nenkona, P. (2014) Fiscal Decentralization and Local Finance Reforms in Bulgaria: A review of then years' experience // Hawkesworth, I., Emery, R., & Saenger, K. (2009) Budgeting in Bulgaria.

CROATIA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: CROATIAN KUNA (HRK)

POPULATION AND GEOGRAPHY

Area: 56 594 km^2
Population: 4.154 million inhabitants (2017), a decrease of -0.4 % per year (2010-2015)
Density: 73 inhabitants / km^2
Urban population: 56.7% of national population
Urban population growth: -0.7% (2017 vs 2016)
Capital city: Zagreb (16.5% of national population)

ECONOMIC DATA

GDP: 108.5 billion (current PPP international dollars), i.e. 26 108 dollars per inhabitant (2017)
Real GDP growth: 2.9% (2017 vs 2016)
Unemployment rate: 11.2 (2017)
Foreign direct investment, net inflows (FDI): 2 040 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 19.9% of GDP (2017)
HDI: 0.831 (very high), rank 46 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The parliament adopted the current Constitution of Croatia on 22 December 1990 and decided to declare independence from Yugoslavia on June 1991. The Constitution established the Republic of Croatia as a "unitary and indivisible democratic and social state". Croatia is a parliamentary republic whose Parliament was initially a bicameral institution, which comprised a "House of Regional Representatives". This chamber was abolished in 2001 but the Parliament's Committee for Local and Regional Self-Government continued to play a role representing subnational governments. The unicameral Parliament (*Sabor*) is currently composed of 151 representatives elected by popular vote to serve a four-year term while the President is elected through direct democratic elections for a term of five years, and acts as Chief of State. The Government is headed by a Prime Minister appointed by the President, with the approval of Parliament.

Croatia is a unitary country with two subnational government levels: counties and municipalities. The principle of local government and subsidiarity are recognised in articles 4 and 133 of the Constitution. Article 133 in particular states that "citizens shall be guaranteed the right to local and regional self-government". The main characteristics of the subnational government system are established through articles 133-138 of the Constitution.

Following the establishment of the administrative territorial division of the country through the 1992 Act on Territories of Counties, Towns and Municipalities (later amended in 1997), a major phase of decentralisation took place in 2001-2002. The Organic Law on Local and Regional Self-Government and the Law on Local and Regional Self-Government Financing (LLGF) was adopted in 2001, as was the Law on Public Utilities. The new legal framework initially transferred a set of responsibilities (particularly primary and secondary education, healthcare and social welfare) to counties and to the 32 towns with the strongest fiscal capacity. It was then gradually extended to other units on an individual basis. Amendments to the Law on Local and Regional Self-Government in 2005 and the Physical Planning and Building Act in 2007 transferred new functions to counties and major cities related to spatial planning and issuance of building permits. In 2009, amendments were made to the Law Concerning the Financing of Local and Regional Self-Government Units to introduce shared taxes and financial equalisation. The Law on Regional Development was also adopted in 2009 (and amended in 2014), introducing a competitiveness index that serves as a basis for the financial equalisation system.

In 2010, the government adopted guidelines for decentralisation and territorial reform. The document, accompanied by an action plan, has three main objectives: functional decentralisation, fiscal decentralisation, and territorial decentralisation. However, no package of essential reforms has been implemented yet.

The 1992 Act on the Territories of Counties, Towns and Municipalities was amended in September 2015 to introduce a mechanism for voluntary mergers of local self-government units.

At regional level, counties are governed by county assemblies that are composed of members elected by direct universal suffrage for a four-year term. Counties are also governed by county prefects (*župan*) who constitute the counties' executive branch. At the local level, municipalities, towns and cities each have their own local councils, with members elected by direct universal suffrage for four-year terms. In addition, they have mayors who constitute their jurisdictions' executive bodies. In 2007, the last reform on SNG introduced the direct election of mayors (for municipalities and cities) and county governors (for counties). Indeed, the Law on Elections of Municipality Heads, Mayors, County Governors and the Mayor of the City of Zagreb took effect starting in the 2009 elections.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	428 municipalities *(općina)* 128 towns *(grad)*		20 counties *(županije)* Capital city *(grad)*	
	Average municipal size: 7 472 inhabitants			
	556		21	577

OVERALL DESCRIPTION. Croatia subnational level is composed of counties (*županijas*) at the regional level and of towns (*grad*) and municipalities (*općina*) at the local level.

REGIONAL LEVEL. Re-established in 1992, counties are regional self-government units with a large degree of autonomy. The number of regions includes the City of Zagreb, which has a special status including the competences of both a town and a county (separate from the surrounding Zagreb County). There are significant socio-economic disparities across regions. While the average county size is around 204 000 inhabitants, the least populated county

(Lika-Senj) has 51 000 inhabitants while the city of Zagreb has almost 800 000 inhabitants. In 2018, the City of Zagreb and four counties (Međimurje, Istria, Dubrovnik-Neretva and Zagreb) accounted for half of national GDP, whereas most counties from Adriatic Croatia were lagging behind. Counties are gathered into two units for statistical purposes: Adriatic Croatia (7 counties) and Continental Croatia (14 counties).

MUNICIPALITIES AND INTER-MUNICIPAL CO-OPERATION. The municipal level comprises 128 towns (*grad*) and 428 municipalities (*općina*), a number which has more than trebled since 1990, when there were just 172 municipalities. "Town" status is given to municipalities with more than 10 000 inhabitants. The average town size is 24 000 inhabitants. In 2005, a specific category was created for "large towns" with more than 30 000 inhabitants (currently 17), with a wider scope of competences. Municipalities are smaller and mainly rural. Overall, Croatian towns and municipalities have around 7 500 inhabitants on average (with a median size of 2 900 inhabitants), although approximately 73% of municipalities have less than 5 000 inhabitants, and even 32% less than 2 000 inhabitants. There are also 6 762 settlements, which are sub-divisions that can be established by municipalities and towns, with their own councils. The City of Zagreb has a two-tier sub-municipal organisation with 17 urban quarters and 218 neighbourhood boards. Its status is guaranteed by a separate piece of legislation, i.e. the Act of the City of Zagreb.

In 2015, a new piece of legislation on voluntary mergers of local government units was introduced to streamline territorial divisions and improve the delivery of public services. However, no financial incentives were included in the measure and no mergers took place in 2017. To limit the effects of municipal fragmentation, the Strategy of Public Administration Development 2015-2020 also mentions inter-municipal co-operation as part of local government co-operation, but no specific framework has been implemented yet.

There is a state territorial administration, represented by a State Administration Office at county level, which performs the tasks of the central government whose Head is appointed by the government. In the City of Zagreb the mayor is responsible for central government administration.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The distribution of responsibilities is determined by the Organic Law on Local and Regional Self-Government as well as by the Act on the State Administration System (as amended in 2007) concerning state-delegated functions.

Counties have both exclusive and delegated competences, which must be approved through ministerial consensus. They include the granting of building permits, social protection, education and fire safety. At local level, towns and municipalities perform tasks of local significance, which directly address the needs of citizens and which are not assigned to state bodies by the Constitution or by the law. However, the assignments of responsibilities is asymmetric according to the type of municipality. Most responsibilities transferred since 2001 have been made to towns with the strongest fiscal capacity. Overall, many smaller local government units have limited powers due to their relative lack of capacity. The distribution of responsibilities across levels of government is considered complex because of this asymmetric process and overlapping responsibilities between the central and subnational levels of government.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONAL LEVEL	MUNICIPAL LEVEL
1. General public services	Regional administration; Issuance of construction and renting permits (except in large towns)	Municipal administration; Construction and renting permits (only for large towns)
2. Public order and safety		Fire protection and civil protection
3. Economic affairs/transports	Economic development; Transport and traffic infrastructures; Maintenance of county and local roads	Maintenance of municipal roads (towns); Traffic management; Local transport
4. Environmental protection		Protection and improvement of natural environment
5. Housing and community amenities	Regional and urban planning	Spatial and urban planning; Utility services; Organisation of settlements and housing
6. Health	Healthcare (including hospitals)	Primary health protection
7. Recreation, culture & religion	Social and cultural institutions	Culture; Sports
8. Education	Secondary education	Primary education
9. Social protection	Social welfare (cash benefits); Child care	Social welfare; Child care

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: counties, municipalities, towns, Capital City of Zagreb, hospitals, schools and kindergartens, as well as county road authorities.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. The 2001 Law on Local and Regional Self-Government Financing (LLGF) and the amended Budget Acts regulate the local finance system and budgets. They define sources for financing for the counties, the towns and municipalities, including the various types of taxation, non-tax revenues and the equalisation fund distributed among the different levels and non-tax income. They state that SNGs' own revenues should be proportional to their tasks, and they should be able to use them freely. The LLGF was amended in December 2017, with the aim to simplify the financing system and to increase transparency. It introduced a new system of fiscal equalisation, through a new revenue-sharing model across subnational governments.

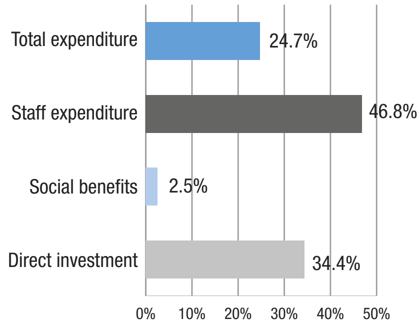
CROATIA

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**2 769**	**11.7%**	**100%**
Inc. current expenditure	2 427	10.2%	87.6%
Staff expenditure	1 262	5.3%	45.6%
Intermediate consumption	805	3.4%	29.1%
Social expenditure	94	0.4%	3.4%
Subsidies and current transfers	260	1.1%	9.4%
Financial charges	6	0.0%	0.2%
Others	0	0.0%	0.0%
Incl. capital expenditure	343	1.4%	12.4%
Capital transfers	72	0.3%	2.6%
Direct investment (or GFCF)	270	1.1%	9.8%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



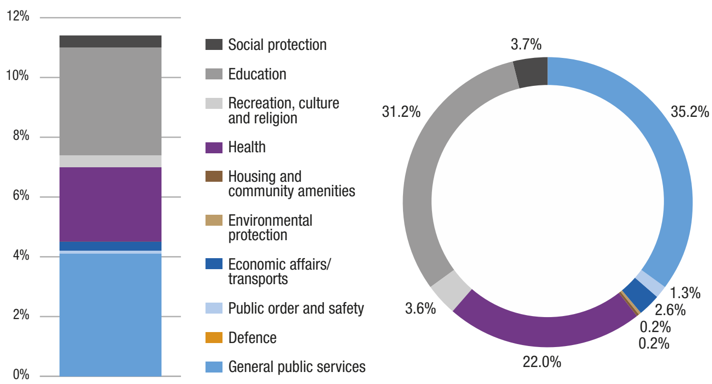
EXPENDITURE. Despite the decentralisation process, SNG spending as a percentage of both GDP and public expenditure is lower than the EU28 average (15.5% of GDP and 33.4% of public expenditure in 2016). Municipalities and towns are responsible for the bulk of spending at the subnational level. SNG staff expenditure account for a significant share of SNG expenditure (45.6% vs 32.9% in the EU28) and total public staff expenditure (46.8% vs 50.9% in the EU28). The increase in the number of municipalities and towns and decentralised tasks has also resulted in an increase in SNG staff (it increased by almost 7% between 2010 and 2015). New fiscal rules set limits on the salaries of local officials. Overall, per capita spending is the highest in the smallest municipalities, where administrative expenditure is the highest line item.

DIRECT INVESTMENT. SNG investment represents a low share of public investment compared to the EU average (34.3% vs 50.9% in 2016). However, SNG investment as a share of GDP is on par with the EU28 average. Since the crisis and 2014, SNG investment has decreased due to increasing operational costs and wages. It decreased by 6.2% per year in real terms between 2007 and 2017. It currently constitutes 9% of subnational spending. In 2016, 74% of SNG investment was channelled to general public services, and 6.4% to education infrastructure.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Two SNG spending areas stand out: general public services and education. In 2016, general public services as a percentage of overall SNG spending was much higher than the EU average (35.2% vs 16.5% in 2016). Public administration costs are high and administrative functions absorb more than one-third of SNG expenditure. For smaller municipalities this figure can reach one half. SNG spending on education comes next (31.2% vs 19.6% in the EU28), yet SNGs do not cover teacher and staff wages (which are funded by central authorities). They are, however, responsible for construction, maintenance, school equipment, etc. The share of healthcare is also significant, above the EU average (13.1% in 2016), as SNGs are responsible for the structural upkeep of facilities and equipment in health institutions owned by the municipalities. They are also in charge of modernising health institutions. Municipalities and towns are responsible for the bulk of spending in primary education, housing, transport and roads and recreational activities, whereas counties spend more on other educational areas and healthcare. On the other hand, spending on transport and R&D is low and has decreased over the past few years.

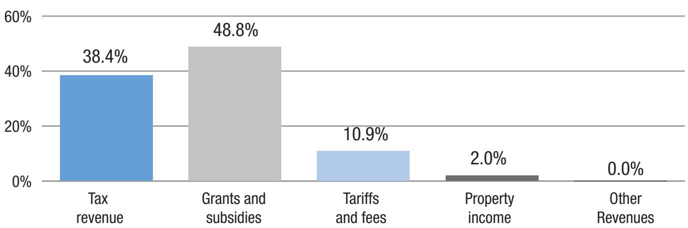
% GDP | % SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**2 767**	**11.7%**	**25.2%**
Tax revenue	1 061	4.5%	17.2%
Grants and subsidies	1 351	5.7%	
Tariffs and fees	300	1.3%	
Property income	54	0.2%	
Other revenues	0	0.0%	

% SNG REVENUE



OVERALL DESCRIPTION. The SNG financing system relies on both intergovernmental transfers and tax revenues, on levels that are equivalent to those found elsewhere in the EU28. The share of grants and subsidies is however slightly higher in Croatia than in the EU28 (48.8% vs 44.1% while the share of tax revenue is smaller: 38.6% vs 41.1%). The percentage of transfers in total revenues has recently decreased (it amounted to almost 60% in 2013) due to reforms in the SNG financing system.

TAX REVENUE. SNGs account for 17.2% of public tax revenue and 4.5% of GDP, which are slightly lower than the EU averages (respectively 24.0% and 6.4% in 2016). Tax revenue comprise both shared taxes and own-source tax. 67% of SNG tax revenue (26% of SNG revenue and 3.0% of PIT) come from the PIT. The PIT is both a shared tax and an own-source tax. As a surtax, it corresponds to a surcharge of up to 18% of the PIT owed by taxpayers to the national government. The windfall only benefits towns and municipalities. Municipalities determine the rates of the surcharge within the limits set by the central government. The current maximum rates have been reduced for Zagreb City since 2015 and are now 10% for municipalities, 12% for towns up to the 30 000 citizens and 15% for cities with more than 30 000 citizens, and up to 18% for the City of Zagreb (30% before the reform). As a shared tax, towns and municipalities receive 60% of the PIT collected in their jurisdiction, whereas 17% go to counties. The City of Zagreb receives 76.5%.

The second source of shared tax revenue is the tax on real estate transactions. In 2016, 80% of this tax was assigned to towns and municipalities. In 2018, its tax rate, determined at national level, was been reduced, from 5% to 4%, with 100% now earmarked to local governments. Other own-source local taxes are the "communal fee", the consumption tax, tax on vacation homes, and the tax on public area use. The "company name" tax was abolished in 2017. The "communal fee" is a quasi-property tax. It represented 16.6% of SNG tax revenue and 6.4% of SNG in 2016. Municipalities set the base of the fee and decide on the frequency of collection. The 2016 national reform programme plans to replace the communal fee by a simple property tax first, followed by a value-based property tax. As of November 2016, 96% of local government units had properly registered all properties within their jurisdiction. In 2016, the property tax amounted to 0.7% of GDP, below the OECD average of 1.1% for 2016. Counties' own-source taxes include the tax on inheritance and gifts, motor vehicles, boats and vessels, and gambling machines. County tax rates are set by the state government only. In contrast, the rates on municipal, town and city taxes are set by the municipal authority, within a range that is controlled by the central government.

GRANTS AND SUBSIDIES. The intergovernmental grant system comprises two main equalisation grants. The "Fiscal Equalisation Fund" (FEF) is a non-earmarked fund that amounted to EUR 270 million in 2017. Money for the fund comes from a percentage of the PIT (around 17%), which is pooled at the central level. This fund aims at equalising income inequality, mostly due to the inequalities in PIT revenue, across SNGs. It is redistributed according to local governments' individual shares set annually in the budget, calculated based on 5-year per capita PIT revenue and target revenue. The central government has set "minimum financial standards" for the provision of public services devolved to SNGs. These standards are based on a set of indicators that define the minimum expenditure at the local government level in each individual decentralised activity.

In addition, 6% of the PIT is earmarked for specific decentralised functions (primary and secondary education, social care, health care and firefighting). It is redistributed through the Equalisation Fund for Decentralised Functions (EFDF). This earmarked grant, determined annually by line ministries, amounted to approximately EUR 200 million in 2017. Overall, current grants represented 94% of total grants and almost half of total SNG revenue in 2016, while capital grants are minimal.

OTHER REVENUES. SNGs receive revenues generated from fines, administrative charges and fees for the use of public, municipal or city land. They are solely in charge of setting rates and collection. Additionally, there are "shared fees", such as a fee on the use of mineral and thermal water resources (50% is directed to the local budget) and a fee on the use of drinking water (30% goes to the local and 70% to the central budget). Tariffs and fees accounted for 10.9% of SNG revenues in 2016 (11.6% in the EU28). Revenues from the sale and rental of municipal assets are a significant part of municipal revenue. SNGs also receive revenues from financial assets (profits of municipal-owned companies). They are usually used for the construction and maintenance of utilities infrastructure. They account for a relatively high level of revenues, compared to the EU28 average (1.2%).

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**707**	**3.0%**	**3.1%**	**100%**
Financial debt*	346	1.5%	1.7%	49.0%

* Currency and deposits, loans and bonds

FISCAL RULES. The first Croatian law on fiscal responsibility was adopted in 2010, and it was amended upon Croatia's admission to the European Union in mid-2013. It sets limits on national and SNG spending, strengthens the legal and functional accountability of budgetary resources, and introduces stronger controls for financial reporting. A new draft act was enacted in 2018, adjusted to the obligations stemming from the Stability and Growth Pact.

DEBT. Counties and local governments can borrow to finance capital investment (golden rule), with previous approval by the central government. In addition, there are two main prudential rules: a general limit on the aggregate borrowing of all SNGs (2.3% of current revenues of the previous year) and an individual limit (20% of current revenues of the previous year). These percentages are determined annually by the Act on the State Budget Execution. These limits do not include municipal utility companies and/or guarantees issued by local governments, which is why local government units have 'hidden debt'. SNG debt in Croatia is relatively low, both as a share of GDP and of public debt, well below the EU28 average (14.3% of GDP and 14.4% of public debt). Half of outstanding debt is composed of financial debt ("Maastricht debt"), the other half being made up of "other accounts payable" (commercial debt, arrears). Loans made up the bulk of financial debt (1.5% of GDP and 1.7% of public debt in 2016) and bonds accounted for less than 1% of debt stock in 2016.

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Socio-economic indicators: OECD // Eurostat // World Bank // UNDP // UN Desa,// ILO.
Fiscal data: Eurostat // OECD (2018) Subnational governments in OECD countries: key data // OECD (2018) Key Data on Local and Regional Governments in the European Union // Croatian Bureau of Statistics // Croatia Institute of Public Finance.
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CYPRUS

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: EURO (EUR)

POPULATION AND GEOGRAPHY

Area: 9 250 / 5 695 km^2
Population: 1.180 / 0.855 million inhabitants (2017), an increase of 0.9% / 0.7% per year (2010-2015)
Density: 128 / 150 inhabitants / km^2
Urban population: 66.8% of national population
Urban population growth: 0.7% (2017 vs 2016)
Capital city: Nicosia / Lefkosia (22.8% / 31.5% of national population)

ECONOMIC DATA

GDP: 31.0.6 billion (current PPP international dollars)
Real GDP growth: 4.2% (2017 vs 2016)
Unemployment rate: 11.0% (2017)
Foreign direct investment, net inflows (FDI): 11 019 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 21.1% of GDP (2017)
HDI: 0.869 (very high), rank 32 (2017)

Technical 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.

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Local governments are recognised by the 1960 Constitution but only indirectly. They are mentioned in Part 12 of the Constitution relating to "Miscellaneous provisions" from article 173 to Article 178. Article 173 stipulates that separate municipalities shall be created in the five largest cities of the island, namely Nicosia, Limassol, Famagusta, Larnaca and Paphos and that their councils are elected by the population. The other articles are dedicated to local tax and fees and responsibilities for issuing licences or permits relating to premises, places or building operations, or establishing town planning. The main laws framing local government are the Municipalities Law of 1985 and The Communities Law of 1999. The Municipalities law, which regulates the legal and administrative status of municipalities, has been amended more than 50 times since 1985. The Communities law regulates the legal status, organisational matters and the major tasks and functions of the communities and has been also amended several times.

Municipalities are mainly towns over 5 000 inhabitants, while communities are located in rural areas. Municipalities and communities have different legal and administrative status and different range of powers and responsibilities.

Municipal and Community councils are each composed of local councillors, whose number varies from eight to 26 for municipal councils, and four to eight for community councils. They are elected through a proportional voting system for five-year terms. Local elections are compulsory, similar to parliamentary elections. Residents of municipalities also elect a mayor by direct universal suffrage, also for a five-year term. Local councillors then elect a deputy mayor through secret ballot.

Cyprus belongs to the group of EU members that have a centralised governance. Municipalities and communities have few powers and responsibilities. There is strong government supervision over the exercise of the regulatory powers of local authorities, over their human, administrative and budgetary resources, and in particular over small communities.

Since 2010, the Municipalities and Communities Laws have been revised. However, as of 2018, the local government reform is still under discussion at the House of Representatives. This reform intends to make the local government sector more efficient through inter-municipal co-operation and clustering, to streamline local public services, to promote the forms of direct citizen participation as well as to establish a common accounting and reporting framework. In particular, the bill plans to establish six "clusters" which would be compulsory local government consortia taking over the most costly tasks and functions from municipalities and communities. For example, they would run water management boards and would carry out tasks related to sewerage and waste disposal, town planning and building permits. Other options are also mentioned such as municipal mergers.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	39/30 municipalities *(demos)* 487/350 communities *(koinnotites)*			
	Average municipal size: 2 242/2 249 inhabitants			
	526/380			526/380

OVERALL DESCRIPTION. Cyprus has a single-tier local government system, comprising two categories of local government: urban municipalities and rural communities.

In the Northern part of the island there are nine municipalities and 137 communities. In the rest of the island there are 30 municipalities and 350 communities. Communities can become a municipality by local referendum and approval of the Council of Ministers if they reach the threshold of 5 000 inhabitants, or if they have sufficient economic resources to carry out municipal functions. In 2016, 83% of local governments in Cyprus had less than 2 000 inhabitants and only 7% had more than 5 000 inhabitants.

Nicosia is the most important political, economic and cultural centre but it does not have a special administrative status. It has, like the three other regional centres (Limassol, Larnaca and Paphos), some additional functions delegated by the central government. The four cities are planning authorities.

The Municipalities Law allows municipalities to merge into a larger local government unit. Mergers can be initiated by local governments themselves (then the approval of the Minister of Interior is necessary), or it can be a top-down process, if the Ministry considers that a merger would be "desirable". Additionally, a local plebiscite must also take place in order to approve the merger.

The Municipalities Law also authorises inter-municipal co-operation in the form of a contract for the joint performance of certain public services, like public utilities. Municipalities may also establish associations for waste collection and disposal, the construction and maintenance of streets, the issue of planning and building permits and other services.

Cyprus is also divided into six districts (*eparchies*) for administrative purposes, as a deconcentrated level of the central government. They are headed by District Officers (senior civil servants) that are appointed by the government and are responsible for the co-ordination of the activities between local and central ministries in their area of jurisdiction, under the direct control of the Ministry of the Interior. Since 2016, the members of each district councils are elected directly from the district's constituency.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The 1960 Constitution does not provide indications regarding local competences. However, the Municipalities Law and the Communities Law define administrative responsibilities.

Municipalities have a general clause of competence, meaning that they may administer all local affairs and may exert all powers vested in them by law. Despite this clause, the law enumerates a list of compulsory tasks and functions of municipalities, stating that tasks and powers which are not enumerated are carried out by administrative agencies of the central government. Communities have relatively similar powers to those of the municipalities but they are more limited.

Planning responsibilities are shared between municipalities and the Department of Town Planning and Housing. While municipalities are responsible for waste disposal, water supply and public health, municipalities are also responsible for social services and building permits. Larger municipalities (namely Nicosia, Limassol, Paphos and Lamaca) are also responsible for the provision of planning permits. In major urban areas, water supply, sewerage and drainage are built and managed through specialised bodies (Water and Sewerage Boards) – established by separate laws – which are administered by a Council/Board comprised of elected officials (mayors and councillors) representing all participating municipalities.

The districts are responsible for the implementation of the central government policy at the district level, and supervision of the functioning of the communities. Due to communities' limited capacities, a large share of services in rural areas are carried out by district offices, on behalf of communities. The Ministry of the Interior is responsible for overseeing local government in issues such as urban development.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPAL LEVEL
1. General public services	Internal administration; Permits issuance for the construction and renovation of buildings
2. Public order and safety	
3. Economic affairs/transports	Road and bridges maintenance and construction; Regulation of local markets
4. Environmental protection	Waste disposal; Sewerage management and treatment
5. Housing and community amenities	Street lighting; Water supply; Local planning; Land development; Public areas, including parks and cemeteries
6. Health	Public health
7. Recreation, culture & religion	Theatre regulation and control; Art; Sport
8. Education	
9. Social protection	

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: municipalities and village authorities.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. The Constitution and the Municipalities and Communities Laws contain provisions relevant to local finance. In accordance with the law, each local authority must keep proper books of accounts, and prepare financial statements by the end of the fiscal year. Local councils may have their own local budgets. Every year, municipalities have to prepare two budgets: the annual budget that includes all revenues, current expenditure and development projects, and a secondary budget for all revenues and current expenditure. Both budgets are subject to central government approval before they can go into effect. On the other hand, the budgets of community councils are to be approved by the district officer and by the Minister of Finance. A reform of public financial management is underway, to improve budget-data reporting from local authorities.

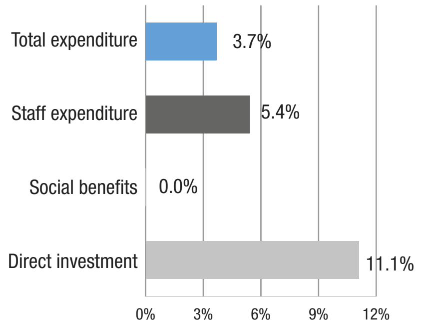
CYPRUS

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**348**	**1.4%**	**100%**
Inc. current expenditure	272	1.1%	78.1%
Staff expenditure	162	0.7%	46.4%
Intermediate consumption	97	0.4%	27.7%
Social expenditure	0	0.0%	0.0%
Subsidies and current transfers	8	0.0%	2.4%
Financial charges	5	0.0%	1.5%
Others	0	0.0%	0.0%
Incl. capital expenditure	76	0.3%	21.9%
Capital transfers	5	0.0%	1.4%
Direct investment (or GFCF)	71	0.3%	20.4%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



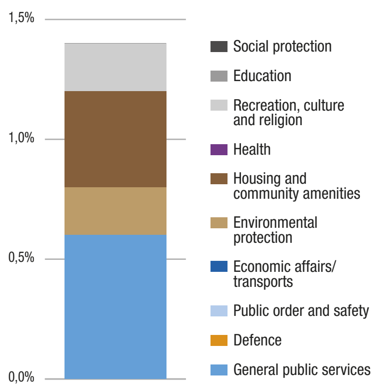
EXPENDITURE. Cyprus ranks among the EU members where the weight of SNG expenditure in GDP and public expenditure is the lowest (second to Malta), and well below the EU28 average (15.5% of GDP and 33.4% of public expenditure). SNGs have very few spending responsibilities. The share of staff expenditure in SNG expenditure is particularly high, representing almost half of SNG expenditure, well above the EU average of 36%. However, their staff spending accounts for a small share of total public staff spending, well below the EU28 average (50.9%).

DIRECT INVESTMENT. One of the main functions of SNGs is investment. Investment accounts for a relatively large share of SNG spending (above the EU28 average of 8.7%). However, it remains very limited as a percentage of GDP and public investment (below the EU28 average of 1.4% and 50.9% respectively in 2016). The share of capital expenditure has decreased in recent years, by 6.7% per year in real terms between 2007 and 2017. In 2013, SNG investment accounted for one-third of public investment. In 2016, 40% of investment went to general public services, 28% to housing and community amenities, 17% to culture and recreation and 15% to environmental protection.

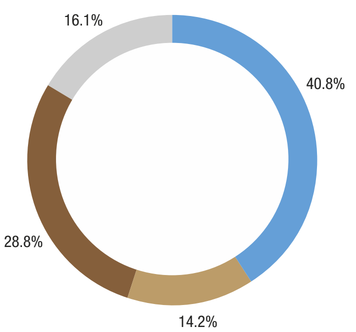
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

In line with the limited scope of responsibilities of municipalities and communities, SNG spending is split between only four categories. General public services was by far the biggest category of SNG expenditure in 2016, with a share well above the EU28 average (16.5%). The second most important item is housing and community amenities (mainly urban lighting, water supply), recreation and culture, and environmental protection. At the national level, SNGs play a particularly crucial role in the area of environmental protection (accounting for 81% of total public expenditure in this area) especially since they are responsible for waste disposal and sewerage management and treatment. Responsibility for water can fall to water boards and sewerage boards, especially in large cities. SNGs do not have responsibilities related to education, health, social protection or economic affairs/transport.

% GDP



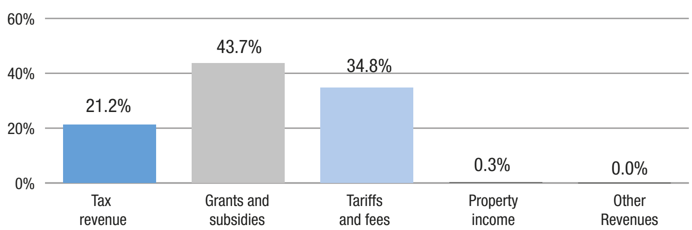
% SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**351**	**1.5%**	**3.7%**
Tax revenue	75	0.3%	1.3%
Grants and subsidies	153	0.6%	
Tariffs and fees	122	0.5%	
Property income	1	0.0%	
Other revenues	0	0.0%	

% SNG REVENUE



OVERALL DESCRIPTION. Grants and subsidies represent a large share of SNG revenue, at the same level of the EU28 average (44.1% of SNG revenue in 2016). The share of tariffs and fees in SNG revenue is particularly high, compared to the EU28 average (11.6% of subnational government revenue in 2016). On the other hand, tax revenue accounts for 21% of the SNG revenue, a small percentage compared to the average in EU countries (41.1% in 2016). Nevertheless, own-source revenues (tariffs, fees and local taxes) account for more than half of SNG revenues.

TAX REVENUE. All tax revenue is generated by own-source taxes, which include three main taxes: the property tax, the municipal professional tax, and the hotel accommodation and entertainment tax. The property tax was abolished on 1 January 2017. Until fiscal year 2016, the owner of immovable property situated in Cyprus would potentially pay an annual tax on the market value of the property as of 1 January 1980. The tax rate, as determined by law, was a percentage of 1.5 per thousand for municipalities, and 10 per thousand for communities, on the value of the property based on the land register estimate. This tax represented 52.5% of local tax revenue and 11% of local revenue in 2016. It amounted to 0.2% of GDP, which is low by international comparison (1.1% of GDP in the OECD countries).

The professional tax, introduced in 1985, applies to legal persons operating any business, industry, artisanship, work, trade or profession within the municipal boundaries. It is levied based on revenue generated, share capital and number of employees. The maximum tax rate is set by the central government.

GRANTS AND SUBSIDIES. Rules for calculating or allocating grants are not set out be law. In addition, Cyprus does not have a financial equalisation mechanism. A general grant is transferred annually to local councils, the amount of which is set by the Council of Ministers (through the Government Budget, and by an agreement with the Unions of Municipalities and Communities) 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 each jurisdiction. Community councils receive an additional subsidy for street lighting.

In addition, local councils may receive specific earmarked grants for local development projects, approved on a project-by-project basis. These grants play a major role in the financing of local development projects, as they usually cover from 70% to 100% of the total project cost. The total amount of transfers to SNGs has significantly decreased over the last decade following the economic crisis that hit Cyprus. Overall, currents grants accounted for 85% of total local grants in 2016 and capital grants 15%.

OTHER REVENUES. User charges and fees account for a significant share of SNG revenue, well above the EU28 average (11.6%). They include communal service fees for refuse collection, street lighting, fees for water supply services, charges for the provision of various municipal services, rents, etc. Additionally, according to the Municipalities Law and the Communities Law, municipal councils can impose "fees" on tourists for hotel nights, as well as impose duties on horse-racing games.

Property income accounts for 0.3% of total local government revenue, a low level compared to the EU28 average (1.2%). Municipalities are entitled to sell or exchange properties in their possession, if the Council of Ministers approves the transaction. Municipality-owned properties must be remain registered by the state-controlled District Land Offices.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**461**	**1.9%**	**1.7%**	**100%**
Financial debt*	461	1.9%	1.7%	100%

* Currency and deposits, loans and bonds

FISCAL RULES. Although there are no legal limitations on local spending, local authorities must - according to government circulars - have a balanced budget for their current expenditure and they must reimburse their loans. An umbrella law, known as the Fiscal Responsibility and Budget System Law (FRBSL) and the Public Financial Management system, enacted in February 2014, requires local governments to send financial data to the central government on a monthly basis. The Auditor General is an independent officer appointed by the President and is responsible for auditing various entities, including the central government, public organisations, local authorities and other public bodies and funds.

DEBT. According to the Municipal Act, municipalities can borrow to fund capital expenditure (golden rule) including carrying out work of public utility and purchasing mechanical equipment and vehicles. They are also permitted to refinance debt. However, there are several additional borrowing constraints: municipal loans have to be approved by the Council of Ministers and community loans must be approved by the district officer. Municipalities can borrow amounts that do not exceed 20% of their total revenues. Moreover, the total amount of loans of each municipality should not exceed 250% of their total revenues including government grants.

Also, as part of a five-year strategy to strengthen public debt management, Cyprus is using the Commonwealth Secretariat's Debt Recording and Management System (CS-DRMS) that aims to improve public debt accounting and management. The main creditors in the domestic market are the Central Bank of Cyprus and the Cyprus Cooperative Bank (in order to finance school committees) and private domestic banks.

In 2016, the local debt was very low, well below the EU28 average (14.3% of GDP and 14.4% of public debt). It is composed entirely of loans.

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Socio-economic indicators: OECD // Eurostat // World Bank // UNDP // UN Desa // ILO.
Fiscal data: Eurostat // OECD (2018) Key Data on Local and Regional Governments in the European Union // Statistical Service of Cyprus.
Other sources of information: Commonwealth Local Government Forum (2017) The Local Government System in Cyprus // Council of Europe (2016) Local Democracy in Cyprus, Congress of local and regional authorities // European Committee of Regions (2016) Division of Powers // Federal Ministry of Finance. (2015) Federal Ministry of Finance's monthly report. Retrieved from The Current State of the Reform Process in Cyprus // Koprić I., Klarić M. (2015) New Developments in Local Democracy in Croatia, Croatian and Comparative Public Administration.

CZECH REPUBLIC

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: CZECH KORUNA (CZK)

POPULATION AND GEOGRAPHY

Area: 77 219 km^2
Population: 10.590 million inhabitants (2017), an increase of 0.1% per year (2010-2015)
Density: 137 inhabitants / km^2
Urban population: 73.0% of national population
Urban population growth: 0.4% (2017 vs 2016)
Capital city: Prague (12.2% of national population)

ECONOMIC DATA

GDP: 384.8 billion (current PPP international dollars), i.e. 36 333 dollars per inhabitant (2017)
Real GDP growth: 4.3% (2017 vs 2016)
Unemployment rate: 2.9% (2017)
Foreign direct investment, net inflows (FDI): 9 210 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 25.2% of GDP (2017)
HDI: 0.888 (very high), rank 27

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

According to the 1993 Constitution, the Czech Republic is a parliamentary republic. The Parliament is bicameral and comprises an upper house, the Senate, and a lower house, the Chamber of Deputies. Deputies are elected every four years by direct universal suffrage. Senators are also elected by direct universal suffrage but for a mandate of six years and one-third of senators are renewed every two years. The Head of State is the President of the Republic, elected by direct universal suffrage for a five-year mandate, and the Government is led by the Prime Minister, nominated by the President.

The country is a unitary state, with a two-tier system of subnational government. The 1993 Constitution recognised local self-government in Chapter Seven (articles 99-105) dedicated to "Territorial Self-Government". Article 99 states that the Czech Republic is subdivided into municipalities, which are the basic territorial self-governing units, and into regions at upper level. According to article 100 and 101, territorial self-governing units are territorial communities of citizens with the right to self-government and they shall be independently administered by their representative body.

Municipalities are governed by local councils, whose members elect the municipal committee, which is the executive body of the municipality, for a four-year term and the mayor at its head (*starosta*) in smaller municipalities, and *primátor* in larger cities. Each region has a regional assembly with members elected by direct universal suffrage for a four-year term. The regional committee is the executive body and is composed of the president (*hejtman*), vice-presidents and other members elected by and from within the regional assembly for four years. It is assisted by a regional authority, which is headed by a director.

Since 1989, several acts have been adopted to regulate the SNG system such as the Municipal Act No. 367/1990 conferring legal status to municipalities, re-establishing local autonomy, defining municipal responsibilities, assets and funding. In 1997, the 14 self-governing regions were established through Act 347/1997, but they were recognised as autonomous entities only in 2000 with the Regional Act No. 129/2000, which transferred a series of responsibilities to the new entities. In parallel, a new Municipal Act was revised and adopted in 2000 (Act No. 128/2000) to define the legal framework, organisation and responsibilities of municipalities and the Local Finance Act 243/2000, which defined the regional and municipal financing system based on tax sharing.

Decentralisation reforms continued over the following years, in particular in 2005 and 2013 (Fiscal reform increasing of municipal tax revenues). In 2015, a process of recentralisation took place. Some municipal responsibilities were transferred from small municipalities to larger municipalities (to overcome municipal fragmentation) as well as to the central government in the framework of the social reform.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	6 258 municipalities *(obce)*		14 regions *(krai)*	
	Average municipal size: 1 692 inhabitants			
	6 258		14	6 272

OVERALL DESCRIPTION. The Czech Republic has a two-tier SNG system, made of 14 regions (13 regions and the city of Prague) and 6 258 municipalities, with no hierarchical link between them. Prague, the capital city, has a dual status as both a region and a municipality and have only one assembly and one board.

MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION. The municipal level (*obce*) includes several categories: municipalities, 604 cities (*město*), 26 statutory cities (*statutarni město*) and 223 market towns (*městys*). The status of town is given to municipalities with greater than 3 000 inhabitants. Statutory cities have a special status granted by an Act of Parliament. It is for larger cities allowing them to define their own charter and internal organisation. In particular, they are free to establish districts at the sub-municipal level with their own mayor, council and assembly.

The Czech territory is highly fragmented, due to a law passed in the early 1990s that enabled municipalities to split. In 2016-2017, the average municipal size was the smallest among OECD countries, as well as well below the OECD average (9 700 inhabitants) and EU28 average (5 900 inhabitants). While the median size is around 420 inhabitants, 96% of municipalities have fewer than 5 000 inhabitants and 89% of municipalities fewer than 2 000 inhabitants. The 2000 Act on Municipalities includes an option for voluntary municipal mergers; however, little impetus for such a process exists. Many municipalities remain resistant to mergers. To minimise the effects of municipal fragmentation, the 2000 Act on Municipalities also promotes inter-municipal cooperation in the form of contracts for performing certain functions, voluntary municipal association and the creation of "mutual-interest associations of legal persons".

There were around 790 inter-municipal cooperation structures active in the field of education, social care, health, culture, environment, tourism in 2016. 90% of municipalities participate in some form of co-operation. To further promotion cooperation, shared service centres are currently being developed by the Ministry of Interior and the Union of Towns and Municipalities, with the objective to ensure more efficient delivery of public services. The City of Prague has a special status defined by Act No. 131/2000 on the City of Prague, as amended. In addition to city-wide directly elected representatives following the system of regions, the city is divided into 22 districts and 57 self-governing boroughs (some of which are also districts), each composed of its own elected local council. Council members then elect the mayor and the municipal committee.

REGIONAL LEVEL. The 14 regions are quite diverse in terms of area, demography and socio-economic development. The area of every region was created based on the geographical analysis with respect to the special interactions between the core and the periphery. The demographic size ranges from 296 000 inhabitants in Karlovy Vary region to 1.346 million in Central Bohemia. The regional GDP per capita in the region of Prague is three times higher than in Karlovy Vary region, which has the smallest. Prague Metropolitan Area, surrounded by the region of Central Bohemia, the largest functional urban area of the country, encompasses 435 municipalities. Together, they gather almost 25% of the national population and 36% of the national GDP. Before the decentralisation reform in 2000-2002, there was a state territorial administration made up of districts (*okres*). A reform, effective since January 2003, replaced district offices by municipalities with extended competence (see below) which took over most of their functions. However, the old districts still exist as territorial units and remain as seats of some of the offices, especially courts, police and archives. An Act on Territorial Division of the State was submitted to the Government at the end of 2018, with the aim to simplify the system of state territorial administration, by completing the transition from the system of districts to the delegation of functions at the municipal level.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The Municipal and Region Acts, both amended in 2002, make a distinction between autonomous and delegated responsibilities.

While municipalities have equal status, delegated competences are not the same for all municipalities. The government established an asymmetric and complex system of delegation according to the size and capacity of municipalities. There are three categories: at the upper level, there is a network of 205 municipalities with "extended powers" (ORP) that fulfil several administrative functions delegated by the central government on behalf of smaller surrounding municipalities (e.g. civil registers, building authority). At intermediate level, there are 183 municipalities with an "authorised municipal authority" that perform delegated functions but on a smaller scale. At the lower level, municipalities have basic delegated powers. Smaller municipalities can also delegate additional functions to the ORP if they do not want to provide, or cannot provide because of their lack of capacity specific services. 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.

Municipalities have many competences and encompass almost all areas of activity: economic affairs and transport, environment protection, education, social welfare, urban development, utilities, etc. Regional responsibilities include upper secondary education, regional roads and public transport, economic development and planning and health.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	STATE LEVEL	MUNICIPAL LEVEL
1. General public services	Regional administration	Municipal administration; Administrative delegated tasks (civil register)
2. Public order and safety	Fire safety; Prevention of criminality	Fire-fighting and prevention; Municipal police
3. Economic affairs /transports	Road network; Regional public transport; Tourism; Regional economic development; Cohesion (regional boards on cohesion)	Public transport; Local roads; Local economic development
4. Environmental protection	Protection of fauna and flora	Water management and treatment (ORP only); Urban heating; Waste management (ORP only); Environmental protection
5. Housing and community amenities	Planning (approval of planning and zoning documents at the regional level)	Local development and planning; Cemeteries; Public areas; Housing
6. Health	Establishment and management of regional hospitals; Nursing homes; Monitoring the quality of care of private health care providers; Emergency services; Long-term care institutions; Facilities for disabled adults and children	Provision of primary healthcare services (medical centres and doctors)
7. Recreation, culture & religion	Sport (funding)	Culture; Sport
8. Education	Upper secondary education	Pre-elementary, primary and lower secondary education (excluding teachers' salaries)
9. Social protection	Youth (funding); Social services	Administration of social benefits on behalf of central government; Social assistance; Youth policy; Retirement homes; Homes for the disabled

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: regional offices, municipalities and town councils, associations of municipalities, regional councils of cohesion Regions, local semi-budgetary organisations, non-profit institutions, public non-financial and financial corporations.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. While fiscal autonomy has increased in recent decades to accompany political decentralisation, central government funds are often allocated in a way that constrains local independence and policy making. SNGs have low tax and spending autonomy. Municipal fragmentation also limits their spending capacity.

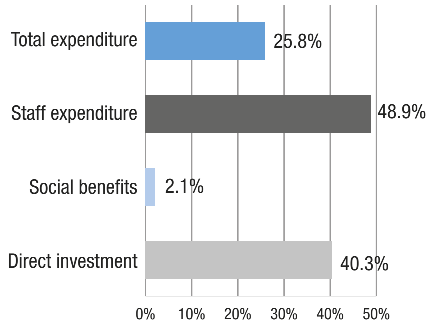
CZECH REPUBLIC

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**3 536**	**10.2%**	**100%**
Inc. current expenditure	3 049	8.8%	86.2%
Staff expenditure	1 492	4.3%	42.2%
Intermediate consumption	1 063	3.1%	30.1%
Social expenditure	31	0.1%	0.9%
Subsidies and current transfers	436	1.3%	12.3%
Financial charges	8	0.0%	0.2%
Others	18	0.1%	0.5%
Incl. capital expenditure	487	1.4%	13.8%
Capital transfers	35	0.1%	1.0%
Direct investment (or GFCF)	452	1.3%	12.8%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. Despite the decentralisation process, SNG spending in Czech republic is below the OECD average (16.2% of GDP and 40.4% of public spending in 2016) as well as below the EU28 average (15.5% of GDP and 33.4% of public expenditure). The share of staff expenditure in SNG expenditure is significant (42.2% vs. 36% in the OECD in 2016 and 32.9% in the EU) and SNG staff spending accounted for almost half of public staff spending, a level in line with the EU28 average (50.9%). Discretionary powers of SNGs are limited as an important share of spending is made on behalf of the central government, which determines local government employees' salaries. Regional expenditure has been growing continuously since the creation of regions, as they have been gaining more spending responsibilities and resources from the decentralisation process. In 2016, they accounted for 45% of SNG expenditure (12% of public expenditure, i.e. 4.6% of GDP) while municipalities accounted for the remaining 55% (14% of public expenditure and 5.6% of GDP).

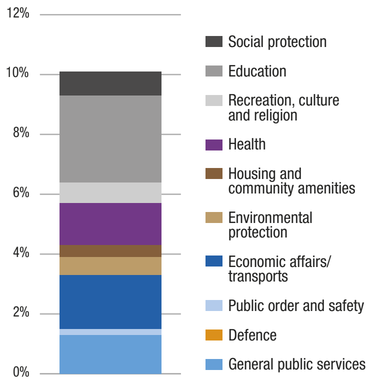
INVESTMENT. SNGs have a key role in public investment. However, this role has decreased over the last few years. While SNG investment accounted for 1.8% of GDP and 52% of public investment, it represented 1.3% of GDP and 40.3% of public investment in 2016 vs 1.7% of GDP in the OECD and 56.9% of public investment. It accounted for almost 18% of SNG expenditure but 12.8% in 2016. In 2016, most SNG investments were dedicated to economic affairs and transports, environmental protection and education. The Czech building law has allowed, since 2012, municipalities to enter into development contracts with developers to co-finance transport and technical infrastructures; however, this is still not a common practice. Regions accounted for 41% of SNG investment in 2016, accounting for 0.5% of GDP and 16% of total public investment. Despite the increasing role of regions in investment, the municipal level remained the primary SNG investor, accounting for 59% of SNG investment (i.e. 0.8% of GDP and 24% of public investment).

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

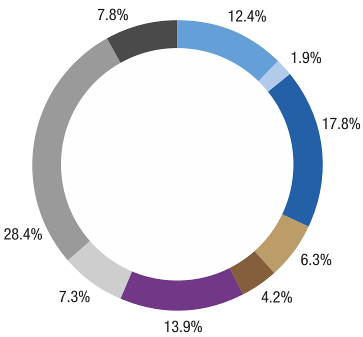
The largest category of SNG spending in 2016 is by far education, which accounted for 45% of total public spending in this sector. The second most important area of spending is economic affairs, particularly transport followed by health and general public services. This is well reflected in the case of the City of Prague, whose transport expenditure forms approximately 37% of municipal spending, and education expenditure 25% (in 2015). The share of health in SNG spending has increased significantly since 2013, as decentralisation of healthcare has been ramped up. In addition, health care expenditures increasing and are expected to increase further in the coming decade due to the ageing of the population.

SNGs are responsible for 82% of total public expenditure in environmental protection policies, as well as for 68% in the sector of housing and community amenities.

% GDP



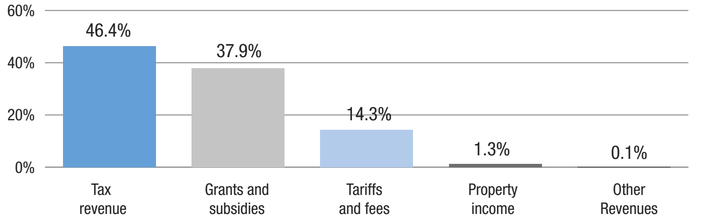
% SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**3 897**	**11.2%**	**27.9%**
Tax revenue	1 809	5.2%	26.2%
Grants and subsidies	1 477	4.3%	
Tariffs and fees	556	1.6%	
Property income	50	0.1%	
Other revenues	5	0.0%	

% SNG REVENUE



OVERALL DESCRIPTION. According to the Local Finance Act 243/2000, SNGs are financed through a mix of taxes and intergovernmental transfers from the central government. Although tax revenue represents a significant source of SNG revenue, and particularly municipal revenue (around 60%), they have little autonomy over their revenue as most taxes are shared. Overall, a little over 60% of municipalities' revenue is from taxes, while for regions over 60% of revenue is from grants and transfers, resulting in a higher dependence on central government funding.

TAX REVENUE. SNG tax revenues accounted for a significant share of SNG revenue, higher than in the OECD on average (44.6%) and in the EU28 (41.1%). As a share of GDP and public tax revenue, SNG tax revenues were however a bit lower than in the OECD (7.1% of GDP and 31.9% of public tax revenue). Regions accounted for 44% of SNG tax revenues, while municipalities accounted for the remaining 56%. Despite this relatively high level of tax, tax autonomy is limited as taxes are mostly shared.

SNGs are financed through a mix of shared taxes, including the personal income tax PIT, withholding PIT, the corporate income tax (CIT), the tax on self-employed income and the value-added tax VAT). Tax revenues are allocated as a percentage of revenue raised and then redistributed within SNGs according to a complex formula. The shares for regions and municipalities overall are set annually; for 2016, the shares are around one-tenth and one-fifth, respectively. Each individual region's share is set in the legislation. The calculation for municipalities is more complicated, the population size being the main criteria. Overall, revenue from the VAT, the PIT and the CIT represented respectively 42%, 26% and 24% of SNG tax revenue in 2016, and respectively 20%, 12% and 11% of SNG revenue. Recent amendments to the Finance Act increased the share of SNGs on several taxes. In 2018, the law on budgetary designation of taxes was changed, and the VAT share devolved to municipalities was increased.

Municipalities also receive own taxes, in contrast with regions. The main component is the property tax on land and buildings, although it remains a minor tax, accounting for 4.3% of SNG tax revenue, 2.0% of SNG revenue and 0.2% of GDP, which is well below the OECD average (1.1% of GDP). In 2009, a marginal rate was introduced in order to give municipalities some autonomy over tax rates, so that they can increase the rate up to five times the minimum threshold amount. Yet, most municipalities tend to set their local property tax rate at the lower level set by the central government, and only 8% of municipalities have made use of the possibility to increase tax rates. Municipalities also receive an income tax from local companies (2% of municipal revenue in 2016).

GRANTS AND SUBSIDIES. The main general grant for municipalities and regions is the contribution for performance of state administration. It increased and has been reshaped in the last years. Transfers from the central government are an important source of SNG funding, in particular for the regions, although the same cannot be said for municipalities. Municipalities can also apply for subsidies from the regions. The Czech Republic has no equalisation grant at the regional or municipal level. Yet there is a complex system of funding from the central government to SNGs. 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. Grants for current expenditure are formula-based and typically earmarked, in particular to fund delegated responsibilities. Education grants, a major component of central government earmarked transfers, are allocated on a per student basis, which does not efficiently reflect the actual cost of the service. Some transfers are fixed and relatively stable over time, in particular those aimed at funding delegated expenditure, for instance, social transfers to regions to cover healthcare funding. Other transfers for capital expenditure (around 7.5% of total transfers) are typically granted on a case-by-case basis.

OTHER REVENUES. Other revenues include user tariffs and fees from municipal services, which are regulated from the top by the central government. Local fees include in particular water and sewerage charges, municipal waste collection fees or library fees. They accounted for a large share of revenues, in line with the OECD average. Property income includes rents, interest income and sales of property (1.3% of SNG revenues in 2016).

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**652**	**3.7%**	**7.8%**	**100%**
Financial debt*	331	1.9%	4.6%	50.7%

* Currency and deposits, loans and bonds

FISCAL RULES. SNGs are subject to a balanced budget rule. The 2012 Constitutional Act on Fiscal Responsibility and the Act No. 23/2017 on Rules of Fiscal Responsibility entered into force in February 2017 and have strengthened the rules of budgetary responsibility and set up the Czech Fiscal Council. It started to perform its mandate in January 2018, as an independent supervisory body for the performance of public finances in the Czech Republic, including SNG finance.

DEBT. Act No. 23/2017 introduced a debt rule for regional and municipal governments. According to the rule, SNG gross debt must remain below 60% of a four-year average of revenues. If the debt target is not respected, central authorities may cut revenues to a municipality or region by 5% of the difference between its amount of debt and the 60% target. These suspended revenues can only be released to repay SNG debt obligations made before the year in which the suspension occurred. In 2016, approximately 500 municipalities (8% of the total number) had a debt higher than 60% of their revenues. So far, the regional governments' debts have not exceeded 60%. Municipalities can borrow from commercial banks, from the State Environment Fund, from the Ministry of Agriculture, and they can also issue bonds with the approval of the central government. Regions have also taken out loans from international donors such as the European Investment Bank.

In 2016, SNG debt is lower than the OECD average (24.5% of GDP and 20.7% of public debt). Financial debt accounts for 51% of SNG outstanding debt. The other half is composed of other accounts payable (commercial debt, arrears, etc.). Financial debt (1.9% of GDP and 4.6% of public debt) is primarily made up of loans (85% of debt in 2016). In 2015, 3 255 municipalities out of 6 258 were indebted. This included the four largest cities of the Czech Republic, which – taken together – totalled 50.4% of the total debt of municipalities.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: OECD
Last update: 02/ 2019
www.sng-wofi.org

Socio-economic indicators: OECD // Eurostat // World Bank // UNDP // UN Desa // ILO // Czech Statistical Office.
Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // Eurostat // Czech Statistical Office.
Other sources of information: OECD (2018) OECD Economic Surveys: Czech Republic 2018 // OECD (2017) The Governance of Land Use in the Czech Republic: The Case of Prague // European Committee of Regions (2016) Division of Powers // J. Baxa and M. Paulus (2016) New Fiscal Rules for the Czech Republic: Analysis of the Proposal // CEMR (2016) Local and Regional Governments in Europe Structures and Competences // OECD (2015) The State of Public Finances 2015: Strategies for Budgetary Consolidation and Reform in OECD Countries // Standards and Poor's (2014) Ratings Direct, Supplementary Analysis: City of Prague // Pospisil R. (2013) Audit of municipalities and local government units – The case study of the Czech Republic, Challenge of the Knowledge Society.

DENMARK

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: DANISH KRONE (DKK)

POPULATION AND GEOGRAPHY

Area: 42 924 km^2
Population: 5.767 million inhabitants (2017), an increase of 0.48% per year (2010-2015)
Density: 134 inhabitants / km^2
Urban population: 87.8% of national population (2017)
Urban population growth: 0.9% (2017)
Capital city: Copenhagen (23.0% of national population)

ECONOMIC DATA

GDP: 296.4 billion (current PPP international dollars), i.e. 51 387 dollars per inhabitant (2017)
Real GDP growth: 2.2% (2017 vs 2016)
Unemployment rate: 5.7% (2017)
Foreign direct investment, net inflows (FDI): 2 357 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 20.4% of GDP (2017)
HDI: 0.929 (very high), rank 11 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Kingdom of Denmark is a constitutional monarchy. It has a representative parliamentary system with a Prime Minister acting as Head of Government, a Monarch as Head of State and a unicameral parliament known as the "*Folketing*". The Kingdom also comprises two autonomous constituent countries in the Atlantic, The Faroe Islands and Greenland, neither of which are EU members and which both have their own legislative assemblies. The country is decentralised in regions and municipalities, with no hierarchy between both levels. The principle of local self-government is enshrined in article 2 of the Danish Constitution.

Municipalities are ruled by the Law on Local Self-Government (1968) which has been amended several times over the last years. Decisions at the municipal level are vested in the local council. Local councillors are elected for a four-year period. The council elects the mayor from amongst its members for a four-year term. Regional governments are ruled by the Regional Government Act. Regional councils are made of 41 members, elected for four years during general regional elections, with a Chairperson as its Head.

An important local government reform was launched on 1 January 2007 after several years of preparation and negotiations, which significantly changed the territorial and institutional organisation. The 14 counties were abolished and replaced by five new regions. The former 271 municipalities were merged into the current 98. The State territorial administration was also reformed. This reform had three main aims: improving the efficiency of the public sector in order to provide optimum services but without increasing taxation; reinforcing local democracy and local social services delivery, closest to the citizens; and improving the allocation of responsibilities across levels of government with clearer tasks and less overlapping.

From 2012 to 2019, part of a wider reform of the public sector administration, nine municipalities (initial number, extended afterwards) took part in a policy experiment called the "Free Municipality" initiative. They were granted exemptions from government rules and bureaucracy requirements, with the aim to review potential future legislation simplifying and de-bureaucratising Danish municipalities. The Centre for Collaborative Democracy (CfSD) was also established to offer advice to all subnational entities on planning and participatory processes.

In January 2019, the government announced the health care reform, which will abolish the five current regions with elected councils. According to the reform plan, hospital services will be organised by five new organisations, which are governed by nominated boards. The rest of the current social and health services will be transferred to 21 new health associations, which are organised and governed by municipalities.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	98 municipalities *(kommuner)*		5 regions *(regioner)*	103
	Average municipal size: 58 449 inhabitants			
	98		**5**	**103**

* The number of municipalities does not include Christiansø, which has a special status.

OVERALL DESCRIPTION. Denmark has a two-tier system of local government resulting from the 2007 local government reform that significantly changed territorial organisation.

REGIONAL LEVEL. Following the abolition of counties in 2007, the regional level is composed of five regions: the Copenhagen Region (the Capital Region of Denmark), Mid Jutland, North Jutland, Zealand and Region of Southern Denmark. Population ranges from 590 000 inhabitants (North Denmark) to more than 1.82 million in the Capital Region. Regional disparities in terms of GDP per capita have increased by 17% in Denmark over the last 16 years, as the result of the strong economic growth of the Copenhagen region, whose GDP per capita is 1.8 times higher than in Zealand, the region with the lowest level of GDP per capita. Denmark remains however a country with regional disparities below the median of OECD countries. The abolition of the current regions as self-governing bodies have been announced by the government.

MUNICIPAL LEVEL. The municipal amalgamations took place through compulsory municipal mergers until municipalities reached the size of 20 000 inhabitants. The process started in 2002 by the appointment of a Commission on Administrative Structure. The reform was adopted by the Parliament in 2005 and implemented on January 2007. Its purpose included economies of scale, greater professionalisation of municipalities, and increased capacity to receive and manage new responsibilities, in particular in the social sector. In 2017-2018, the average municipal size was around 58 500 inhabitants (vs 9 700 inhabitants in the OECD on average) and the median size, 42 850 inhabitants. Despite the reform, 7% of municipalities still have fewer than 20 000 inhabitants (vs 30% in the OECD on average). Inter-municipal cooperation has decreased following the 2007 amalgamation reform.

The Capital-city, Copenhagen, has a special administrative and political structure, as do three other major cities (Aarhus, Aalborg and Odense). The Copenhagen Metropolitan Region combines the Enlarged Territorial Area with the municipalities of Frederiksberg and Roskilde.

STATE TERRITORIAL ADMINISTRATION. The 2007 reform also transformed the territorial organisation of the state. The 15 county prefectures were transformed in five regional prefectures (*statsforvaltning*). In 2013, a new reform of the state territorial administration established one central office in Åbenrå and eight regional representations. It is managed by one central State Administration director and several subordinate vice directors.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The 2007 territorial reform significantly changed the distribution of responsibilities between the central government, regions and municipalities. Following the reform, the five regions were granted responsibilities for a single sector, health care services. This included the exclusive task of managing the hospital system, controlled by national legislation. Moreover, they are in charge of advising the municipalities on spatial planning and regional development, and of organising regional public transportation (bus services and some non-state-owned railways) and road subsidies, in cooperation with the municipalities. The other responsibilities of the former counties were either transferred to the municipalities or recentralised.

Some of Danish municipalities' responsibilities are stipulated by law, while others are based on unwritten municipal authority rules. Municipalities gained in 2007 responsibilities for social welfare and education, making them responsible for most citizen-related tasks. Overall, their 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. Framework legislation includes the general competence clause for local public services, which means that municipalities and regions are free to choose how to address these local issues, as long as they meet goals and minimum standards of service delivery.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONAL LEVEL	MUNICIPAL LEVEL
1. General public services	General administration; Public buildings and facilities	General administration; Public buildings and facilities
2. Public order and safety		
3. Economic affairs /transports		Local roads; Maintenance of regional roads; Local highways
4. Environmental protection	Action against soil pollution	Refuse collection
5. Housing and community amenities	Regional development plans and regional growth strategies; Rebalancing action on behalf of the peripheral zones and rural areas	Administration of housing benefits transfers; Water supply; Spatial planning and environment
6. Health	Public health (hospitals, psychiatric services, health insurance, primary healthcare andspecialised medicine); Outpatient medicine	Preventive medicine; Dental care; Non-hospital rehabilitation
7. Recreation, culture & religion		Libraries; Theatres; Sports facilities
8. Education		Pre-school; Primary, lower secondary and specialised education; Educational assistance for young people
9. Social protection	Support services for the disabled	Child welfare; Provision for the elderly; Occupational reintegration of the unemployed (job centres); Integration and literacy courses for immigrants; Support services (unemployment insurance, early retirement benefits, cash benefits, and sickness benefits)

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: municipalities, municipal associations, county councils, and local government owned and controlled market corporations5 regions, 98 municipalities, regional and municipal agencies.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. Municipalities are the only subnational level to raise tax revenues, as opposed to regions. The right of municipalities to manage their own affairs independently but under State supervision is enshrined in Article 82 of the 1953 Political Constitution. The specific rules on internal structure, financing and supervision of local and regional authorities are laid down in the 1968 Law on local self-government, which has been amended several times. Overall, despite high levels of fiscal decentralisation regarding expenditures, Danish SNGs rely primarily on grants from the central government, and Danish regions have no taxation powers.

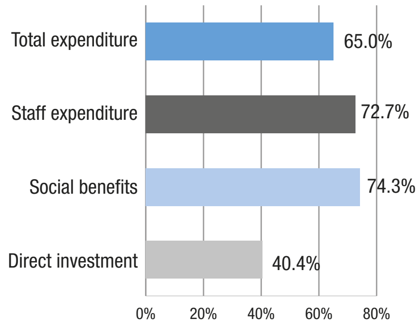
DENMARK

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**17 385**	**34.8%**	**100%**
Inc. current expenditure	16 599	33.3%	95.5%
Staff expenditure	5 746	11.5%	33.1%
Intermediate consumption	2 984	5.9%	17.1%
Social expenditure	6 793	13.6%	39.1%
Subsidies and current transfers	1 014	2.0%	5.8%
Financial charges	33	0.1%	0.2%
Others	49	0.1%	0.3%
Incl. capital expenditure	766	1.5%	4.4%
Capital transfers	19	0.0%	0.1%
Direct investment (or GFCF)	747	1.5%	4.3%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. SNGs, in particular municipalities, are providers of numerous public services and benefits in key areas, making Denmark the most decentralised unitary country of the OECD (as measured by spending). SNG spending in Denmark amounted to 34.8% of GDP and 65% of public expenditure to be compared to 16.2% of GDP and 40.4% of public spending in the OECD on average in 2016. SNG expenditure as a share of GDP and public expenditure in Denmark is even greater than most of OECD federal countries and close to Canada with 31.6% of GDP and 76.2% of public expenditure in 2016). SNGs employ the vast majority of public staff and are responsible for a very large share of social expenditure, much higher than the OECD average (74.3% versus 17% in 2016), given that both municipalities and regions are responsible for many social services.

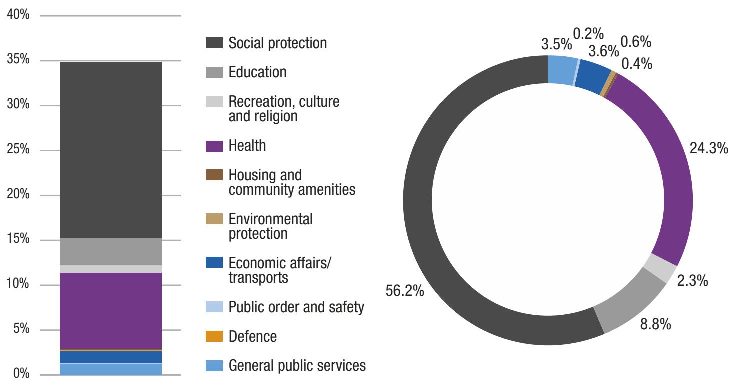
DIRECT INVESTMENT. The role of Danish SNGs in public investment is lower than the OECD average where SNG investment accounted for 56.9% of public investment. The share of investment in SNG expenditure is low compared to the OECD on average (4.3% in Denmark vs 10.7% in the OECD in 2016). In many cases, public investment depends on the room for manoeuvre that SNGs have for prioritising their spending. Even if Danish SNGs are responsible for a large share of public expenditure (especially in terms of social benefits), an important part of it is determined by the Central Government, decreasing the spending autonomy of SNGs.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

The largest area of spending for SNGs is by far social protection, which accounts for 56% of subnational expenditure, a much higher share than the OECD average (14.0% of subnational expenditure in 2016) and 19.6% of GDP (2.2% of GDP in the OECD on average). Social protection is a key responsibility of municipalities. Health expenditure is the second highest budget item, accounting for 24% (vs 18.1% in the OECD) and 8.5% of GDP (vs 2.9% in the OECD). It is almost exclusively the responsibility of regions (health care represents 90% of total regional expenditure), which are responsible, among other things, for the organisation of hospital services.

Although some other spending sectors represent a relatively low percentage of total SNG expenditure, they may represent a substantial share of total public spending in the following areas: housing and community amenities, recreation and culture, environment protection. Compared to other OECD countries, spending in economic affairs and transports is relatively low (18% of subnational government expenditure in 2016).

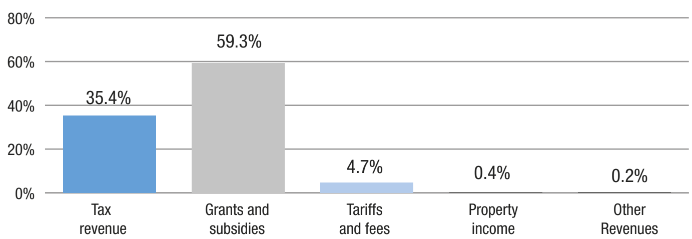
% GDP | % SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**17 542**	**35.2%**	**66.1%**
Tax revenue	6 218	12.5%	26.8%
Grants and subsidies	10 401	20.9%	
Tariffs and fees	820	1.6%	
Property income	75	0.2%	
Other revenues	28	0.1%	

% SNG REVENUE



OVERALL DESCRIPTION. In Denmark, SNG revenue as a share of GDP and as part of public revenue was the highest amongst OECD unitary countries in 2016. Grants and subsides are the main funding source for regions, which are no longer entitled to levy taxes unlike the former counties, while taxes are the main source for municipalities. Grants account for almost 60% of total subnational government revenue, a much higher share than in the rest of the OECD countries (37.2% on average in 2016). The Danish system for allocating financial resources is based on the "expanded total balance" principle (*Det Udvidede Totalbalanceprincip* - DUT), which guarantees a balance between the tasks assigned to municipalities and their financial resources. The "DUT" balance principle means that the state allocates funds to municipalities and regions in line with their expenditure needs.

TAX REVENUE. Since the 2007 reform, municipalities are the only subnational level of government allowed to levy taxes. Major own-source taxes are the local personal income tax (89% of municipal tax revenue, 31.5% of SNG revenue and 11.1% of GDP) and the recurrent taxes on immovable property (11% of municipal tax revenue and 3.9% of total SNG revenue). The local income tax is collected by the central government together with the national income tax. Municipalities can set the income tax rate. There is however a system that aims to slow down the tax rate growth. If a municipality decides to increase tax rates, using a complicated formula, a share of tax revenue raised by local tax rate increase will be paid to the central government.

Recurrent taxes on immovable property are collected by the municipalities. They comprise the land tax which accounts for the larger part (88% of property tax and 9.7% of municipal tax revenue), a municipal duty on land (public property) and municipal duties on residential and non-residential buildings. Local governments are entitled to exempt private schools, non-profit institutions and museums, amongst others, from the land tax. A property tax reform was approved in 2017 and will become fully effective in 2021. New valuations will be implemented to reflect property market values, thereby ending the property valuation freeze in place since 2002, which has led to falling effective tax rates for homes experiencing increases in value. Valuations will be updated every second year starting in 2020. As for many homes, this change will lead to higher valuations, tax rates will be lowered and homeowners whose overall housing taxes increase with the new system will be compensated through a tax rebate. The payment of tax increases after 2021 will also be deferred until the home is sold. In 2016, the municipal recurrent taxes on immovable property accounted for 1.4% of GDP, above the OECD average of 1.1%. Another tax for which municipalities are able to influence the rate is the Church tax. Tax rates for taxes such as company tax, researcher tax and estate tax are first determined by the state, and then municipalities receive a fixed share of the overall windfall.

GRANTS AND SUBSIDIES. Municipalities receive earmarked grants and block grants. Municipalities also receive grants awarded under the statutory financial equalisation arrangements, which were modified in 2007. The Danish equalisation scheme aims to even out the differences across municipalities due to gaps in the tax base, composition of age groups and social structure in general, to give municipalities the same financial possibilities to accomplish their tasks and provide public services. It is based upon the "structural deficit" (or surplus), i.e. the difference between municipal calculated tax revenues (calculated with an average rate of taxation) and an estimate of its spending needs. It is composed of a national equalisation component (58% of the difference between the estimated expenditure need and the estimated tax revenue), an equalisation within the capital city (27% of the difference between the estimated expenditure need and the estimated tax revenue). The remaining part is, as a general rule, allocated to the municipalities by population. 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.

OTHER REVENUES. Other sources of revenue consist mainly of charges and duties from public services (sewage disposal, waste disposal, gas, electricity, heating and water supply); private and public nursery schools (the cost of which is set by law); care for the elderly (elderly persons housed by the municipality are required to pay a rent, electricity and heating). They represent less than 5% of local revenue. Revenues from the sales of assets and return on capital investments, chiefly from the sale of property and net financial interest, represent a very small percentage of local revenue compared to the OECD average (2% in 2016).

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**5 535**	**10.8%**	**20.6%**	**100%**
Financial debt*	3 673	7.2%	16.0%	66.4%

* Currency and deposits, loans and bonds

FISCAL RULES. 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. The limits apply across the entire municipal sector, not individual municipalities, and there is a yearly negotiation between central government and municipal sector representatives about financing. These four-year binding expenditure ceilings are set annually, for current expenditure only. They do not cover investment. In case of non-compliance, the gap will have to be compensated the following year, and central transfers may be reduced.

DEBT. Regions are not allowed to borrow on capital markets and municipal borrowing (loans and bonds) is subject to the supervision and approval of the central government. In general, municipalities can only borrow for capital expenditure for certain utility services only. Municipalities are also allowed to borrow to meet their short-term needs with permission from central government. Danish SNG outstanding debt as a percentage of GDP is lower than in OECD countries where it accounted 24.5% of GDP in 2016. However, the share of SNGs in public debt is on par with the OECD average. It is made up of financial debt (66% of total outstanding debt) and other accounts payable (34%). The financial debt is composed primarily of loans (89%) and currency/deposits. Although Copenhagen and all other Danish municipalities have free access to the national capital market, they do not issue bonds directly. They often turn to *KommuneKredit*, a local government bank established in March 1898, and governed by Act No. 383 dated 3 May 2006 on the Credit Institution for Local and Regional Authorities in Denmark. Under the supervision of the Ministry of Economic Affairs and the Interior, it provides lending and finance leases to Danish municipalities and regions. Currently, all municipalities and regions are members of *KommuneKredit*, which hold 90% of subnational government loans in the country.

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Socio-economic indicators: OECD // Eurostat // World Bank // UNDP // UN Desa // ILO // Statistics Denmark.
Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // Eurostat // Statistics Denmark.
Other sources of information: OECD (2019) OECD Economic Surveys: Denmark 2019 // OECD (2018) Tax Policy Reforms 2018: OECD and Selected Partner Economies // OECD (2018) Regions and Cities at a Glance // OECD (2016) Economic Survey of Denmark // The Ministry for Economic Affairs and the Interior (2014) Municipalities and Regions: tasks and financing. Copenhagen: Ministry of Economic Affairs and the Interior // Juul, T. (2014) Local Government Equalisation in Denmark.// Council of Europe (2013) Local and regional democracy in Denmark - Congress of Local and Regional Authorities // Blom-Hansen, Jens, & Heeager, A. (2010) Denmark: Between Local Democracy and Implementing Agency of the Welfare State. In F. Hendriks, A. Lidström, & J. Loughlin, The Oxford Handbook of Local and Regional Democracy in Europe // Local Government Denmark.

ESTONIA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: EURO (EUR)

POPULATION AND GEOGRAPHY

Area: 43 432 km^2
Population: 1.316 million inhabitants (2017), a decrease of -0.3 % per year (2010-2015)
Density: 30 inhabitants / km^2
Urban population: 68.7 % of national population
Urban population growth: 0.2% (2017 vs 2016)
Capital city: Tallinn (33.2% of national population)

ECONOMIC DATA

GDP: 41.8 billion (current PPP international dollars), i.e. 31 739 dollars per inhabitant (2017)
Real GDP growth: 4.9% (2017 vs 2016)
Unemployment rate: 5.8% (2017)
Foreign direct investment, net inflows (FDI): 1 555 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 23.7% of GDP (2017)
HDI: 0.871 (very high), rank 30 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Republic of Estonia is a parliamentary democratic republic. Its legislative power is composed of a unicameral Parliament (*Riigikogu*), which is composed of 101 members who are directly elected for a four-year term according to the system of proportional representation. The President is elected by the Parliament of Estonia for a five-year term as Head of State. Executive power is vested in the Government, headed by a Prime Minister, nominated by the President after being appointed by the Parliament. Estonia is a unitary country with a single-tier of subnational government. The local government system is enshrined in Chapter 14 of the 1992 political constitution, entitled "Local Government". Moreover, Art.2 of the Constitution states that "the division of territory into administrative units shall be provided by law", and Art. 155 established rural municipalities and towns as the basic units of local government. Other units of local government may be formed on the basis of and pursuant to procedure provided by law. Estonia introduced online voting first in the local elections of 2005 and the system has been in place ever since.

Local authorities are represented by local councils, whose members are elected by direct local elections for a four-year term, according to the Municipal Council Election Act (2002). Members of the councils then elect a chairperson, and appoint a mayor, who is tasked with representing the local authority, as well as managing the municipal administration together with the chairperson. Decentralisation was re-established in Estonia in 1989 by the Local Government Act, which was followed by the 1993 Local Government Organisation Act, which abolished counties as a tier of local government (they became part of the State territorial administration). In 2015, the government launched a territorial reform promoting municipal mergers, which led to the adoption of the Territorial-Administrative Reform Act.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	15 urban municipalities *(linnad)*[1] and 64 rural municipalities *(vallad)*			79
	Average municipal size: 16 653 inhabitants			
	79			79

1. Five urban municipalities also have a rural area in their territory. For example in City of Pärnu (as municipality) about 76% of inhabitants are living in city area and 24% in rural areas. Pärnu City area is about 4% of the territory of Pärnu City as municipality.

OVERALL DESCRIPTION. Estonia has a single tier of SNG comprising 79 municipalities in 2018. Among these 79 municipalities, 15 are urban (*linnad*) and 64 are rural (*vallad*) all with the same legal status.

MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION. The number of municipalities has gradually been decreasing since the 2004 Act on the Promotion of Local Government Mergers. Through the 2016 Administrative Reform Act, the Estonian government implemented a territorial reform and municipal merger programme, aiming to strengthen the administrative and developmental capacity of local governments. Following the reform law, the legislation set a minimum threshold of 5 000 inhabitants for municipalities (with some exceptions, such as for small islands). Municipalities that did not meet the criteria had to merge. The process was carried out in two stages: first, starting in 2016 until 1 January 2017 with voluntary mergers; then, the remaining received merger proposals from the government. The reform ended in October 2017 with the regular local council elections. Following this reform, the number of municipalities decreased from 213 to 79, and the median population of local governments increased from 1 887 to 7 739. As of 2018, 70% of municipalities have between 5 000 and 20 000 inhabitants, and only 21% have fewer than 5 000 inhabitants. Municipalities have the legal possibility to create sub-municipal entities called districts (*linnaosa*) in cities and parishes (*osavald*) in rural municipalities. They have a limited self-governing status (own governing assembly) and depend on their municipality. However, it is optional and eight municipalities, including Tallinn, have seized this opportunity as of today.

Inter-municipal cooperation is also encouraged through the 1993 Local Government Organisation Act, which defined a framework for voluntary inter-municipal bodies performing non-mandatory tasks on behalf of local authorities. Local governments have established formal cooperation in public transport, waste management, water and sewage for example. The last local government reform was also aimed at improving horizontal coordination. Following the reform, municipalities received some new tasks for joint implementation: county development activities; organising public transportation at the county level (via regional transport centres formed by municipalities and the Road Office); and coordination of regional health care; security councils; and cultural cooperation.

Until 1 January 2018, the State territorial administration comprised 15 County Governments, which were administrative subdivisions led by governors appointed by the central government. As a part of the state reform, County Governments were abolished and their tasks were reorganised and transferred either to the central administration or municipalities and inter-municipal groupings. A new department of Regional Administration was established in the Ministry of Finance, which overtook part of the functions of county governments. The department has small agencies with 3-6 employees in each county, for a total of 67 employees (instead of around 480 employees previously).

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Local government responsibilities are set by the Constitution, the Local Government Organisation Act of 1993 and specific laws (for example Social Welfare Act, Republic of Estonia Education Act, Basic Schools and Upper Secondary Schools Act, etc.). Municipal competences encompass the sectors of education, social welfare, housing and utilities, and local transport, etc. (see table below).

With the legislative amendments in 2017 (in force since 1 January 2018) some competences of the county governments were redistributed among local councils for joint implementation, such as the organisation of public transport, land reform procedures, and composition of county development strategy. Ministries took the lead on the supervision in different sectors relating to educational institutions, land ownership and the cadastre, and setting up local development plans. In 2001, an important health reform led to the privatisation of health, which was previously a responsibility carried out by municipalities and central government. Through the successive amendments to the Social Welfare Act (originally enacted in 1995), local governments have been given more flexibility in the provision of the subsistence benefit and care possibilities, and in organising the provision of high-quality early childhood education based on the needs of families. Continuing decentralisation and assigning of responsibilities to municipalities is an ongoing process following the 2016 territorial reform

Local authorities may provide certain public services through the private sector. They may also establish agencies or joint agencies with other local authorities for the provision of services. They can also be a partner or shareholder in a company, create foundations or be a member of a non-profit association.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPAL LEVEL
1. General public services	Issuance of building ordinances and permits
2. Public order and safety	
3. Economic affairs/transports	Local public transportation; Construction and maintenance of local roads
4. Environmental protection	Waste management
5. Housing and community amenities	Water supply; Sewerage; Public lighting; Central heating and amenities; Spatial planning; Cemeteries; Housing and utilities
6. Health	
7. Recreation, culture & religion	Cultural facilities; Youth work; Libraries; Community centres; Museums; Sports facilities
8. Education	Maintenance of pre-school child care institutions, primary and secondary schools; Payment of teachers salaries.
9. Social protection	Provision of social services; Social benefits grants and other social assistance; Welfare services for the elderly; Shelters and care homes

SUBNATIONAL GOVERNMENT FINANCE

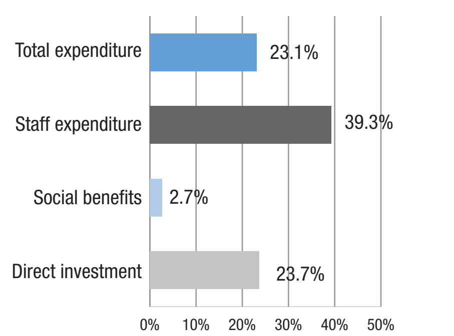
Scope of fiscal data: local governments and organisations managed by local governments, local government foundations, local government hospitals, and local government enterprises.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. The basic legal provisions regarding local government financing are set by the Constitution (Art. 157), which states that local authorities have independent budgets and have the legal right to levy and collect taxes, and to impose duties. The major legal act in this regard is the 2010 Local Government Financial Management Act. Currently, local governments have very limited powers and incentives to increase their own revenues. As a result, local governments are overwhelmingly dependent on state grants and transfers. The State meets local governments at the annual Budget Negotiation Workgroup, established by the government and the delegation of the National Local Government Association. The financial and tax policy workgroup, formed by the Ministry of Finance and the local governments, is the forum during which the support allocated to local authorities, as well as their cost base and other matters concerning tax policy, are discussed.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**2 798**	**9.4%**	**100%**
Inc. current expenditure	2 432	8.2%	86.9%
Staff expenditure	1 376	4.6%	49.2%
Intermediate consumption	833	2.8%	29.8%
Social expenditure	112	0.4%	4.0%
Subsidies and current transfers	99	0.3%	3.5%
Financial charges	11	0.0%	0.4%
Others	1	0.0%	0.0%
Incl. capital expenditure	365	1.2%	13.1%
Capital transfers	31	0.1%	1.1%
Direct investment (or GFCF)	334	1.1%	11.9%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



ESTONIA

UNITARY COUNTRY

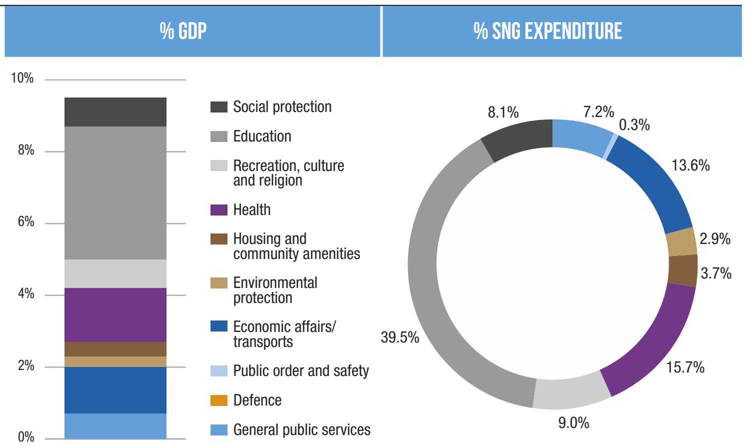
EXPENDITURE. Municipalities in Estonia are responsible for 23.1% of government expenditure in 2016, representing 9.4% of GDP, relatively far below the OECD average (respectively 40.4% and 16.2%) but close to the OECD average for unitary countries (28.7% of public expenditure and 9.2% of GDP). An important part of local expenditure is financed via earmarked grants from the state budget, meaning that municipalities have very limited autonomy regarding the manner in which they perform their tasks. Current expenditures represented 87% of subnational expenditure. It was composed primarily of subnational staff expenditure, whose share in public staff spending is significant, especially since municipalities are responsible for teacher salaries.

DIRECT INVESTMENT. The share of SNGs in public investment is well below the average of OECD countries (56.9% of public investment and 1.7% of GDP). Most municipal investment was dedicated to transport infrastructure, and particularly local roads, public transport, tourism and business infrastructure, followed by education infrastructures and recreation and culture. In contrast, municipalities invest very little in social protection, housing or general public services. Estonia is a major beneficiary of the European Structural and Investment Funds (ESI Funds), which play a significant role at the municipal level, funding projects like schools, child-day centres, etc. At the national level, the government plans to allocate 1.3% of GDP to infrastructure investment over the period 2018-20, 40% of which will be directed to the transport sector. The implementation of a programmed budgeting system is being discussed, where planned costs, revenue, investments and financing transactions in the annual state budget, would be presented on a regular basis as a way to increase the public management performance both at the national and subnational level.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

The largest SNG expenditure category is by far education, as municipalities are responsible for both current and capital expenditure in this area, accounting for 3.7% of GDP and for 39.5% of SNG expenditure, above the OECD average of 24.8% in 2016. Health is another important spending area, since SNGs are responsible for health care institutions. They account for almost 16% of SNG expenditure. Together, education and health represent 55.2% of subnational expenditure.

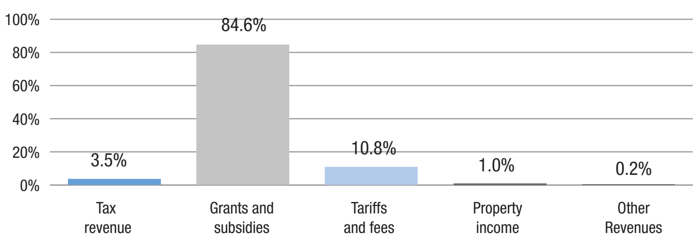
Housing and community amenities stand for 99.5% of general government expenditure in the same category, which means that this is an almost exclusive competence of municipalities. However, spending in this category only amounted to 0.4% of the GDP in 2016. On the other hand, the share of SNG spending dedicated to general services remains amongst the lowest across the OECD (14.1% on average as a share of SNG expenditure in 2016).



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**2 835**	**9.5%**	**23.6%**
Tax revenue	100	0.3%	1.5%
Grants and subsidies	2 397	8.1%	
Tariffs and fees	305	1.0%	
Property income	27	0.1%	
Other revenues	6	0.0%	

% SNG REVENUE



OVERALL DESCRIPTION. Estonian municipalities, especially those in rural areas, do not have many possibilities of shaping their revenues, composed for the major part of central government transfers. The share of grants and subsidies as part of SNG revenue is much larger in Estonia than the OECD average (37.2% in 2016), whereas the share of tax revenue in SNG revenue is much lower than in the rest of OECD unitary countries (44.6% in 2016), Estonia ranks last among OECD countries in 2016. It is important to note that before the 2008 reform of the SNA (implemented in 2014), revenues coming from the sharing of national taxes such as the personal income tax (PIT) were considered tax revenue while, since the reform, they are considered grants from the federal government, hence the strong decrease of the tax ratio in Estonia.

The fiscal autonomy of municipalities is therefore very limited. Only the wealthiest municipalities (around 20% of the total) have self-financing capacities. Even in the case of the capital-city of Tallinn, in 2016, the municipal budget was composed for 60% of transfers (based on the redistribution of the PIT), for 16% of other transfers from the state, for 11% from the sale of goods and services and for 5% from own-source revenue from the land tax.

TAX REVENUE. Overall, the share of tax revenue in local revenue is negligible, in particular since the implementation in 2014 of the 2008 SNA methodology which reclassified some shared taxes as transfers. Estonia is the most centralised country of the OECD regarding taxation, tax revenue accounting for only 0.3% of GDP and 1.5% of public tax revenue (to be compared to 4.7% of GDP and 19.8% of public tax revenue in OECD unitary countries on average). Additionally, municipalities have limited autonomy to introduce new taxes.
The main component of local taxes is the land tax. Land tax is a tax based on the taxable value of land only (improvements are not taken into consideration).

It is calculated by the Estonian Tax and Customs Board on the basis of information received from the corresponding local government. The land tax is considered a state level tax but 100% of its receipts go to local government budgets. In addition, municipalities have a degree of freedom to set the rates, within limits set by law. In particular, the tax rate on land is legally set at 0.1-2.5% of the taxable value of land annually. The rate on agricultural land is 0.1–2.0%. There are very few exemptions on the land tax. Land values have not been re-evaluated since 2001. The land tax accounted for 83.6% of municipal tax revenue and 2.9% of their total revenue in 2016. It amounted to 0.3% of GDP, which is well below the OECD average (1.1% of GDP).

Municipalities also collect other minor local taxes, which are optional according to the Local Taxation Act, such as the tax on advertising (7% of SNG tax revenue), tax on the use of water (7%) and tax on closure of roads, streets and squares (2%.).

GRANTS AND SUBSIDIES. Local governments are overwhelmingly dependent on state grants and transfers, which make up to 85% of total local revenue. Most municipal grant revenues come from the sharing, with the central government, of PIT receipts. The share of the PIT allocated to local governments through the Tax and Custom Board was set at 11.6% of taxable income in 2016 (provided that any statutory deductions from the taxable income base (standard tax deduction, etc.) will only subtract from central government PIT revenue and leave municipalities income tax revenues untouched).

The second biggest source of grants are earmarked block grants, which include the education grant (in particular for teachers' salaries) and the social benefits grant. Grants are calculated using more than 50 different formulas. Reforms are currently being considered to reduce earmarked transfers and improve efficiency by moving to a more performance-based system.

Grants also include the Equalisation Fund scheme, which ensures the redistribution of revenue to poorest municipalities (section 47 of the 2014 State Budget Act, amended in 2017). Equalisation transfers are defined yearly in the state budget. They are formula-based, according to the population size, revenues over the last three years (PIT and land tax), and the municipality's "estimated expenditure needs" (based on the funds available). Since 2017, it was established that the equalisation grant should not decrease by more than 2% of "expenditure needs" a year, as an incentive for municipalities to look for ways to increase their revenues. The addition of another component to the formula, defined as "peripheral region", has been implemented since 2018. In 2016, 173 municipalities out of 213 benefited from this equalisation fund, whose amount reached EUR 7.6 million.

Local governments also receive capital grants, including EU funds which finance approximately one-third of their total investment. Capital grants accounted however for only 3.2% of total grants in 2016. Finally, in the framework of the Administrative Territorial Reform, local governments that carried out successful merger negotiations received specific grants, of varying amounts according to the procedure and size of the merger.

OTHER REVENUES. Other revenues for local governments include user charges, fees and revenues from economic activities, which account for around 10.8% of municipal revenues, a smaller percentage compared to the OECD average of 14.9% in 2016. Property income (rents and sales of assets) is 100% local, and stands for 1% of SNGs revenue, in line with the OECD average of 1.4%

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**706**	**4.2%**	**31.9%**	**100%**
Financial debt*	568	3.4%	35.7%	80.4%

* Currency and deposits, loans and bonds

FISCAL RULES. The 2014 State Budget Act introduced a budget balance rule for the general government, with a breakdown by level of government. The text states that the operating results shall not be negative at the end of an accounting year. It also provides for a "recovery plan" to re-establish fiscal discipline, which may include the amendment of local government legislation on the revenue and the expenditure sides. In 2016, only one local government was in a perilous financial situation. The State Budget Act enacted in 2014 established the Fiscal Council, which strengthened the overall fiscal framework. The National Audit Office, an independent public body, reports to the Parliament on the financial situation of central and local levels of government, as well as on other issues such as transparency and the prevention of corruption. It is headed by the Auditor General, who is recommended by the President and appointed by the Parliament for a term of five years. However, internal audit mechanisms are not yet mandatory for local authorities.

DEBT. Municipalities can contract long-term loans or bonds but only to fund investment projects (golden rule). According to the 2010 Local Government Financial Management Act (LGFMA), the debt ceiling for local governments ranges from 60% to 100% of the current year's operational revenues (depending on their self-financing capacity). The weight of local debt in GDP is significantly lower than the OECD average for unitary countries (14.5% of GDP in 2016). As a share of public debt, it is however significantly higher (11.8%). This is explained by the low level of public debt (13.1% of GDP vs 16.6% of GDP in the OECD on average in 2016). In 2016, financial debt ("Maastricht debt") accounted for 80% of total outstanding debt, the remaining part being composed of "other accounts payable" (commercial debt and arrears). Financial debt is made up primarily of loans (76.5%) and to a lesser extent of bonds (23.5%).

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Other sources of information: Ministry of finance of Estonia (2019) Local Government System in Estonia https://www.rahandusministeerium.ee/en/local-governments-and-administrative-territorial-reform // IMF (2018) Selected Issues paper on the Republic of Estonia – IMF Country Report No. 18/126 // OECD (2017) OECD Economic Surveys: Estonia 2017 // European Commission (2017), Country Report Estonia 2017 // Congress of Local and Regional Authorities (2017) Local democracy in Estonia // OECD (2016) "Estonia", in OECD Regional Outlook 2016: Productive Regions for Inclusive Societies // European Committee of Regions (2016) Division of Powers // Sulev Maeltsemees S., Lõhmus M., and Ratas J. (2013) Inter-Municipal Cooperation: Possibility for Advancing Local Democracy and Subsidiarity in Estonia.

FINLAND

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: EURO (EUR)

POPULATION AND GEOGRAPHY

Area: 338 150 km^2
Population: 5.508 million inhabitants (2017), an increase of 0.4% per year (2010-2015)
Density: 16 inhabitants / km^2
Urban population: 84.4% of national population
Urban population growth: 0.3% (2017 vs 2016)
Capital city: Helsinki (23.2% of national population)

ECONOMIC DATA

GDP: 247.3 billion (current PPP international dollars), i.e. 44 891 dollars per inhabitant (2017)
Real GDP growth: 2.6% (2017 vs 2016)
Unemployment rate: 8.6% (2017)
Foreign direct investment, net inflows (FDI): 14 198 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 23% of GDP (2017)
HDI: 0.920 (very high), rank 15 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Finland is a parliamentary Republic under the 1999 Constitution and the 2012 constitutional amendments. It is led by the President of the Republic as the Head of State and by a Prime Minister as Head of the Government. It has a unicameral Parliament (*Eduskunta*), which is formed by 200 representatives, who are elected for a four-year term.

Finland is a unitary state organised on a decentralised basis. Local democracy has been developing since 1917 through regulatory advances and the introduction of universal direct suffrage at the municipal level.

The Finnish Constitution safeguards the municipal self-government and its autonomy. An important legal basis for municipalities is also the Local Government Act, which sets the rules by which municipalities must operate and organise their administration. The 1995 Local Government Act was revised in 2015.

The local residents elect every four years the municipal council, which is the key decision-making unit in municipalities. Besides the local council, there is a municipal board, which is an executive body whose members are elected by the local council. The composition of the municipal board is based on the political makeup of the council: the parties represented in the council get seats on the municipal board according to their share of council seats. The municipal board is responsible for municipal administration and financial management. It prepares matters to be decided by the council, executes the decisions and ensures their legality. Municipal boards hold a powerful administrative position, because the most important matters prepared for the council are politically agreed in advance by the board. The municipal manager is a civil servant who works under the municipal board as the head of municipal administration, financial management and other functions. Municipality managers hold their position either for a fixed term or the positions are permanent. The choices of city managers do not necessarily take place close to local elections. The situation is, however, slightly different for the biggest cities. City managers (called mayors and deputy mayors) in the biggest cities are often de facto politicians who have risen the ranks from city councils or national politics to this position elected by local councils.

Other important laws regarding subnational governance are the Division into Regions Act (1159/1997), the Law on regional development and the management of Structural Fund operations (7/2014) and the Act on Restructuring Local Governments and Services (Framework Act - 169/2007).

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	311 municipalities *(kuntaa)*		1 autonomous county of Aland	
	Average municipal size: 17 670 inhabitants			
	311		1	312

OVERALL DESCRIPTION. Finland has one subnational level composed of 311 municipalities in 2018. 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 cooperation. The number of municipalities has steadily decreased from 475 in 1976 to the current number. In 2018, the average municipal size is almost 18 000 inhabitants and the median size is around 6 000 inhabitants. About 43% of municipalities have however fewer than 5 000 inhabitants and 14% fewer than 2 000 inhabitants. There are nine cities exceeding 100 000 inhabitants, including Helsinki and Vantaa and Espoo, which are located in the Helsinki metropolitan area as well as Tampere, Turku and Oulu.

REGIONS gained importance during the last decade of the 20th century. They were created in the mid-1990s, primarily as a conduit for applications for European Structural Funds following Finland's accession to the EU. The Division into Regions Act, passed on 11 December 1997, entered into force on 1 March 1998. However, while there are 19 regions, only one has an autonomous administration: the island region of Aland. Aland Island has its own parliament and government and it is divided into 16 municipalities. The population of Aland Islands in 2017 was 29 489 inhabitants. The other 18 regions, called "regional councils" (*maakunnan liitto*) are led by statutory joint municipal boards. They are elected by the municipal authorities and they receive funding from their member municipalities as well as from funds for regional development from the Finnish government and the European Union.

A regional self-government experiment was carried out in the region of Kainuu between 2005 and 2012. The Regional Council was granted powers that had traditionally been under the domain of the Central Government and health care and most of the social and educational services were transferred from the municipalities to the region. The experiment ended on 31 December 2012 after talks broke down indefinitely.

A new regional reform was launched in 2015 aiming to create a new autonomous elected regional level. If the reform proposal is accepted in the Parliament during the spring 2019, it will take effect at the start of 2021.

Voluntary inter-municipal cooperation is a common way to arrange services in conjunction with other municipalities, in particular in case of the smallest municipalities. Hospitals and regional councils are managed by compulsory inter-municipal clusters.

Until January 2010, Finland had six state provincial administration provinces, led by a governor appointed by the President of the Republic upon the recommendation of the Council of Ministers. Provinces were abolished under the local government reforms and their responsibilities were transferred to the regional councils or the municipalities. However, there is now a regional level of deconcentrated state administration, which is composed of six Regional State Administrative Agencies (AVI) and 15 Centers for Economic Development, Transport and the Environment (ELY).

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Finland's municipalities have general jurisdiction, which means that they have a wide range of responsibilities that have been extended over the years. They are in charge of delivering a wide range of public services, in education, social services, health and infrastructure maintenance. The provision of local services can be entrusted to inter-municipal cooperation structures as well as to municipally owned companies. Functions arranged in cooperation with other municipalities (statutory joint responsibilities) are specified by law.

The Regions, in the framework of the recent reform, 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 be assigned other functions (not yet defined) presently under the responsibility of current regional councils, Centers for Economic Development, Transport and the Environment (mostly active in regional development, rescue services, etc.).

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	ALAND ISLANDS	MUNICIPAL LEVEL
1. General public services	Åland civil service; Taxation; Statistics; Internal administration	General municipal administration; Public buildings and facilities
2. Public order and safety	Public order and security; Civil protection; Some aspects of criminal law	Fire and rescue services
3. Economic affairs /transports	Agriculture; Fisheries; Communications (postal services, broadcast); Transport networks; Trade; Promotion of employment	Public transportation; Economic development and employment
4. Environmental protection	Environment; Prevention of cruelty to animals and veterinary care	Environmental protection; Waste management; Sewerage
5. Housing and community amenities	Land use planning	Land use planning; Local infrastructure including streets; Energy; Water management; Harbours
6. Health	Public health	Primary and specialised healthcare; Dental services
7. Recreation, culture & religion	Culture; Sports	Culture; Sports; Library services
8. Education	Education; Apprenticeships	Pre-school; primary and secondary education; vocational training; Adult education
9. Social protection	Social welfare; Youth work	Social welfare; Child day care; Services for the elderly; Services for disabled

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: municipalities, joint municipal authorities and quasi-corporations which are legally part of the municipality under which they are operating. In addition, it comprises the Åland Government and its Pension fund, the Association of Finnish Local and Regional Authorities (*Kuntaliitto*), the KT Local Government Employers) and the Municipal Guarantee Board).	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. The Constitution secures the municipalities' right to make financial decisions, for example the right to levy taxes. The Local Government Act sets the rules for the administration and finances of municipalities, inter-municipal bodies and municipal companies (Chapter 13 on "local government finances").

The Local Government Act also states that the Ministry of Finance is responsible for monitoring the activities and finances of municipalities and for ensuring that municipal self-governing status is taken into account whenever legislation concerning local government is drafted. The law also provides for a "negotiation process" between the central and local governments, the latter being represented by the Association of Finnish Local and Regional Authorities. As part of this negotiation process, the law establishes the need to prepare each year a Programme for local government finances, which is part of the preparatory work for the General Government Fiscal Plan and the central government's budget proposal. This programme must include an assessment of whether municipalities have adequate funding with which to perform their duties (principle of adequate financial resources), an assessment of changes in the municipalities' operating environment and demand for services, and in the functions of local government, and shall provide an estimate of the trend in local government finances.

The Local Government Act also provides for the establishment of an "Advisory Committee on Local Government Finances and Administration", which operates in conjunction with the Ministry of Finance. Its tasks are to monitor and assess the trend in local government finances, and ensure that the programme for local government finances is taken into account in the drafting of legislation and decisions concerning local government.

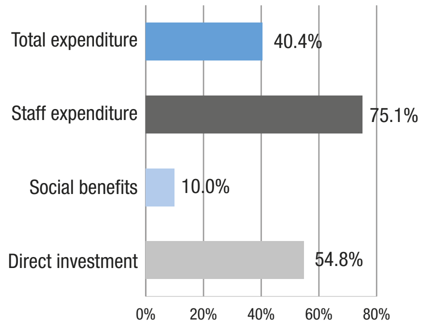
FINLAND

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**9 804**	**22.6%**	**100%**
Inc. current expenditure	8 888	20.5%	90.7%
Staff expenditure	4 339	10.0%	44.3%
Intermediate consumption	3 179	7.3%	32.4%
Social expenditure	975	2.2%	9.9%
Subsidies and current transfers	365	0.8%	3.7%
Financial charges	28	0.1%	0.3%
Others	2	0.0%	0.0%
Incl. capital expenditure	916	2.1%	9.3%
Capital transfers	2	0.0%	0.0%
Direct investment (or GFCF)	914	2.1%	9.3%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



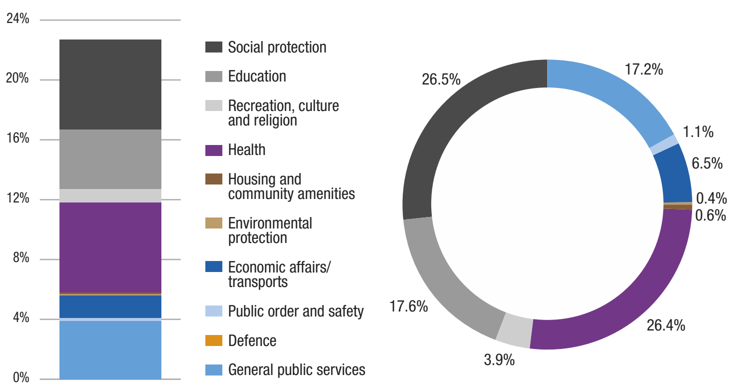
EXPENDITURE. In international comparison, Finland is considered one the most decentralised countries in the world. As of today, all main social, healthcare and education services are performed by municipalities or by joint municipal authorities. Hence, the overall economic importance of the municipal sector is considerable. Municipality spending as a share of GDP and general government is among the highest in the OECD, well above the OECD average where subnational expenditure amounted to 16.2% of GDP and 40.4% of public spending in 2016. Finland is surpassed only by some federal countries (Canada and Belgium) and by two Nordic unitary countries (Denmark and Sweden). Municipalities employ roughly 20% of the total Finnish workforce. Overall, sub-national staff expenditure amounted to 75% of public staff expenditure in 2016, which is also amongst the highest of the OECD members, along with Denmark, Sweden and Japan as with most federal countries. Staff expenditure represents almost half of SNG spending (versus 36% in the OECD).

DIRECT INVESTMENT. Even if municipalities have large responsibilities in the healthcare and social protection areas, their share in public investment is currently below the OECD average (56.9%). Municipalities are responsible for important investment projects related to education, hospitals, municipal infrastructure, roads and other transport networks.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Local governments in Finland carry out important public services. Compared with the rest of the OECD countries, Finland stands out with high spending shares in health, social services and education. For instance, in healthcare the municipalities and joint municipal authorities are in charge of primary and secondary healthcare and dental care. As for social services, the municipal sector is responsible for child day care, services for the aged and the disabled. In education, municipalities provide pre-school and primary education and secondary education. Since these service categories are labour intensive, municipal staff spending is high.

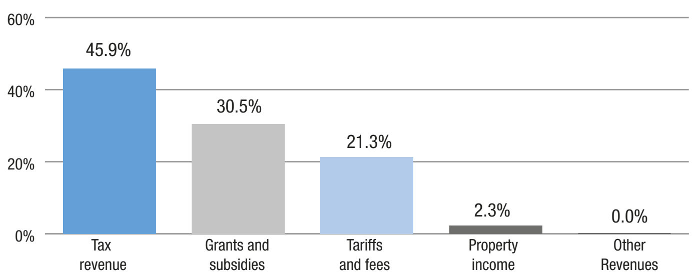
% GDP | % SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**9 613**	**22.2%**	**40.9%**
Tax revenue	4 411	10.2%	32.6%
Grants and subsidies	2 932	6.8%	
Tariffs and fees	2 047	4.7%	
Property income	220	0.5%	
Other revenues	3.0	0.0%	

% SNG REVENUE



OVERALL DESCRIPTION. Own-source revenues (taxes, tariffs and fees, property income) account for nearly 70% of subnational revenue, and 15% of GDP, giving municipalities considerable autonomy over their revenue. The share of taxes in subnational revenues is at the same level of the OECD on average (45%). However, as a share of GDP, it is above the OECD average (7.1% in 2016). Tariffs and fees represent almost a fifth of subnational revenue, which is also above the OECD average (15% in 2016) while the share of grants and subsidies is below the OECD average (37%).

In the framework of the regional reform which is currently underway, a new Act on regional financing has been proposed. Closely linked to the reform of health and social protection financing, the initial aim is to give the central government primary responsibility for financing the regions.

TAX REVENUE. Most municipal taxes are own-sourced. Only one tax is shared with the central government: the corporate income tax, (7% of local government tax revenue in 2016 and around 3% of subnational revenue). The CIT 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 31.4% in 2018). For a long time, authorities have discussed replacing corporate tax revenue with increased grants as a source of municipal revenue. Municipalities have strongly opposed such proposals however. Opposition is particularly fierce in areas such as Helsinki region where corporate income tax has been an important revenue source.

The main source of own tax revenue is municipal income tax (around 85% of subnational tax revenue and 39% of total subnational revenue). Subnational PIT receipts represent almost 70% of total PIT collected at national level. Its base is determined by the central government, but municipalities have full control over the rate. Municipal income tax is a flat rate tax, although central government policy for tax allowances for persons with low incomes has made the local tax more like a progressive tax. The revenue losses of these allowances are compensated to municipalities through the grant system however. In 2019, the municipal income tax rates vary between 22.5% and 16.5%, the average rate is 20.84%. Most income tax rates are close to this average.

Municipalities also levy property taxes (7.6% of local tax revenue and 3.5% of subnational revenue, i.e. 0.8% of GDP), which consist of five taxes: the general real estate tax, the tax for permanent residential buildings, the tax for other residential buildings, the tax for power stations and tax for nuclear power stations. In addition, municipalities can put a special tax on unbuilt land. This tax is voluntary except in the 14 municipalities of the Helsinki metropolitan region, where the municipalities are obliged to apply this tax. The most important property taxes are the general real estate tax and the tax for permanent residential buildings. Municipalities are the sole receivers of property tax revenues. Property taxes 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. Central transfers to municipalities are formula based and the system consists of revenue equalisation and cost equalisation. Revenue equalisation takes into account municipal differences in calculated (not real) tax revenues. Revenue equalisation equalises transfers, not actual tax revenues. Cost equalisation takes into account differences in service needs and other factors affecting the cost of service provision (population, geographic remoteness, number of pupils, age-specific cost coefficients for services, etc.). Transfers are non-earmarked block grants, i.e. municipalities are free to allocate the total amount of grants as they wish.

The transfer system can be a significant source of income for some municipalities with high service cost factors and low revenue bases (for those municipalities, grants can account for more than 50% of all their revenues). In practice, all grants are used for current expenditure.

OTHER REVENUES. The majority of other revenues (21.3%) come from tariffs and fees. User fees from healthcare, charges for utilities (water supply, waste disposal, power) and public transport form the main sources for this income, while basic education is free. The remaining part is made up of property income - assets sales and rents, a percentage in line with the OECD average (2% of subnational government revenue in 2016).

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**5 268**	**12.7%**	**16.8%**	**100%**
Financial debt*	3 774	9.1%	13.3%	72%

* Currency and deposits, loans and bonds

FISCAL RULES. Local budgets in Finland must be balanced over a four-year planning period. Moreover, an amendment to the Municipal Act in 2015 reinforced the macro-steering of the local finance system. An objective was set for local government deficits, and a spending limit was introduced on central government measures affecting local finances. According to the Local Government Act, each municipality must have a local authority audit committee to arrange audits and assessments of the administration and finances. Members are elected by local councillors. For the audit of the administration and finances, the local council shall appoint an authorised public accountant.

DEBT. Municipalities are free to borrow through bonds and loans to finance any type of operation. Deteriorating fiscal positions pushed municipalities to increase borrowing between 2009 and 2016, but in 2017 the borrowing slowed down markedly. Local debt is still below the OECD average (24.5% of GDP and 20.7% of public debt) but on par with the average for OECD unitary countries (14.5% of GDP and 11.8% of public debt). In 2016, local debt was made up of financial debt (72%) and other accounts payable (28%). Financial debt ("Maastricht debt") accounted for 9.1% of GDP and 13.3% of public financial deb. It included loans (86%) and bonds (14%). More than 80% of municipal debt is financed through the Municipal Finance (MuniFin), a 100% publicly-owned provider of financial services to local governments.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: OECD
Last update: 02/ 2019

www.sng-wofi.org

Socio-economic indicators: OECD // Eurostat // World Bank // UNDP // UN Desa // ILO // Statistics Finland.
Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // Eurostat // Statistics Finland.
Other sources of information: Valtioneuvosto (2018) Regional government, health and social services reform // OECD (2017) Multi-level governance reforms: Overview of OECD country experiences // Council of Europe (2017) Local and Regional Democracy in Finland, Congress of local and regional authorities // European Committee of Regions (2016) Division of Powers // André, C. and C. García (2014) Local Public Finances and Municipal Reform in Finland, OECD Economics Department Working Papers, No. 1121 // Moisio et al. (2010) Public services at the local level - The Finnish way. VATT Policy Reports 2.

FRANCE

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY:EURO (EUR)

POPULATION AND GEOGRAPHY

Area: 647 795 km^2
Population: 66.865 million inhabitants (2017), an increase of 0.4% per year (2010-2015)
Density: 103 inhabitants / km^2
Urban population: 80.2% of national population
Urban population growth: 0.7% (2017 vs 2016)
Capital city: Paris (16.3% of national population)

ECONOMIC DATA

GDP: 2 876.1 billion (current PPP international dollars), i.e. 43 013 dollars per inhabitant (2017)
Real GDP growth: 1.8% (2017 vs 2016)
Unemployment rate: 9.4% (2017)
Foreign direct investment, net inflows (FDI): 47 336 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 22.5% of GDP (2017)
HDI: 0.901 (very high), rank 24 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

France is a unitary republic with a semi-presidential regime determined by the Constitution of the 5th Republic adopted in 1958. The executive power is exercised by the president, elected by direct universal suffrage for a five-year term, and the government is headed by the prime minister, who is appointed by the president and responsible to the parliament. The parliament is bi-cameral. The lower house, the National Assembly (*Assemblée nationale*), is composed of 577 members elected by direct universal suffrage for a five-year term while the upper house is the Senate (*Sénat*). Senators are elected for a six-year term by indirect suffrage by "*grands électeurs*", an electoral college of about 145 000 local elected officials who represent territorial units and citizens living abroad (regional, departmental and municipal councillors). Half of the Senate is renewed every three years.

Decentralisation is enshrined in the first article of the 1958 Constitution, which states that "France shall be organised on a decentralised basis" as well as in article 72, which recognises the principle of local government autonomy. This principle was consolidated by the Constitutional revision of 2003, which dedicated a full title XII to subnational governments (*collectivités territoriales*). It describes the decentralised organisation of the Republic based on three levels of SNGs (communes, departments and regions), as well as on special-status communities and overseas territorial communities. The main legal sources governing SNGs are found in the General Code of Subnational Governments (*Code general des collectivités territoriales*) promulgated in 1996, and regularly amended. All three levels have their own deliberative assemblies (municipal, departmental and regional councils) that are elected independently by the population by direct universal suffrage, for a six-year term. The president of the regional council and the president of the departmental council are elected by their respective council from among their members to exercise the executive power. In municipalities, the mayor (*maire*) heads the executive body and is elected by the municipal council from among its members.

The decentralisation process started in 1982-83 with the adoption of decentralisation laws establishing the principle of "free administration", and organising the transfer of responsibilities (education, social affairs, etc.) and resources (staff, finances), in particular to the departments and the regions, created as self-governing bodies in 1986. After this founding period, now referred to as the "first Act" of decentralisation, a "second Act" was launched in 2003-04. Additional responsibilities were transferred to departments and regions, which also gained more financial autonomy. SNGs also were given the opportunity to carry out experiments in several areas. In 2010, a multi-faceted local government reform took place, which included: a clarification of responsibilities; the setting up of common "territorial councillors" for *régions* and *départements*; a reform of the local taxation system (reduction of local taxing power) and of equalisation mechanisms; a streamlining of inter-municipal cooperation; the creation of a new status of metropolis, etc. Important parts of the 2010 legislative package were however revoked by the government which took office in 2012. The same government launched the "Act III of decentralisation" with a new set of reforms between 2013 and 2015. They included the law on metropoles (2014), regional mergers (2014) and the law NOTRe (2015) on the New Territorial Organization of the Republic, which modifies the allocation of responsibilities across levels of subnational governments. In particular, it reinforces the competences of regions (economic development, territorial planning, environment protection, vocational training).

In July 2017, the government established the National Conference of Territories (*Conférence nationale des Territoires* - CNT) as a new platform of dialogue and concertation across levels of government. Chaired by the Prime Minister, the CNT is composed of members of the Government, representatives of local and regional government associations, the Parliament and the Committee on Local Finance. The law NOTRe has also reinforced the role of the French Observatory on local finance and public management (*Observatoire des Finances et de la Gestion publique Locales* – OFGL). The group was established as a partnership between the French Government and the associations of local governments to form a neutral platform to gather, analyse and share information on local finances and public management.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	35 357 municipalities *(communes)*	101 departments *(départements)*	18 regions *(régions)*	
	Average municipal size: 1 891 inhabitants			
	35 357	**101**	**18**	**35 476**

OVERALL DESCRIPTION. The three-tiered subnational system of France (including Corsica and outermost regions) comprises 18 regions at the upper level, 101 departments at the intermediate level and 35 357 municipalities at the lower level.

REGIONAL LEVEL. The regions were established recently in 1972 as "public establishments", transformed into self-governing entities in 1982 with the first direct elections held in 1986, and again mentioned in the constitution in 2003. In 2015, the regional boundaries were substantially modified by the Law 2015-29 on the Delimitation of Regions and Regional and Departmental Elections. It introduced forced amalgamations for regions in mainland France, whose number was reduced from 22 to 13. Despite the reform, French regions are still quite heterogeneous in terms of area, demography and socio-economic development. Although the differences in the size of the regions have narrowed with the reform (the average regional size increased from 2.88 million inhabitants in 2015 to 5 million in 2018), the population remains unevenly distributed over the territory: 31% of the French population lives in one of the two most populated regions (Ile-de-France and Auvergne-Rhône-Alpes) which represent only 13% of the territory. In 2016, France had the tenth-highest regional disparities in GDP per capita among 30 OECD countries with comparable data. France also has the five outermost regions located in Latin America (Guyane), Lesser Antilles (Martinique, Guadeloupe) and Indian Ocean (La Réunion and Mayotte). These regions are an integral part of the European Union but they have a special status according to the Article 349 of the Treaty on the Functioning of the European Union (TFEU) due to their characteristics (remoteness, islands, small size, etc.). As a result, they have specific measures that apply to them. Corsica also has special status including greater autonomy, especially in areas related to protection of cultural goods.

DEPARTMENTAL LEVEL. Created by the French revolution in 1791, the departments have remain unchanged since (except those added to the initial list of 83 departments to reach 101 today). While their geographical size is homogeneous (their boundaries have been defined according to the same general principle), their demographic size varies substantially from one department to another: the least populated (Lozère) had 35 times fewer inhabitants than the most population (Nord) in 2018. The abolition of the départements is regularly discussed but all attempts (2010, 2015) were eventually abandoned in the end.

MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION. France has the second-highest number of municipalities after the United States. French communes account for 27% of all municipalities in the OECD and 41% in the EU. Their average size is the third-lowest in the OECD, and the median size (435 inhabitants) is the second to last, before Czech Republic. Additionally, 95% of French municipalities have fewer than 5 000 inhabitants, and even 86% less than 2 000 inhabitants. Mergers have always been strongly resisted. However, the status of "new municipality" (*commune nouvelle*), reactivated by a law in 2015 in order to promote municipal mergers is gaining momentum. This arrangement allows the abolished municipalities in a merger process to remain and retain some specificities such as a delegate mayor, a town hall (annex), an advisory council, which function as deconcentrated localities. As of January 2018, 560 new municipalities - bringing the total to nearly 1 900 municipalities - had been created.

The preferred response to municipal fragmentation has been inter-municipal cooperation (IMC). It has a long tradition in France as the first municipal syndicates were created in 1890 and they developed over the next decades, giving rise to urban districts and urban communities in 1966. The main push was, however, law no. 92-125 of February 1992, which promoted IMC as integrated territorial projects with own-source taxation powers, (i.e. ability to raise their own sources of tax revenue), with "communities of communes" and "communities of cities" and later "agglomeration communities". In 2014, the law NOTRe passed to simplify this very complex inter-municipal organisation by setting up a minimum threshold for IMCs (15 000 inhabitants instead of 5 000), resulting in a decrease in the number of IMC structures with own-source tax (*EPCI à fiscalité propre*), from 2 456 in 2013 to 1 258 in January 2019. Today, all French municipalities are part of an *EPCI à fiscalité propre*, ranging in size from 21 metropolises (greater than 400 000 inhabitants), 13 "urban communities", 223 "agglomeration communities" and 1 001 "communities of municipalities" in rural areas (as of January 2019). With their own taxing powers, these structures form a quasi-fourth subnational level of government.
"*Métropole*" status was created by the 2014 law for the Modernisation of Territorial Public Action and Metropolises (MAPTAM) for the largest urban areas, with differentiated legal status according to the cities. Paris, Lyon and Aix-Marseille-Provence, which already had a specific status since the 1982 PLM law, received different ad hoc governance structures - i.e. different structure, responsibilities and resources. Additionally, after 2015, the "Métropole de Lyon" substituted the urban community of Lyon within the Rhône department and on 1 January 2019, the reform of the status of Paris, adopted on 28 February 2017, came into force, merging the municipality and the department into a new community with special status called "Ville de Paris".

STATE TERRITORIAL ADMINISTRATION. France has maintained, at both regional and departmental levels, a strong and powerful prefectural administration led by a prefect (*préfet*), as well as local directorates of various ministries placed under their authority, so-called "deconcentrated services". According to the constitution, the prefect is the direct representative of the prime minister and every minister at the departmental level. The prefect implements government policies and their planning. The prefect is responsible for national interests, administrative supervision and compliance with laws and is in charge of public order.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

According to Article 72 of the Constitution, subnational governments may "take decisions in all matters arising under powers that can best be exercised at their level". Interpreted as giving a "general clause of competence" to all levels of SNGs, this article has been debated in a context of growing confusion concerning their respective responsibilities, deemed to generate overlapping and duplication of spending. After different contradictory reforms (1982-83 decentralisation laws, 2003-04 laws and 2010 territorial reform), the Law NOTRe of 2015 finally clarified the distribution of competences across levels of government. The general clause of competence was removed for regions and departments, while it remains for municipalities. Despite this clarification, a 2017 report from the *Cour des Comptes* suggested going further in this direction, in particular concerning departments and regions and between municipalities and IMC entities. Some asymmetry has been introduced by recent reforms, in addition to pre-existing asymmetry between outermost regions, Corsica and other regions. This asymmetry concerns mainly metropolis and special status metropolises such as Paris, Lyon and Aix-Marseille-Provence. With its new status, the "Ville de Paris" has additional powers in the fields of traffic management, public parking, and additional police powers, among others. Regions and departments has now" specialised responsibilities". In particular, regions gained greater responsibilities regarding regional economic development, territorial planning and environment protection planning. Regions have also been devolved competences for the management of European funds. Departments are "*chef de file*" regarding social affairs, focusing on social solidarity and territorial cohesion as well as supporting rural municipalities.

Municipalities remain the only local level that benefits from the general clause of competence, giving them explicit freedom to act in the best interests of the populace at local level and allowing them to respond to the day-to-day needs of local citizens. As a result, they have very diversified responsibilities, covering almost areas. Municipalities also carry out some responsibilities on behalf of the State (civil registration, electoral list). Several competences are shared between the differrent subnational levels but also with the central government (education, social affairs, roads, etc.), which can result in the duplication of competencies between the SNGs and state deconcentrated administration. A reform is currently on-going based on the recommendations of the "Public Action Committee 2022" (CAP 22) to streamline the territorial administrayion and reduce overlapping.

Besides IMC bodies, which provide joint services on behalf of member municipalities, municipalies can also use local public companies that have separate legal status. In France, the approximately 1 220 local public companies cover various areas such as urban planning, housing, tourism, transports, energy, waste management and water.

EUROPE

FRANCE

UNITARY COUNTRY

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONS	DEPARTMENTS	MUNICIPAL LEVEL
1. General public services	Internal administration	Internal administration; Support to rural municipalities	Municipal administration; Administrative services delegated by the central government (civil register, electoral issues)
2. Public order and safety		Departmental fire and emergency services	Municipal police
3. Economic affairs /transports	Regional spatial planning; Regional transport plans; Regional train lines; School and inter-urban transportation; Civil airports; Non-autonomous harbours economic development (aid schemes to SMEs, innovation, internationalisation), R&D; Management of EU funds	Rural development; Secondary roads; Sea and fishing ports	Municipal roads; Local public transport; Local economic development
4. Environmental protection	Environmental protection planning; Regional parks and preservation areas; Energy saving; Water protection	Water protection	Waste management; Sanitation
5. Housing and community amenities	Housing subsidies	Housing subsidies and management	Land use planning and urban planning; Building permits; Housing subsidies and management; Drinking water
6. Health			Public health (vaccination)
7. Recreation, culture & religion	Cultural heritage and monuments; Museums; Artistic training	Culture; Libraries; Museums; Archives; Historical buildings; Tourism	Culture; Sports; Archives; Museums; Libraries; Tourism
8. Education	High schools (building and technical staff); Vocational training and apprenticeship; Job training programmes; Support to universities and R&D	Secondary schools (building and technical staff)	Nursery schools; Pre-schools; Elementary schools ((building and technical staff); Extra-curricular activities
9. Social protection		Social welfare for families, children, disabled people, elderly people, social insertion	Social welfare (jointly with departments); Support to families and youth

SUBNATIONAL GOVERNMENT FINANCE

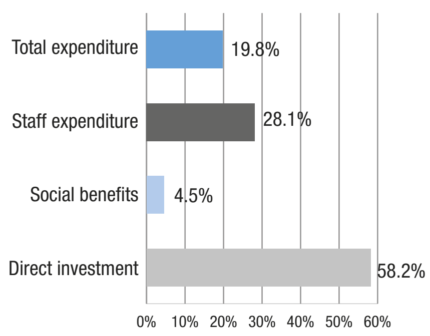
Scope of fiscal data: regions, departments, communes, inter-municipal cooperation entities, as well as primary and secondary schools and local government agencies.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. The financial autonomy of local governments is guaranteed by the Constitution, in particular through the 2003 revision. Article 72-2 mentions that local governments may receive revenues from various kinds of taxes and may have the autonomy to fix the base and rate within certain limits. It also states that any transfer of competences from the State must be matched by a corresponding transfer of financial resources and gives equalisation constitutional status. The organic law of 29 July 2004 on financial autonomy further defines the own resources of SNGs and sets a minimum threshold for each category of SNG (ratio of fiscal autonomy) – in principle, they cannot be inferior to their 2003 value.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**4 621**	**11.2%**	**100%**
Inc. current expenditure	3 685	8.9%	79.7%
Staff expenditure	1 478	3.6%	32.0%
Intermediate consumption	938	2.3%	20.3%
Social expenditure	483	1.2%	10.5%
Subsidies and current transfers	696	1.7%	15.1%
Financial charges	37	0.1%	0.8%
Others	52	0.1%	1.1%
Incl. capital expenditure	936	2.3%	20.3%
Capital transfers	147	0.4%	3.2%
Direct investment (or GFCF)	789	1.9%	17.1%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



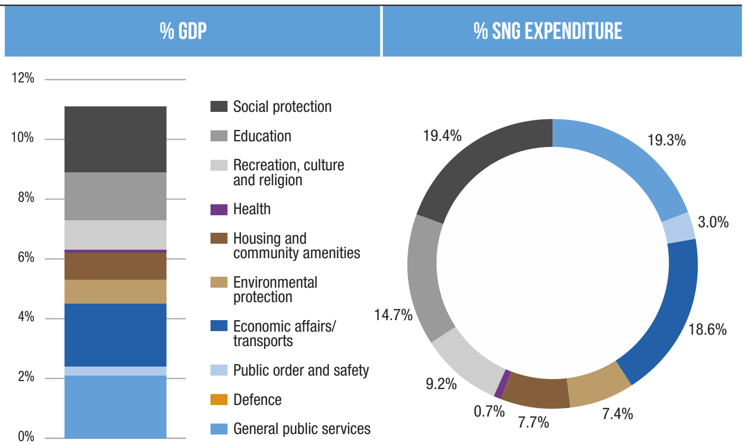
EXPENDITURE. Despite the decentralisation process, begun in 1982, which has transferred significant spending responsibilities, the share of SNG expenditure in GDP and public expenditure remains below the OECD average (16.2% and 40.4% respectively) and EU28 average (15.5% of GDP and 33.4% of public expenditure). The "municipal block" (municipalities and IMC structures) makes up the bulk of SNG spending (55% in 2016), followed by the departments (32%) and the regions (13%). Within the "municipal block", IMC entities represented 27% of spending. However, there has been a significant increase in SNG expenditure - from 8% of GDP in 1980 to 11.2% in 2016, resulting from decentralisation but also from a strong increase in operating expenses, particularly staff costs. The growth of SNG workforce has been much more dynamic at SNG level than at central level, even after neutralising the impact of staff transfers. In 2016, the weight of staff expenditure in SNG spending was in line with the EU28 average (32.9%) but the share in public staff spending is well below the EU28 average (50.9%).

To contain spiralling operating expenditure and involve further SNGs in national fiscal consolidation policy, the Public Finance Programming Act 2018-2022 has provided for a contractualisation between the State and the largest SNGs (regions, departments, large cities and IMC entities, i.e. around 322 SNGs targeted representing 60% of total SNG current expenditure). SNGs are contractually committed to limit the annual increase in their operating expenses to 1.2%, in order to achieve EUR 13 billion in savings during the five-year period. In exchange, grants will not be reduced. As of June 2018, 230 contracts between the State and local authorities were signed.

DIRECT INVESTMENT. Investment is a key function of French SNGs, which accounted for 58.2% of public investment and 1.9% of GDP in 2016, above the OECD average (respectively 56.9% and 1.7%) and EU28 average (51.6% and 1.4%). The share of investment in SNG expenditure is also significant, above the OECD and EU average (respectively, 10.7% and 8.7%), showing that investing is a key function of SNGs. 60% of SNG investment is carried out by the "municipal block", regions and departments having the same weight (20%). The priority areas for investment were economic affairs and transport (30% of SNG investment in 2016, general public services 16%), education and housing and communities amenities (around 13.5%). SNG investment has fallen sharply since the crisis, decreasing by 1.7% per year in real terms between 2007 and 2017 because of fiscal consolidation policies. This resulted in an underinvestment estimated at 15% versus municipalities' current mandate. SNG investments may be implemented through public procurement, concession contracts and public-private partnerships. The bulk of SNG investment is done within the framework of contractual arrangements involving all levels of government called state-region planning contracts covering seven-year cycles (*contrat de plan État-région*).

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

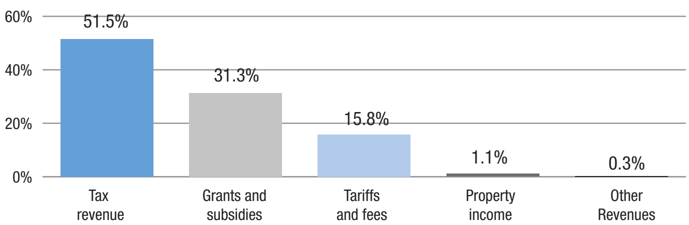
Over the years, social protection has become the biggest spending item, slightly ahead general public services and economic affairs and transport. Education ranks fourth while it is the leading spending item of SNGs in the OECD on average (24.8% of SNG expenditure), followed by health (18.1%) which is very marginal as healthcare remains a function of the central government. SNGs account for the bulk of total public expenditure in the housing and community amenities sector (78%), environmental protection (86%) and recreation culture and religion (82%). Most of social spending is done by the departments. In fact, half of their spending goes to social protection, because they are in charge of social assistance and the minimum income allocation (RSA). Regions have primarily contributed to education expenditure (vocational training, apprenticeship and school education) and to rail passenger transport. Municipal spending focuses on urban planning, urban services, schools (buildings, maintenance and running), sport and cultural infrastructures and youth policy.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**4 677**	**11.3%**	**21.3%**
Tax revenue	2 410	5.8%	20.0%
Grants and subsidies	1 463	3.5%	
Tariffs and fees	737	1.8%	
Property income	51	0.1%	
Other revenues	16	0.0%	

% SNG REVENUE



OVERALL DESCRIPTION. France stands out for the importance of tax revenues in total SNG revenues compared to the OECD and EU28 average (respectively 44.6% and 41.1%). By contrast, the share of grants and subsidies is lower: 31.3% vs 37.2% in the OECD and 44.1% in the EU28. The share of each source of revenue is quite balanced by level of SNG. However, tax revenues accounted for 65% of departmental revenue, 56% of municipal revenues and 53% of regional revenues in 2016 while grants and subsidies amounted to 33% of revenues of the regions, 29% for the municipal block and 26% for the departments. There has been several fiscal reforms in recent years regarding the decentralisation process. In 2010, an important tax reform took place as well as a reform of equalisation mechanisms. New reforms are planned, in particular because the government has decided to abolish the residence tax. This should lead to a broader reform of local taxation, together with a reflection on the system of grants and equalisation.

TAX REVENUE. Although accounting for a large part of SNG revenues, SNG taxes represented 5.8% of GDP and 20% of public tax revenues, which is below the OECD average (7.1% of GDP and 31.9% of public tax revenues in 2016) as well as the EU28 average (6.4% of GDP and 24.0% of public tax revenues). One feature of the French subnational tax system is the importance of own-source tax revenues compared to shared taxes. In fact, until recently, tax sharing arrangements did not exist or were insignificant. With the decentralisation laws of 2003-2004 and the 2010 local finance reform, which abolished the local business tax. This situation has evolved and some shared taxes were introduced. This has diminished the share of own-source taxes, leading to less tax autonomy. The reform led to a tax "specialisation" between subnational government tiers (all SNGs used to benefit from the same four local taxes before the reform). Departments and regions lost many of their taxation powers. Another important reform is on-going since the decision of the French government to abolish the residence tax (*taxe d'habitation*). The Mission Bur-Richard, established by the Prime Minister in October 2018, made a series of proposals to replace this tax, including the development of shared taxation.

Among the current shared taxes are the internal consumption tax on energy products (TICPE, shared with regions and departments, representing 9.3% of SNG tax in 2016), a surcharge on the apprenticeship tax (shared with the regions), a share of the special tax on insurance contracts (5.4% of SNG tax), the tax on network companies-IFER (7.5% of SNG tax). From 2018, following the regional reform, regions will benefit from a share of the VAT.

The system of own-source taxes is based on four main local taxes: the residence tax, the property tax on building, the land tax, and a "territorial economic contribution". Municipalities and EPCI receive the residence tax, and both municipalities and departments are entitled to property taxes on buildings and land. They can vote to fix those taxes rates, but they have to comply with limits set up by the central government and have no autonomy to set the tax base. In addition, all SNGs, including the regions, receive the "territorial economic contribution" (which has replaced the local business tax), paid by companies, and itself comprising a real estate tax-CFE (10.4% of SNG tax) and a tax on business added value-CVAE (10.4% of SNG tax). The CVAE is shared as follows: 26.5% for the communes and EPCIs, 23.5% for departments and 50% for the regions. Other own-source taxes include the tax on property transactions (9.7% of SNG tax), a transport contribution, a waste tax, a tourist tax, tax on electricity, etc.

Property taxes stood for 59% of SNG tax revenue and 30% of their total revenue in 2016, representing a major source for municipalities and departments. They amounted to 3.4% of GDP one of the highest levels in the OECD where the average is 1.1% of GDP. This high level will, however, decrease with the abolition of the residence tax, which is a tax paid by the persons residing in the property, whether this is a tenant (paying or otherwise) or the owner and based on the cadastral "rental" value of the property. The abolition is being phased in over three years so that eligible households will see a 30% reduction in their *taxe d'habitation* bill in 2018, a 65% reduction in 2019 and a 100% reduction in 2020. In May 2018, the government published a report on reforming local taxes, which stated that the *taxe d'habitation* would be completely abolished by 2021 (instead of 80% of households as initially announced).

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 account for 87% of total grants while capital grants amounted to 13%.

The most important grant is by far the general-purpose operating grant (*Dotation Globale de Fonctionnement* - DGF), which benefits all SNGs and comprises several sub-components. It represented 50% of all grants and subsidies in 2016, and between 13% and 15% of regional, department and municipal revenues.

The Annual Finance Law governs the vertical equalisation mechanism that, applicable to all SNGs, is set on a yearly basis. Using a formula based on the potential income from the four main local taxes and the remaining tax revenues, it calculates what the resources would be of the regions based on the average tax rate. In an effort to reduce subnational expenditure and in line with budgetary consolidation policies, transfers to local governments through the DGF and other transfers were frozen over 2011-13 and have been decreasing since 2014 (the DGF total amount decreased from EUR 41 billion to EUR 30.9 billion from 2014 to 2017). In return, equalisation grants have been strengthened to support the weaker local governments.

A reform of the DGF has been announced for several years. Although initially planned for 2016, it has been postponed as many local governments asked to make some adjustments and the context was particularly difficult, because of strong pressures on local finance resulting from large cuts in central transfers to SNGs. The reform aims at reaching a greater level of simplicity, transparency and equity, and adapting the DGF to the current territorial reform. This reform also aims at improving the redistribution of funds between SNGs. Distribution criteria are often seen as particularly opaque and the redistributive function could also be improved, given the sizeable and "unjustified" disparities between municipalities in per capita DGF.

There are other several equalisation grants (vertical and horizontal), such as the grant for urban solidarity, the grant for rural solidarity, the equalisation fund for departments based on the property transaction tax, the Equalisation funds based on the business value added tax (CVAE, for departments and regions) and the Equalisation fund for inter-municipal and municipal resources (FPIC, redistributing 2% of total tax revenues in 2016), which was introduced in 2012 to compensate for the abolition of a "professional tax" in 2011.

The main capital expenditure grant, the VAT compensation fund, is a tool for the central government to support local investment, and its base is to be expanded after 2016.

OTHER REVENUES. French communes are entitled to receive fees from commercial services mainly for local public services. They can set the rate of these fees. In the case of French SNGs, this revenue accounts for a slightly larger percentage than the OECD average of 14.9% and especially the EU28 average (11.6%).

SNGs receive a small share of property income (1%), below the OECD average (2.0%), although they own physical and financial assets, including shares in local public companies.

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**3 913**	**11.1%**	**8.9%**	**100%**
Financial debt*	3 209	9.1%	8.1%	82.0%

* Currency and deposits, loans and bonds

FISCAL RULES. Local authorities are subject to the principle of balancing their expenditures and revenues by section (operating and investment), which is specified in Article L.1612-4 of the General Code of Subnational Governments. They are subject to judicial review by Regional Chambers of Accounts. In addition, contractual arrangements between the State and large SNGs and annual expenditure reviews were introduced by the Public Finance Programming Act 2014-2019. The aim is to document precisely the savings required to comply with local spending constraints (see above).

DEBT. SNGs are able to borrow without approval from the central government, but long-term borrowing is restricted to investment (golden rule). In the aftermath of the banking crisis, the legal framework for borrowing was strengthened through the 2013 Law on the separation and regulation of banking activities (e.g. foreign-currency borrowing, regulation of floating-rate borrowing, use of swaps, etc.) in order to reduce financial risks. The law also authorised the creation of the *Agence France Locale*, i.e. a new entity wholly-owned by the French local authorities themselves and dedicated to their funding. It distributes loans to their members by raising funds in the capital markets (pooled financing).

The outstanding debt of SNGs account for 11.1% of GDP and 8.9% of general government debt, below the OECD average (24.5% and 20.7%, respectively) and the EU28 average (14.3% and 14.4%, respectively). Financial debt ("Maastricht debt") accounted for 82% of total outstanding debt, the remaining part being composed of other accounts payable (commercial debt, arrears). Within financial debt, bond financing is still limited: 8.9% of total financial debt in 2016 compared to 91.1% for loans.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: OECD
Last update: 02/ 2019

www.sng-wofi.org

Socio-economic indicators: OECD // Eurostat // World Bank // UNDP // UN Desa,// ILO // INSEE.
Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // Eurostat // Collectivite-gouv.fr // OFGL (2017) Rapport de l'Observatoire des finances et de la gestion publique locales: les finances des collectivités locales en 2017.
Other sources of information: OECD (2019) Making decentralisation work: a handbook for policy makers // Mission Finances Locales (2018) Rapport sur la refonte de la fiscalité locale // OECD (2018) OECD Regions and Cities at a Glance 2018 // Cour des Comptes (2017) Les finances publiques locales 2017 // OECD (2017), Multi-level Governance Reforms: Overview of OECD Country Experiences // European Commission (2017) The Outermost Regions: European lands in the world // Council of Europe.

GERMANY

FEDERAL COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: EURO (EUR)

POPULATION AND GEOGRAPHY

Area: 357 580 km^2
Population: 82.657 million inhabitants (2017), an increase of 0.2 % per year (2010-2015)
Density: 231 inhabitants / km^2
Urban population: 77.3% of national population
Urban population growth: 0.5% (2017 vs 2016)
Capital city: Berlin (4.3% of national population)

ECONOMIC DATA

GDP: 4 187.6 billion (current PPP international dollars), i.e. 50 662 dollars per inhabitant (2017)
Real GDP growth: 2.2% (2017 vs 2016)
Unemployment rate: 3.8% (2017)
Foreign direct investment, net inflows (FDI): 77 983 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 20.3% of GDP (2017)
HDI: 0.936 (very high), rank 5 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Germany is a federal parliamentary republic with a federal government and 16 state governments (*Länder*). Its constitution was adopted on 8 May 1949 and revised in 1990 with the Unification Treaty. The Basic Law of the Federal Republic of Germany (*Grundgesetz*) was further amended, in particular in 2006 and 2009. These two federalism reforms (*Föderalismusreform* I and II) aimed to improve the assignments of responsibilities (2006) and intergovernmental finance (2009) between the federal and *Länder* levels. Intergovernmental relations are based on a constitutional principle (*Bundestreue*). The federation-*Länder* relationship is grounded on the principle of co-operative federalism and loyalty to the federation.

At federal level, the executive branch consists of a Federal President as head of state and the Federal Chancellor, the head of government. Legislative power is composed of two collegiate bodies: The *Bundestag* and the *Bundesrat*. The latter reflects Germany's federal structure as it is composed of 69 representatives of the *Länder* governments, and seat allocation depends on the population of each *Land*. At subnational level, Germany has a three-tier subnational government system composed of states, districts and municipalities.

Pursuant to the preamble of the Basic Law, the states are the basic political units at subnational level. Accordingly, they have their own constitution, which must comply with the principles of the Basic Law, as well as autonomous legislative, executive and judicial bodies. Each *Land* has a parliament (*Landtag*), elected by direct universal suffrage for a four-year mandate. This legislative body elects the minister-president of the region, who chairs the government. The system differs in the city-states of Berlin, Bremen and Hamburg.

Districts and municipalities are also enshrined in the Basic Law and their status is constitutionally guaranteed (Art. 28). However, each *Land* determines the status, territorial structure, responsibilities and fiscal framework of local governments in its jurisdiction. At the district level, district councils are elected by direct universal suffrage for four to six years, depending on the *Land*. The president of the district council is either elected directly by the citizens or elected by the assembly with the approval of the interior minister of the relevant *Land*. Municipalities in all *Länder*, except for that of Hessen, are governed according to the "council system", with a local council elected by direct universal suffrage for a mandate from four to six years depending on the *Land*. The mayor (*Bürgermeister*), also elected by direct universal suffrage from four to nine years, chairs the local council and heads the municipal administration. In the *Land* of *Hessen*, municipalities are governed according to the "magistrate system".

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	11 054 municipalities *(Gemeinden)*	401 districts *(Kreise)*	16 states *(Länder)*	
	Average municipal size: 7 450 inhabitants			
	11 054	401	16	11 471

OVERALL DESCRIPTION. The three-tier system of subnational governments includes a regional level (*Länder*), an intermediate level (*Kreise*) and municipalities (*Gemeinden*) at the lower level.

REGIONAL LEVEL. The 16 states differ significantly in terms of area, population size and wealth. There are three city-states (*Stadtstaaten*) which cover the territory of Berlin, Hamburg and Bremen and combine the functions of states and municipalities. Other *Länder* are defined as *FlächenLänder* (regions with a larger geographic size). While the average state population is around 5.2 million inhabitants, the largest (North-Rhine Westphalia) has 26 times more inhabitants than the smallest (Bremen). The 5 *Länder* of former East Germany have the lowest GDP per capita of the 16 states (less than EUR 30 000 per inhabitant in 2016 while the national average is around 38 000). Differences between German regions in terms of GDP per capita have decreased over the last 16 years. However, regional economic disparities in Germany remain above the median of OECD countries, with Hamburg having 60% higher GDP per capita than Mecklenburg-Vorpommern.

INTERMEDIATE LEVEL. The 401 districts comprise 294 rural districts (*Land-kreise*) and 107 "urban districts" or "district-free cities" (*Kreisfreie Städte* or *Stadtkreise*). Urban districts are cities with generally more than 100 000 inhabitants. As of 2016, approximately 26 million people live in urban districts.

MUNICIPALITIES. There are 11 054 municipalities in 2017-2018, including 2 061 urban municipalities (towns or cities called *Städte* that have either historic town rights or significant population). The number of municipalities has decreased regularly in recent decades, as a result of municipal amalgamation policies. Mergers were carried out by several *Länder* in the 1970s (Baden-Württemberg, Hessen, North Rhine-Westphalia), after 1990 in the former East Germany (e.g. in Brandenburg in 2003) and, more recently, in the *Land* of Saxony-Anhalt (from 1 015 municipalities in 2008 to 222 in 2012). Overall, the number of German municipalities has decreased from 16 216 in 1990 to the current number (i.e. a drop of one-third). Today, the average municipal size conceals wide disparities between *Länder*. In four *Länder* that have numerous municipalities, the average municipal size is under 2 600 inhabitants. Overall, the median municipal size in Germany was around 1 700 inhabitants in 2016-2017 and 54% of German municipalities have less than 2 000 inhabitants.

INTER-MUNICIPAL CO-OPERATION is strongly encouraged by the *Länder*, which decide independently on the rules of establishing such bodies. There are around 4 530 municipal associations (*Gemeindeverband*), which have different forms and status: offices, joint municipalities, association of communities and syndicates. Syndicates (*Zweckverbände*) in particular are special-purpose associations created to deliver standard local services such as waste management, water and wastewater or transport. They are widespread throughout Germany and are one of the most common and oldest forms of inter-municipal co-operation in the country.

AT METROPOLITAN LEVEL. Germany does not have a systematic nation-wide approach but has various spatial scales and governance arrangements. This has been the case since the 1990s, in particular, when municipalities based in metropolitan areas were encouraged to co-operate in the areas of economic development, infrastructure planning, spatial planning or waste management. The German Ministerial Conference on Spatial Planning officially recognises 11 European metropolitan regions in Germany. These regions have worked together since 2001 through the Network of European Metropolitan Regions in Germany (IKM).

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

According to the Basic Law, all legislative and administrative functions are assigned to the *Länder*, except for those under the exclusive competency of the federal government. *Länder*'s responsibilities are very broad, covering all main areas. Joint federal-*Länder* tasks were introduced in 1969, and there is some overlap in several areas (e.g. vocational education and training). The 2006 constitutional reform clarified responsibilities by reducing the legislative areas subject to Bundesrat veto and the number of areas in the field of concurrent legislation to 31. As compensation, the reform transferred new exclusive responsibilities to the *Länder*, in particular for secondary education and paying the wages of public employees. All *Länder* enjoy the same degree of legislative power and the same responsibilities but the 2006 reform also introduced opt-outs in six policy areas (e.g. higher education, environmental protection). This right to stray from federal legislation is an innovative new instrument for the *Länder*, introducing a degree of asymmetry into German federalism. A current reform entails the redistribution of some key competencies between the Federal Government and the *Länder* especially in the transport sector.

Functions of local authorities are defined by each *Land* and vary considerably from one *Land* to another. As a result, the degree of decentralisation at local level also differs greatly among the *Länder*. Responsibilities usually include both mandatory and discretionary functions. In recent years, local governments have been empowered with new responsibilities, in particular in the social sector (e.g. the payment of basic security money for pensioners and disabled people, 2005 Hartz IV reform, and the legal right to municipal childcare for children under the age of three). Towns or cities called *Städte* have some additional powers, in particular in administrative matters devolved by the state.

Over 800 local public companies, partly or wholly owned by the municipalities, cover activities such as electricity, gas and water services. During the New Public Management era, some local public services have also been privatised (e.g., housing, water and sanitation, energy). Today, many municipalities are trying to regain control over important local services and utilities, especially in the field of energy supply.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	STATE LEVEL	INTERMEDIATE LEVEL	MUNICIPAL LEVEL
1. General public services	Internal administration, including salaries and benefits of all public employees (exclusive); Justice (concurrent); Local government (exclusive)	Internal administration	Internal administration including staff management; Some administrative duties devolved by the state to Städte
2. Public order and safety	Police (exclusive)	Fire protection; Disaster control service; Rescue services	Local security
3. Economic affairs / transports	Regional economic development; Labour and economic law (concurrent)	Secondary roads; Public transport; Promotion of economic activity and tourism, pedestrian areas and cycle lanes	Local roads, local public transport; Waterways; Local economic development; Local tourism; Energy supply utilities; Waterways
4. Environmental protection	Environment (concurrent)	Nature and landscape protection; Maintenance of nature parks Household waste collection and treatment	Waste water management; Local green areas
5. Housing and community amenities	Housing and community amenities (concurrent)	Spatial planning at district level; Building permits and inspection	Urban development planning (Land use and building plans); Urban development and regeneration; Water supply and sewerage; Housing incentives
6. Health	Health (concurrent)	District hospitals (construction and maintenance)	Health care and veterinary affairs
7. Recreation, culture & religion	Culture (exclusive power)	Public libraries (construction and maintenance); Support for cultural activities	Culture; Sports; Recreational areas and leisure
8. Education	Education including universities (construction and maintenance); Adult education colleges; Support for pupil exchanges	Secondary schools and technical schools (construction and maintenance)	Primary schools
9. Social protection	Social welfare (concurrent)	Social welfare and youth welfare; Social welfare infrastructure	Social aid and youth; Child care

GERMANY

FEDERAL COUNTRY

SUBNATIONAL, STATE AND LOCAL GOVERNMENT FINANCE

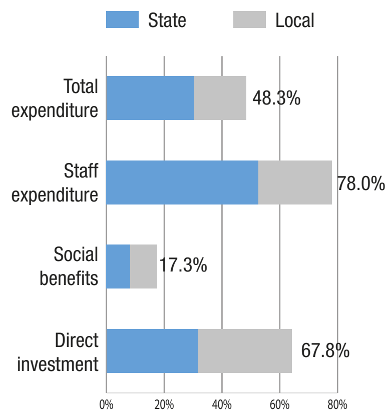
Scope of fiscal data: state governments, districts and municipalities; municipal associations including special purpose associations; non-market producers and non-profit institutions controlled by states and local governments.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. The Basic Law sets out detailed fiscal provisions relating to revenues and expenditures, in particular the assignment of intergovernmental transfers, exclusive and shared taxes as well as equalisation principles between the federal government and the *Länder*. It also includes specific arrangements regarding municipalities, although local government financing is established by each *Land*. The 2009 Federalism reform II on financial arrangements was supposed to address the system of intergovernmental finances. However, it did not result in a comprehensive restructuring of the system of fiscal federalism focusing mainly on agreeing on the phasing out in 2019 of transfers (*Solidarpakt* II and existing horizontal system) and introducing the "debt brake" to reduce future public debts (see below). Financial relations between the Federation and the *Länder* were recently reorganised to strengthen the role of the federal government, under an act of July 2017 amending the Basic Law and an act of August 2017 concerning the reorganisation of the federal financial equalisation scheme from 2020 and amending the budgetary law.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.			% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT EXPENDITURE		
	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total expenditure	10 377	6 484	3 893	21.2%	13.3%	8.0%	100%	100%	100%
Inc. current expenditure	9 208	5 758	3 450	18.8%	11.8%	7.1%	88.7%	88.8%	88.6%
Staff expenditure	2 864	1 935	929	5.9%	4.0%	1.9%	27.6%	29.9%	23.8%
Intermediate consumption	1 624	748	875	3.3%	1.5%	1.8%	15.6%	11.5%	22.5%
Social expenditure	2 032	958	1 074	4.2%	2.0%	2.2%	19.6%	14.8%	27.6%
Subsidies and current transfers	2 420	1 905	514	5.0%	3.9%	1.1%	23.3%	29.4%	13.2%
Financial charges	267	211	56	0.5%	0.4%	0.1%	2.6%	3.2%	1.4%
Others	2	1	1	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Incl. capital expenditure	1 169	726	443	2.4%	1.5%	0.9%	11.3%	11.2%	11.4%
Capital transfers	488	382	106	1.0%	0.8%	0.2%	4.7%	5.9%	2.7%
Direct investment (or GFCF)	681	344	337	1.4%	0.7%	0.7%	6.6%	5.3%	8.7%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. German SNGs are key economic and social actors, responsible for almost half of public spending, ranking 8th in the OECD. However, Germany ranks 7th among the nine OECD federal countries. SNGs are key public employers, accounting for more than three-quarters of total public staff spending. The *Länder* account for 63% of SNG spending and 68% of SNG staff spending. Within the local sector, municipalities and municipal associations account for the lion's share of local spending. Compared to the average for OECD unitary countries (9.2% of GDP and 28.7% of public expenditure), spending responsibilities of local governments in Germany are significantly lower.

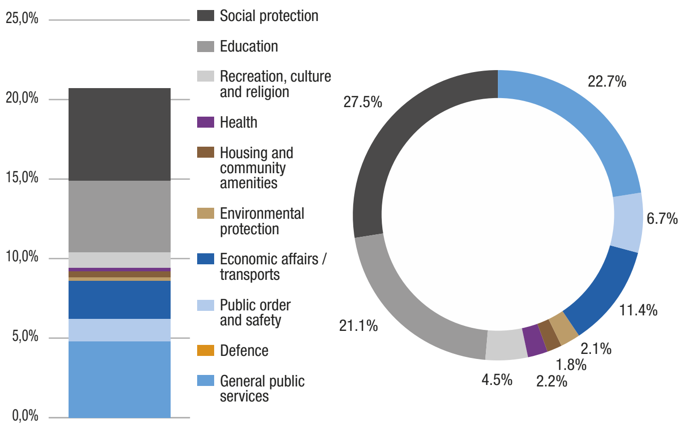
DIRECT INVESTMENT. Public investment is lower in Germany than in other OECD countries (2.1% of GDP vs 3.0% in the OECD in 2016) and has increased at a slower rate than the OECD average. The share of SNGs in public investment is higher than the average of OECD federal countries (62.3%) but it remains low in relation to GDP (1.4% vs 1.8% in the 9 federations). *Länder* and local governments each accounted for half of SNG investment in 2016; in the past, however, municipalities played a bigger role. In fact, in 2010, they carried out 58% of public investment vs 33% today. The share of direct investment in SNG expenditure is lower compared to the OECD (10.7% in 2016 in the OECD). Cities and municipalities with few economic resources have substantially reduced their investments in recent years, although SNG investment has appeared to be rebounding since 2015. Areas with the biggest shortfall are roads and transport infrastructure, administration and schools. In response to this challenge, the federal government has taken a comprehensive approach to stimulating the rate of investment by providing financial relief for municipalities during the 2013-2018 period. This support included a revision of the Basic Law in October 2016 to allow the Federal Government to provide financial support - through the Municipal Investment Promotion Fund - to financially weak municipalities for investments in schools and vocational schools. The federal government also increased funding to the *Länder* and municipalities for urban development, housing construction and integration of refugees, and to support capacity-building at local level through a new service agency, which has been operational since 2017.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

2016	% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT		
	SNG	State	Local	SNG	State	Local
Total expenditure	**21.2%**	13.3%	8.0%	**100%**	100%	100%
1. General public services	**4.8%**	3.4%	1.4%	**22.7%**	25.9%	17.2%
2. Defence	**0.0%**	0.0%	0.0%	**0.0%**	0.0%	0.0%
3. Security and public order	**1.4%**	1.2%	0.3%	**6.7%**	8.7%	3.2%
4. Economic affairs / transports	**2.4%**	1.4%	1.1%	**11.4%**	10.3%	13.4%
5. Environmental protection	**0.4%**	0.1%	0.3%	**2.1%**	0.9%	4.0%
6. Housing and community amenities	**0.4%**	0.1%	0.3%	**1.8%**	0.9%	3.3%
7. Health	**0.5%**	0.3%	0.2%	**2.2%**	2.3%	2.1%
8. Recreation, culture and religion	**1.0%**	0.5%	0.4%	**4.5%**	3.9%	5.6%
9. Education	**4.5%**	3.2%	1.2%	**21.1%**	24.3%	15.6%
10. Social protection	**5.8%**	3.0%	2.8%	**27.5%**	22.7%	35.6%

SNG EXPENDITURE AS A % GDP

% OF TOTAL SNG EXPENDITURE

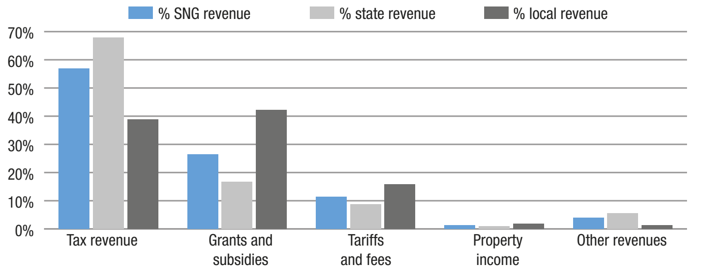


Social protection, general public services and education are the three main areas of SNG spending, weighing between 21% and 28% of SNG expenditure. German SNGs are responsible for the large majority of overall public spending in the areas of education, recreation and culture, security and public order and housing and community amenities (more than 80%). Health is a notable exception, as it is mostly a federal competence in Germany. The primary areas of *Länder* spending are general public services, education and social protection. Local government spending goes primarily to social protection, general public services, education and economic affairs/transport. Social protection expenditure has increased significantly in recent years as a result of new responsibilities transferred to municipalities (e.g. childcare and youth services but also services related to the Asylum Seekers Benefits Act).

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	% GDP			% GENERAL GOVERNMENT (SAME REVENUE CATEGORY)		
	SNG	State	Local	SNG	State	Local
Total revenue	**21.6%**	13.4%	8.1%	**47.9%**	29.8%	18.1%
Tax revenue	**12.3%**	9.1%	3.2%	**52.2%**	38.8%	13.4%
Grants and subsidies	**5.7%**	2.3%	3.4%			
Tariffs and fees	**2.5%**	1.2%	1.3%			
Property income	**0.3%**	0.1%	0.1%			
Other revenues	**0.9%**	0.7%	0.1%			

% SUBNATIONAL, STATE AND LOCAL GOVERNMENT REVENUE



OVERALL DESCRIPTION. Intergovernmental finances are characterised by strong horizontal and vertical interdependences. Public revenue legislation is designed to ensure that the responsibilities of the different levels of government are properly financed. *Länder* account for 62% of total SNG revenue vs 38% for the local level. Tax revenues are the main source of revenue of SNGs, followed by grants and subsidies, then tariffs and fees. The shares of tax revenues in SNG revenue and GDP are significantly higher than in the OECD on average (7.1% of GDP and 44.6% of SNG revenue) as well as in OECD federations (8,8% of GDP and 47,5% of SNG revenue). The share of tax revenues is significantly higher at state level than at local level where the weight of taxes and grants is more balanced while tariffs and fees account for a significant part of local government revenue.

TAX REVENUE. The Constitution (Art. 106.3) allocates several particularly important taxes to the Federation, *Länder* and, to a certain degree, the municipalities. The taxes and their distribution are determined by the federal government and Bundestag, and subjected to the approval of the Bundesrat. SNG tax revenues encompass both shared and own-source taxes. Shared taxes include the PIT (tax on wages and salaries, assessed income tax, withholding taxes on interest and dividends), the corporate income tax (CIT), the value-added tax (VAT) and the motor vehicle tax (since 2009). The PIT, CIT and VAT account for 74% of SNG tax revenue (i.e. 9.0% of GDP). The PIT is the most important source, representing 41% of SNG tax revenue and 23.5% of SNG total revenue. It is followed by the VAT (29% of SNG tax revenue and 16% of SNG total revenue). The CIT is well behind with 3.6% of SNG tax revenue and 2.0% of SNG total revenue.

Länder have little real influence on their revenues as most of their tax revenue comes from shared PIT, CIT and VAT (84%). According to tax sharing arrangements, they receive 43.5% of the tax on wages and salaries collected nationally and 50% of the two withholding taxes on dividends and interest. Overall, the *Länder* received 77% of the subnational PIT and the local level the remaining 23%. *Länder* received around 48% of VAT collected nationally and most of the SNG VAT (95.5%). One-quarter of VAT receipts are allocated to financially weaker *Länder*, as a supplementary portion through the equalisation scheme, while the remaining 75% are distributed to each *Land* according to its population. *Länder* receive 50% of the CIT collected nationally, equivalent to all SNG CIT (because municipalities do not benefit from this tax). PIT and CIT revenues are distributed among each *Land* based on the revenue collected within their territory (principle of fair return). *Länder* also collect own-source taxes, the most important being the real property transfer tax (4.3% of *Länder* tax revenue), the inheritance tax (2.2%), the betting and lottery tax, the beer tax and a fire protection tax.

GERMANY

FEDERAL COUNTRY

At local level, only municipalities are funded through taxes. The districts (*Kreis*) have no municipal taxes. Municipalities benefit from a share of PIT (14%) and VAT (2.3%). PIT represented 37% of local tax revenue and 14% of total local revenue in 2016 while VAT accounted for respectively 5% and 2%. Other municipal tax revenues are own-source taxes including primarily the local business tax (*Gewerbesteuer*) and the recurrent property tax (*Grundsteuer*) as well as some minor taxes such as the trade tax, the local tax on entertainment and the dog tax.

The local business tax is the most important municipal tax, representing 44% of municipal tax revenue, 17% of total municipal revenue and 1.4% of GDP in 2016. It is important to note that the total local business tax collected in Germany is more significant (1.6% of GDP) but municipalities only retain a share of the receipts that they collect (84% in 2016) and transfer the difference to the federal government (4% of total receipts) and the States (12%) as part of the equalisation mechanisms. Levied on all industrial and commercial companies, the rate of the local business tax is a combination of a uniform tax rate of 3.5% (base rate) and a municipal tax rate set by municipalities (*Hebesatz* or multiplier).

The recurrent property tax amounted to 0.4% of GDP in 2016, among the lowest among the OECD countries (1.1% of GDP on average in the OECD), accounting for 14% of local tax revenue and 5% of local revenue. Paid by property owners, it is levied on real property used for agriculture and forestry (category A) and constructible real property or real property with buildings (category B). It is calculated by multiplying the assessed value of the real property, the real property tax rate (depending on the type of property) and the municipal multiplier. The property tax is currently being reformed, as its valuations date back to 1964 (Western Germany) and even 1935 (Eastern Germany). The Constitutional Court has recently ruled that valuations must be updated by 2024 in an effort to make the tax system more efficient. The Constitutional Court has given the federal government until the end of 2019 to come up with a new method of calculating the tax.

GRANTS AND SUBSIDIES. Article 107 of the Constitution outlines the Principle whereby all Germans throughout the Federation should be on equal footing when it comes to living conditions. It also addresses equalisation and the Law on Fiscal Equalisation (*Finanzausgleichsgesetz*). Arrangements are complex and involve vertical and horizontal mechanisms, equalising mainly for revenue (only small adjustments for expenditure needs based on population dispersion for example). These arrangements are being revised (see below). At *Länder* level, there are currently three main categories of grants and equalisation mechanisms:

- Vertical equalisation from the federal level to the regional level to correct vertical fiscal imbalances, through VAT sharing among the *Länder* according to a redistribution formula (see above).
- Horizontal equalisation between the poor and rich *Länder* aiming to ensure public services are delivered in all regions. This is a mechanism for equalising the fiscal capacities of the *Länder*, and is funded entirely by the *Länder* through an inter-state revenue pool to which richer *Länder* pay and from which *Länder* with lower-than-average fiscal capacity draw according to a formula. Fiscal capacity refers to the per capita tax revenue of the *Länder* and the municipalities.
- Vertical equalisation through additional transfer payments to supplement fiscal equalisation for poorer states, notably from the former East Germany. Starting in 2019, *Länder* in the former East Germany and Berlin will no longer receive “supplementary grants for special needs” to compensate for their lack of infrastructure and municipal structure (Solidarity Pact II).

At the local level, there is no direct federal grant to local governments, only grants from their respective *Land*. Grants represent a significant source of revenue and comprise general, compensation, investment and specific grants. The principle of municipal equalisation is also enshrined in the Constitution and each *Land* is in charge of defining and implementing its own equalisation mechanism. Overall, current grants accounted for 88% of total grants and subsidies, the remaining 12% being capital grants.

A reform of the equalisation system is to be introduced in 2020. It will abolish explicit equalisation transfers among *Länder* and increase the role of the federal level. The *Länder* will receive a higher share of VAT revenue and more compensation via vertical transfers from the federal government, thus contributing to greater fiscal equalisation.

OTHER REVENUES. They represent a significant source for SNGs, accounting for almost 17% of SNG revenues (19% for the local level and 15.3% for states). User charges and fees paid by local citizens and corporations as users of local public services make up the bulk of “other revenues”, especially for local governments. Revenues from assets are not an important part of SNG revenue.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.			% GDP			% GENERAL GOVERNMENT DEBT			% SNG DEBT		
	SNG	State	Local	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total outstanding debt	**13 247**	10 793	2 453	**27.1%**	22.1%	5.0%	**35.5%**	28.9%	6.6%	**100%**	100%	100%
Financial debt*	13 145	10 754	2 390	26.9%	22.0%	4.9%	35.8%	29.3%	6.5%	99%	99.6%	97%

* Currency and deposits, loans and bonds

FISCAL RULES. The 2009 federalism reform (Article 109a Basic Law) set up a Stability Council (*Stabilitätsrat*), which is a joint body representing the federal and state governments. Its purpose is to monitor budgetary developments, negotiate budgetary consolidation programmes and assess compliance with structural deficit targets contained in the Fiscal Compact. Balanced structural budget provisions and a "debt brake rule" were introduced in 2011. It imposes, from 2020 onwards, a structural deficit limit of 0.35% of GDP to the federal government, as well as structurally balanced budgets for the *Länder*. *Länder* are allowed to run a temporary deficit and the rule can also be suspended in the event of a natural disaster, an economic crisis or other one-off circumstances. The consolidation phase spans from 2011 to 2019. *Länder* encountering financial problems receive financial aid on an extraordinary basis from 2011 to 2019. *Länder* also need to adopt similar rules for including the "debt brake" in their regional constitution or in a fiscal framework law. Local governments must balance their budgets.

DEBT. According to the Constitution, *Länder*'s public debt must not exceed the amount of planned investments. Local government borrowing restrictions are determined by each state. SNGs may borrow - with the approval of the supervisory authority - to fund capital investment only ("Golden Rule"). In the aftermath of the financial crisis, overall government debt has fallen significantly. SNG debt, as a percentage of GDP and public debt, remains, however, above OECD averages (20.7% of GDP and 24.5% of public debt in 2016). Financial debt accounts for almost the entire outstanding debt, meaning that the share of other accounts payable is very limited (1%). Bonds accounted for 51% of public debt and loans for 49% in 2016. In 2016, *Länder* held 81.5% of the debt stock and the local level, 18.5%. *Länder* financial debt is composed of bonds (62%) and loans (38%) while local debt is made up almost entirely of loans (98%). German states are by far the largest bond issuer among European regions. Total bonds outstanding in December 2016 represented more than seven times as much as the second largest group of regional issuers, the Spanish regions.

Socio-economic indicators: OECD statistics // Eurostat // World Bank // UNDP // UN Desa // ILO // Federal Statistical Office (Destatis).
Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // Eurostat // Federal Statistical Office (Destatis) // Deutsche Bundesbank.
Other sources of information: European Commission (2018) Country report Germany 2018 // Federal Ministry of Finance, German Stability Program 2018 // OECD (2018), OECD Economic Survey: Germany 2018 // Franzke J. (2018) Traditions, Problems and Challenges of Inter-municipal Cooperation in the German Federal State of Brandenburg in "Inter-Municipal Cooperation in Europe" // OECD (2018) Regions and cities at a Glance // Zimmermann K. (2017) Re-Scaling of Metropolitan Governance in Germany // // Scope Ratings (2017), German Länder: Credit quality driven by strong institutional framework, Bloomberg, Berlin // Uni-Credit (2016) Handbook of German States // European Committee of Regions (2016) Division of Powers // OECD (2015), "Frankfurt, Germany", in Governing the City, OECD Publishing, Paris. Aluel K. A. (2014) Intergovernmental relations in German federalism: Cooperative federalism, party politics and territorial conflicts, in Comparative European Politics 12(4-5).

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GREECE

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: EURO (EUR)

POPULATION AND GEOGRAPHY

Area: 130 820 km^2
Population: 10.755 million inhabitants (2017), a decrease of -0.4% per year (2010-2015)
Density: 82 inhabitants / km^2
Urban population: 78.7% of national population
Urban population growth: 0.3% (2017 vs 2016)
Capital city: Athens (29% of national population)

ECONOMIC DATA

GDP: 297.0 billion (current PPP international dollars), i.e. 27 617 dollars per inhabitant (2017)
Real GDP growth: 1.4% (2017 vs 2016)
Unemployment rate: 21.5% (2017)
Foreign direct investment, net inflows (FDI): 3 571 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 12.6% of GDP (2017)
HDI: 0.870 (very high), rank 31

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

According to the 1975 Constitution (revised in 1986, 2001 and 2008), Greece is a parliamentary republic. Legislative power is exercised by a unicameral Parliament composed of 300 members elected by universal suffrage for a four-year term. The head of state is the President of the Republic, elected by the Parliament for a five-year term. The Prime Minister is the head of government, belonging to the current leader of the political party that can obtain a vote of confidence by the Parliament. The President of the Republic formally appoints the Prime Minister, who has most political power.

The principles of decentralisation and local autonomy are enshrined in articles 101 and 102 of the Constitution, and its amendments in 2001 and 2008. The constitutional revision of 2001 in particular upgraded the status of local self-government, stating that the administration of local affairs is exercised by local authorities of first and second level, and establishing the clause of general competence as well as administrative and financial autonomy.

Greece is a unitary country “organised according to the principle of decentralisation” (article 101 of the constitution). After a long period of centralisation, Greece started a process of decentralisation in 1986, with the establishment of 13 “programmatic” regions by presidential decree. In 1994, the former 54 prefectures were transformed into self-governments with direct elected councils and prefects (law 2218/1994). In 1997, the *Kapodistrias* programme (law 2539/97) on the “formation of the first level of local government” aimed at empowering SNGs by increasing their size. At the same time, the 13 “programmatic” regions became the deconcentrated state administration at regional level (law 2503/97). The 2001 constitutional revision explicitly stated that Greece had two levels of SNGs (prefectures and municipalities/communities). In 2006, the Code for Municipalities and Communities (Law 3463/2006) was updated. In June 2010, a new major institutional and territorial reform was launched: the *Kallikratis* Programme (Law 3852/2010). It redefined the structure of the municipal and regional levels, their organisation, their competences, the financial system, and the State supervision. In particular, it merged the 54 prefectures to create 13 full self-governing regions with new responsibilities and it pursued the municipal amalgamation process, while transferring new responsibilities and associated staff to SNGs. Since 2011, responsibilities’ transfer has continued both through amendments of *Kallikratis* and through newer sectoral legislation.

Since 2018, a new process has started through the *Kleisthenis* programme (law 4555/2018), adopted in July 2018 to revise the *Kallikratis* programme. It introduced a new electoral system in local and regional elections, a new system of representation in local and regional councils and a reorganisation of the supervision authorities. *Kleisthenis* also introduced new tools for monitoring and assessing both past and future transfers of responsibilities to municipalities and regions in order to reconsider the current allocation of SNG responsibilities.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	325 municipalities *(dimos)*		13 regions *(peripheria)*	338
	Average municipal size: 33 181 inhabitants			
	325		**13**	**338**

OVERALL DESCRIPTION. Greece has two levels of SNG, comprising 325 municipalities (*dimos*) and 13 regions (*peripheria*), without a hierarchical link between them. Greece also has one autonomous territorial entity, the Community of Mount Athos Monasteries.

REGIONAL LEVEL. In each new region, the *Kallikratis* reform created “regional units”, within the boundaries of the former prefectures to play an “intra-regional decentralisation role”, still providing services via the former prefectural administrations. Each region has a regional council and a head of the region (*perifereiarchis*) elected by universal suffrage for a period of five years. Greece is characterised by strong geographical fragmentation (around 9 840 islands out of which 169 are inhabited, sometimes with very low population sizes (15 000 km of coast, mountains covering between 70% and 80% of the country’s area, etc.). Regions range from 206 000 inhabitants in the Ionian Islands to 3.765 million in the region of Attica, while the average size was 827 000 inhabitants in 2017. Greece ranks 9th in terms of highest regional GDP per capita disparities among 30 OECD countries with comparable data. In 2016, the level of GDP per capita in the capital region (Attica) was twice as high as in East Macedonia, the region with the lowest GDP per capita in the country.

MUNICIPALITIES. The current number of municipalities results from two main waves of amalgamations, in 1997 and 2011. In 1997, with the *Kapodistrias* programme, the number of municipalities and communities decreased from 5 825 to 1 033. In 2011, the implementation of the *Kallikratis* Programme resulted in a decrease to 325 new municipalities. The communities were abolished as self-governing entities but the reform introduced “intra-municipal decentralisation”, by subdividing municipalities into “deconcentrated” communities, represented by elected administrative bodies (a president and/or a council depending on the size) and whose competences are basically consultative. Overall, there were 6 102 communities in 2016 (note: the 2018 *Kleisthenis* programme abolished the distinction between local and municipal communities introduced by the *Kallikratis* reform). At municipal level, members of the municipal council and the mayor (*dimarchos*) are elected by direct universal suffrage for a five-year term. Currently, municipalities have around 33 200 inhabitants, which is well above the OECD and EU28 averages (9 700 and 5 900 inhabitants). In 2016, 13% of municipalities had fewer than 5 000 inhabitants (vs 53% before the *Kallikratis* programme), versus 44% in the OECD. Athens, the capital city, is the most populated (around 665 000 inhabitants) but around 3.16 million if the functional area is taken into account (Calithèa, Peristérion and Piraeus, among others). However, Athens does not have a special status as a capital city but is included in the metropolitan region of Attica. Together with the metropolitan area of Thessaloniki, they have a regional status with some additional metropolitan functions given to them to address supra-local concerns.

INTER-MUNICIPAL COOPERATION. Article 245 of law 3463/2006 states that voluntary horizontal cooperation between municipalities is achieved by the establishment of municipal associations in the form of legal entities governed by public law. Inter-municipal structures with single or multiple tasks do exist but many of them are inactive. The *Kallikratis* reform also provides for a form of obligatory inter-municipal cooperation known as "administrative support" in order to help smaller municipalities carry out some responsibilities transferred to them under the *Kallikratis* programme (e.g. town planning, technical and welfare benefits services).
State territorial administration. The central government has seven deconcentrated administrations at territorial level. Led by a General Secretary appointed by the Ministry of the Interior, they are mainly responsible for coordination of state territorial administration, multi-level coordination, administrative supervision of SNGs, management of public assets, administrative issues (civil status, migration affairs, etc.), environmental affairs (natural resources, water management, forest protection) and representation of the central government.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

According to article 102 of the constitution, there is a “presumption of competence” in favour of SNGs for the administration of local affairs. The implementation of these principles was done by successive laws including the 2006 Code for Municipalities and Communities and the decentralisation programmes. The 2011 *Kallikratis* reform in particular granted municipalities and regions new and expanded powers, transferred from the former prefectures and state deconcentrated administrations. At municipal level, the law has defined eight specific areas of responsibilities for municipalities, which remain broad. The *Kallikratis* programme transferred additional responsibilities related to local development, child protection, elderly care, social assistance to the unemployed/poor, and preventative healthcare. At regional level, the new regions are mainly responsible for regional planning and development, including the management of the authorities for regional EU operational programmes. Many regional and municipal areas are shared with the central government (e.g. education, health and transport), resulting in overlaps, especially with state deconcentrated administration.There is some asymmetry of responsibilities. SNGs located in the three insular regions (South Aegean, North Aegean and Ioniou) have a wider set of competences, e.g. local development, health and welfare, tourism and intra-regional transport plans. The metropolitan areas of Attiki and Thessaloniki, in addition to their regional responsibilities, can exercise responsibilities such as environmental protection, urban planning, transport and communications, civil protection and security, quality of life and urban renewal, which go beyond the municipality’s administrative boundaries.

In order to provide their services, municipalities may set up legal entities of public or private law, including municipal public establishments, special purpose municipal associations and municipal enterprises under private law. With the crisis, municipal enterprises had been reduced by 80% (there were around 1 500 before the crisis, out of which 2/3 were inactive).
The 2018 *Kleisthenis* programme aims at taking stock of the transfers of responsibilities that have been completed so far in the framework of the *Kallikratis* programme as well as to better monitor and assess both current and planned transfers. In that perspective, several committees have been set up, including a permanent committee within the Ministry of the Interior, to evaluate every new bill that involves a transfer of responsibilities. Inter-ministerial committees have also been established to redefine responsibilities carried out by SNGs and procedures in cooperation with the competent ministries.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONS	MUNICIPAL LEVEL
1. General public services	Regional administration	Municipal administration; Building permits and urban planning applications; Issuing professional licenses; Administrative civil services
2. Public order and safety	Civil protection and emergency services	Civil protection and emergency services; Some local policing powers
3. Economic affairs /transports	Planning/Programming and regional development; agriculture/livestock and fisheries; Employment; Trade; Tourism; Roads, transport and communications; Special transport services; Support to local enterprises; Energy and industry; Tourism	Local economic development; Tourism; Employment; Rural development, livestock and fisheries; Local roads; Local public transport (including small ports)
4. Environmental protection	Natural resources; Environment protection	Parks and green areas; Nature preservation; Waste management; Sewerage; Street cleaning
5. Housing and community amenities	Public works; Urbanism; Environment	Urban and land use planning; Gas distribution; Drinking water; Public lighting
6. Health		Health prevention (medical centres)
7. Recreation, culture & religion	Culture; Sports	Pre-primary education; Primary and secondary education (shared), mainly for school construction, maintenance and equipment (via school committees)
8. Education	Education	Pre-school; Primary and secondary education; Vocational training
9. Social protection		Social protection and solidarity mainly child protection; Elderly care; Social assistance to the unemployed/poor/disabled; Support services for families; Integration of foreigners; Housing benefits

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: 325 municipalities, 13 regions, 522 Legal entities public law, 155 Legal entities private law.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GREECE

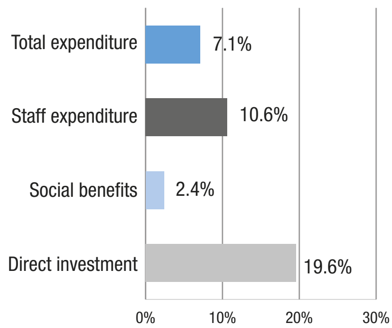
UNITARY COUNTRY

GENERAL INTRODUCTION. According to Article 102 of the Constitution, SNGs have administrative and financial autonomy. The Constitution also specifies that the State should provide funds to SNGs so they can exercise their responsibilities, in particular when new tasks are transferred to them. The Constitution also provides for the adoption of specific laws concerning the allocation of taxes collected by the State as well as the determination and collection of local revenues directly from local authorities. However, fiscal decentralisation in Greece is not as developed as political and administrative decentralisation. The initial plan of fiscal decentralisation, called the ELLADA programme, which would have allowed SNGs to develop their fiscal capacity by collecting their own resources, was eventually abandoned. One reason for this is the context of deep economic and social crisis, which has severely affected SNGs. Austerity measures prevented the country from fully implementing the decentralisation programme, and, in the end, reduced the scope of action of SNGs, whose revenues and expenditure have dropped significantly in recent years.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**942**	**3.5%**	**100%**
Inc. current expenditure	755	2.8%	80.2%
Staff expenditure	350	1.3%	37.1%
Intermediate consumption	242	0.9%	25.7%
Social expenditure	141	0.5%	14.9%
Subsidies and current transfers	8	0.0%	0.8%
Financial charges	12	0.0%	1.2%
Others	3	0.0%	0.3%
Incl. capital expenditure	187	0.7%	19.8%
Capital transfers	5	0.0%	0.6%
Direct investment (or GFCF)	182	0.7%	19.3%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



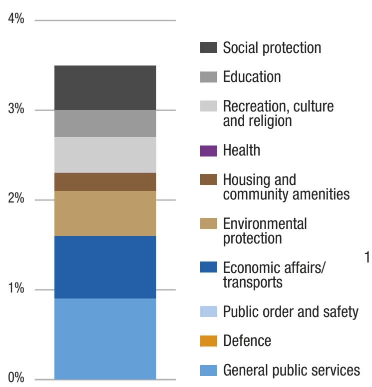
EXPENDITURE. Greece remains among the most centralised countries in the OECD in terms of SNG spending. Spending ratios are at the lowest level in the OECD and well below the OECD average for unitary countries (9.2% of GDP and 28.7% of public expenditure). Overall, as a share of GDP and public spending, SNG spending did not increase compared to 1995. The share of SNG staff spending in total public staff spending is particularly low, well below the OECD average for unitary countries (43%) - despite the transfers of staff from the central government in the framework of *Kallikratis*. This reflects the fact that some of the most important public service delivery systems, such as public education, public health services, and social protection are still subject to direct and comprehensive control by the central government. This is also the result of the crisis, fiscal consolidation measures and the need to comply with Memorandums of Understanding. This resulted in several budget cuts, including the downsizing of the SNG public sector through staff reduction, limitations in hiring new and qualified staff and pay cuts. Between 2010 and 2013, the Greek civil service was downsized by around 19% at subnational level. Overall, SNG spending decreased by 2.8% per year in real terms between 2007 and 2017.

DIRECT INVESTMENT. SNG involvement in public investment is limited and much smaller than the OECD averages for unitary countries (1.7% of GDP and 50.7% of public investment). However, investing is an important function of SNGs, accounting for 19.3% of their expenditure in 2016, above the OECD average for unitary countries (13.8%). SNG investment has not yet recovered to pre-crisis levels: between 2008 and 2017, it decreased on average 10% per year in real terms. Most investment is made on behalf of the central government and within the framework of EU programmes, which are the main (and almost only) source of investments at the subnational level.

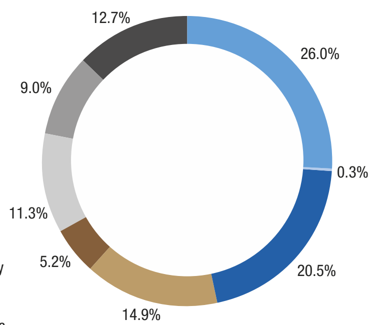
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

The main categories of SNG spending include general public services, economic affairs and transport, environmental protection and social protection. Some of the most important public service delivery areas, such as education and health, represent a small share of SNG expenditure, in sharp contrast to the situation in the OECD on average where these two spending areas are the top two priority items. Recreation, culture and religion, as well as housing and community amenities account for more than 50% and 75% respectively of the general government expenditure in the same category, which means that SNG are key stakeholders in those specific policy areas.

% GDP



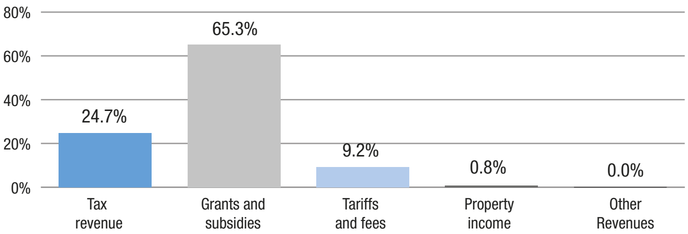
% SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**1 027**	**3.8%**	**7.6%**
Tax revenue	253	0.9%	3.4%
Grants and subsidies	670	2.5%	
Tariffs and fees	95	0.4%	
Property income	9	0.0%	
Other revenues	0	0.0%	

% SNG REVENUE



OVERALL DESCRIPTION. SNGs rely heavily on central government transfers, which accounted for more than 65% of SNG revenue, well above the OECD average for unitary countries (48.8% in 2016). Consequently, the share of tax is small, below the OECD average for unitary countries of 38.7%. SNG revenue decreased significantly with the crisis (-2% per year on average between 2007 and 2017 in real terms), in particular resulting from cuts in grants.

TAX REVENUE. Tax revenues account for a small share of GDP and public tax revenue, well below the OECD average for unitary countries (respectively 4.7% of GDP and 19.8% of public tax revenue). Tax revenues are entirely own-source, benefiting almost exclusively municipalities (regional tax revenues are negligible) and concentrated on one tax: the property tax. In 2016, the property tax accounted for 92% of municipal tax revenue, 23% of SNG revenue and 0.9% of GDP (below the OECD average of 1.1% of GDP). A new property tax (Unified Property Tax, ENFIA) was established in 2014 to replace two previous property taxes, the real estate based wealth tax (FAP) and the property tax that is collected through the Electric company utility bill. The new tax applies to individuals and legal entities owners of land and buildings. It comprises a main tax and a supplementary tax. The main tax, which for buildings, plots, fields and so on is calculated on the basis of "objective values" based on several criteria such as the location, etc. The supplementary tax (so called sumptuary tax) is imposed on very expensive property. Other small taxes include street cleaning and lighting tax, beer tax, advertising tax, and the tourist tax, particularly important in several coastal areas, etc. The ability to set rates over these taxes is restricted.

GRANTS AND SUBSIDIES. Central government transfers represent the primary source of revenue, especially for the regions (95% of their revenues). The most important are the Central Autonomous Funds (CAF) granted annually to municipalities and regions. CAF are derived from different taxes. For the municipalities, CAFs receive: 19.5% of the income tax on individuals and legal persons; 12% of the Value Added Tax (VAT); and 11.3% of the Unified property tax (ENFIA). For the regions, CAFs receive 4.2% of the PIT and CIT and 4% of the VAT. CAF grants are first assigned to major spending areas and then distributed to individual local governments on the basis of different criteria such as population size, road network and level of social services. CAF grants are divided into the "Regular Grant" (RG) for operating expenditure and the "Public Investment Specific Programme Grant" (PISPG) which finances specific capital expenditure projects. Other transfers to SNGs include earmarked and categorical grants allocated based on data sent by the municipalities or regions regarding their specific expenses. Overall, 77% of grants covered operating expenditure and 23% investment in 2016.

OTHER REVENUES. Tariffs and fees represent 9.2% of SNG revenue, which is below the OECD average of 14.9% in 2016. SNGs can charge fees for waste management, public lighting, water and sewage services provided by local public companies, use of public space for professional activity, operation of cemeteries etc. Revenues from physical and financial assets account for a very small percentage of SNG revenue, below the OECD average (2%), despite the existence of local public companies.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**214**	**1.3%**	**0.7%**	**100%**
Financial debt*	146	0.9%	0.5%	68%

* Currency and deposits, loans and bonds

FISCAL RULES. SNGs have to prepare realistic and balanced budgets, in accordance with the principles of public finance management and budgeting laid down by law 2362/1995 on Public Accounting. In 2012, in order to strengthen tax and budget management, an internal stability pact for local government (based on a balanced budget constraint) has gone into effect. It includes corrective and sanctioning mechanisms as automatic cuts in expenditures to be applied as a rule when targets are expected to be missed (Law 4172/2013). In addition, according to the Medium-Term Fiscal Strategy Framework (MTFS) for 2015-18, approved by law 4263/2014, SNGs are required to contribute to the overall fiscal effort. In this perspective, various actions have been taken to ensure the fiscal consolidation of SNGs, increase the effectiveness of management, accounting and financial control and improve supervision and functional assessment of SNGs. The *Kallikratis* reform granted the Court of Audit with additional powers in the monitoring of SNGs. An Observatory for the Financial Autonomy of Local Government was set up by Law 4111/2013 and further implemented by Law 4270/2014 and Law 4555/2018, in particular to monitor, on a monthly basis, the management and implementation of SNG budgets.

DEBT. Borrowing is authorised to finance investment projects ("golden rule") and to refinance existing debt under better conditions. The law 4111/2013 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. It also requires that SNG receive the approval of the Minister of Finance to access any kind of loans. A debt-brake was introduced for the few municipalities facing over-indebtedness problems, which have to join a "Special Economic Recovery Program". Overall, the level of local debt remains low as a percentage of GDP and total public debt, especially compared to the OECD average for unitary countries (14.5% of GDP and 11.8% of public debt). In 2016, it was made up of financial debt (68%) and other accounts payable (32%). Financial debt is exclusively composed of loans.

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World Observatory on Subnational Government Finance and Investment

Lead responsible: OECD
Last update: 02/ 2019

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Socio-economic indicators: OECD // Eurostat // World Bank // UNDP // UN Desa // ILO // Hellenic Statistical Authority.

Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // Eurostat

Other sources of information: OECD (2019) Territorial Review of Greece - Preliminary Findings // OECD (2019) Making decentralisation work: a handbook for policy makers // Council of Europe (2018) Training needs analysis of local government in Greece. Report by Cezary Trutkowski and Nikolaos-Komninos Hlepas // OECD (2017) Multi-level Governance Reforms: Overview of OECD Country Experiences // Anastassios Chardas (2017) Local Governance in the Age of Austerity in Greece and the Impact of the EU Leader Approach in the Region of Peloponnesus // CEMR (2016) Local and Regional Governments in Europe Structures and Competences // Ionnidis, P. (2015) Decentralization, Local Government Reforms and Perceptions of Local Actors // The Greek Case.Council of Europe (2015) Local and regional democracy in Greece. Congress of Local and Regional Authorities // Nikolaos-Komninos HLEPAS (2015) Regionalism in Greece – AER.

HUNGARY

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: HUNGARIAN FORINT (HUF)

POPULATION AND GEOGRAPHY

Area: 93 030 km^2
Population: 9.788 million inhabitants (2017), a decrease of -0.3% per year (2010-2015)
Density: 105 inhabitants / km^2
Urban population: 71.1 % of national population
Urban population growth: 0.1% (2017 vs 2016)
Capital city: Budapest (18.0% of national population)

ECONOMIC DATA

GDP: 274.9 billion (current PPP international dollars), i.e. 28 108 dollars per inhabitant (2017)
Real GDP growth: 4.0% (2017 vs 2016)
Unemployment rate: 4.2% (2017)
Foreign direct investment, net inflows (FDI): -13 484 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 21.5% of GDP (2017)
HDI: 0.838 (very high), rank 45 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Hungary is a parliamentary representative democratic republic. The country has a unicameral parliament composed of the National Assembly, whose members are elected every four years by direct universal suffrage. The Head of State, the President of the Republic, is elected indirectly by the Parliament for a five-year term, and the Head of Government, the Prime Minister, is appointed by the President for a four-year term.

The 1989 constitution, which amended the 1949 constitution, recognised the principle of local self-government, dedicating one full chapter to subnational governments. A strong decentralisation process started with the 1990 Act of Local Government, which defined the communes' right to self-government, and restored the autonomy of municipalities and counties. Local governments were given broad responsibilities and autonomy in terms of financial management.

A new Fundamental law was adopted in April 2011 and enforced in on 1 January 2012, which pronounced the 1959 constitution to be null and void. While it has been amended several times since 2012, the new Hungarian constitution marked the start of a recentralisation process. Provisions concerning local governments are provided in Art. 31 to 35 of the Fundamental Law. It determines the essence of subnational governments, the county and local government, established "to administer public affairs and exercise public power at a local level" (Art. 31). No explicit mention is made of the principle of local self-government, although Art. 32 states that in the management of local public affairs and within the framework of the Acts, local governments shall adopt decrees, make decisions and autonomously administer their affairs. Art. 32 also indicates that local governments determine the rules of their organisation and operation, exercise the rights of ownership with respect to local government property, determine their budgets and autonomously manage their affairs on that basis, deciding on the types and rates of local taxes.

Following the new constitution, a Cardinal Law on Local Governments was enacted in 2011 (Act CLXXXIX of 2011) to define a new multi-level governance framework. The law recentralised several local responsibilities and resources and strengthened central government's oversight over legal compliance and administrative functioning of SNGs. This was reinforced by the launch of an important State Territorial Administration Reform (STAR) in 2010, which reorganised the jurisdictional, organisational and human resource foundation of public service delivery at all levels of the public sector in Hungary. In particular, the STAR reform introduced a new deconcentrated administrative structure in the form of 175 townships (*járás*), including three districts in the capital, in charge of state-administrative tasks. Townships took over many functions exercised previously by municipalities, and are currently also in charge of the legal and financial supervision of SNGs.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	3 177 municipalities *(települési önkormányzatok)*		19 counties *(megyék)* + Budapest	
	Average municipal size: 3 081 inhabitants			
	3 177		**20**	**3 197**

OVERALL DESCRIPTION. Hungary is a unitary country with a two-tier subnational governments system, made up of 19 counties, in addition to Budapest, and 3 177 municipal authorities in 2018, with no hierarchical link. Both counties and municipalities are governed by councils composed of representatives (*councillors*) directly elected through secret ballot for four-year mandates. County councils are led by a council President, elected from amongst its members. On the other hand, municipal councils are headed by mayors (*polgarmester*), who are municipalities' executive body, elected by direct universal suffrage for a four-year term.

REGIONAL LEVEL. The regional level is organised in 19 counties, which were restored in 1990, and Budapest which has a special status similar to that of a county. Counties are very heterogeneous both in terms of population and of area. While the average size of counties is around 490 000 inhabitants, the least populated county had around 193 000 inhabitants in 2017 (Nógrád) and the two most populated were Budapest (1.75 million inhabitants) and Pest (1.25 million inhabitants). Hungary has the second highest regional disparities in GDP per capita among 30 OECD countries with comparable data, with the Northern Great Plain lagging behind, and Central Hungary leading the way. Regional economic disparities have increased moderately since 2000. Budapest has a special status since 1991 set out in the Local Government Act, and thereby has a two-tier organisation similar to that of a county, with the capital city and 23 city districts (*kerület*). Both levels function in the same way as municipalities, with a mayor and local councils elected by direct universal suffrage. Each district has a council and each city district has a mayor. The capital city has a Lord Mayor and a capital city assembly of elected representatives.

MUNICIPAL LEVEL. The municipal level in Hungary is highly fragmented, comprising villages (*kozsegek*), towns (*varosok*) and 23 cities with county status (*megyei jogu varos*), conferred to towns that were county seats in 1990 and cities with more than 50 000 inhabitants if they request this status to the Parliament. Cities with county status are in charge of the responsibilities of the county in their area. They can form city districts with full legal statute and establish city district offices.

Hungarian municipalities have an average size of 3 088 inhabitants (vs 5 900 in the EU28 and 9 700 in the OECD in 2018) and a median size of 815 inhabitants. As of 2016, 91% of municipalities had fewer than 5 000 inhabitants, and even 76% less than 2 000 inhabitants. 30% of the population was living in cities with more than 500 000 inhabitants (compared to 55% on average in OECD countries).

Cardinal Act on local government of December 2011 set 2 000 inhabitants as the critical threshold for local administration. It does not force mergers but stipulates that small municipalities under 2 000 inhabitants must group their administrative services into joint offices or districts or micro-regions. The purpose of the reform was to ensure sufficient administrative and human capacity in small settlements without merging municipalities or restricting municipal autonomy. As of 2017, there were 738 joint offices operating across Hungary, with 83% of municipalities involved in one of them. In addition to these joint offices, Hungary had 1 517 local government associations in 2017, comprising more than 10 765 members. Inter-municipal cooperation has been encouraged since the 1997 Act on the Associations and Co-operation of Local Government.

The State deconcentrated administration at territorial level was reformed in 2010 as part of the STAR reform. The former administrative entities became integrated in the so-called county government offices (or in case of Budapest: district government office). The 20 largest government offices, which form the largest units of territorial administration, operate in county seats, and in Budapest. They coordinate and promote the territorial implementation of government tasks in accordance with legislation and government decisions. District (metropolitan district) offices are the smallest units of territorial administration in 174 cities and 23 districts in Budapest. Their basic task is to manage first-level administrative cases (under county level).

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The 2012 Constitutional reform and the Cardinal Law on Local Governments have profoundly transformed SNGs in Hungary, reducing their scope, functions and financing resources. 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 for the elderly, families, etc.), public hygiene, water works, and administration (document office duties). Counties lost several major competences (healthcare inc. hospitals, social initiatives and secondary education) to be mainly in charge of regional and territorial development, as detailed in the National Development and Territorial Development Concept (EU programming period 2014-2020), which makes them key actors of territorial development. Municipalities are no longer in charge of primary education but they keep several responsibilities in areas such as health care, social protection, environment, housing, community amenities and utilities, culture and sports.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	STATE LEVEL	MUNICIPAL LEVEL
1. General public services	Coordination tasks (regarding municipal service provision)	Internal administration; Administrative tasks; Issuance of various permits
2. Public order and safety		
3. Economic affairs/transports	Regional development; Rural development	Road maintenance; Public transport
4. Environmental protection		Environmental health; Waste management; Public parks
5. Housing and community amenities	Land-use planning	Land-use planning; Cemeteries; Street lighting; Maintaining and cleaning of public areas; Parking garages; Housing and property management
6. Health		Primary healthcare; Health protection
7. Recreation, culture & religion		Public library services; Performing art organisations; Protection of local cultural heritage
8. Education		Support to local community education
9. Social protection		Children protection support; Social provision tied to local government ordinances

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: county governments, municipalities, associations of local governments and local minority governments.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. Despite the political autonomy of local governments, the Hungarian public governance system is now quite centralised on the fiscal side. Following the 2007-08 economic crisis and critical state of subnational finance prior to 2010 in Hungary, the national government undertook - in 2011 - an extensive constitutional reform leading to the recentralisation of resources, responsibilities and related expenditure, and debt. While municipalities have kept some local responsibilities and can levy their own resources through specific local taxes, the counties, are now deprived of any “general competences” and have gradually been excluded from the governance framework. On the other hand, the development of a township system reinforced the financial influence of the central state.

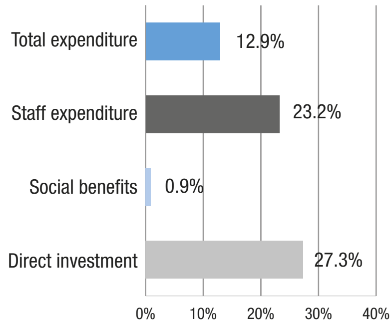
HUNGARY

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**1 608**	**6.0%**	**100%**
Inc. current expenditure	1 360	5.1%	84.5%
Staff expenditure	676	2.5%	42.0%
Intermediate consumption	482	1.8%	30.0%
Social expenditure	35	0.1%	2.2%
Subsidies and current transfers	162	0.6%	10.1%
Financial charges	2	0.0%	0.1%
Others	3	0.0%	0.2%
Incl. capital expenditure	249	0.9%	15.5%
Capital transfers	44	0.2%	2.7%
Direct investment (or GFCF)	205	0.8%	12.7%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



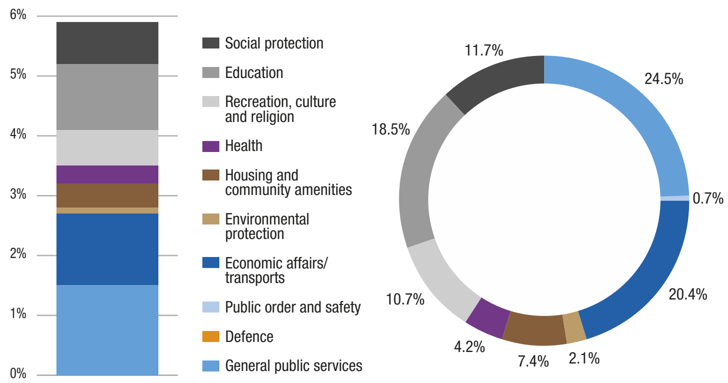
EXPENDITURE. As a result of the recentralisation of a large part of SNG responsibilities under the Local Government Act, the share of SNG expenditure in GDP and public expenditure decreased significantly from 2010 to 2016, by respectively 6.5 and almost 12 percentage points, to stand in 2016 well below the OECD average (amounting to 16.2% of GDP and 40.4% of public expenditure) and the EU28 average (15.5% of GDP and 33.4% of public expenditure). The share of SNG staff spending in total public staff spending went from 50% in 2010 to 23% in 2016, resulting from large transfers of personnel from SNGs to the new deconcentrated government offices. SNG staff spending decreased by 7.3% on average per year in real terms between 2007 and 2017.

DIRECT INVESTMENT. Following the global crisis and the recentralisation reform, the share of SNGs in public investment has kept decreasing, from 59% in 2011 and 39% in 2013 to 27% in 2016, well below the OECD average (56.9% of public investment) and the EU28 average (51.6%). As a share of GDP, SNG investment also decreased significantly from 2.2% of GDP in 2010 to 0.8% in 2016. SNG investment dropped by 2.5% on average per year in real terms from 2007 to 2017. In 2016, most SNG investing was dedicated to general public services (36%) and economic affairs and transport (25.4%), as well as housing and community amenities and environmental protection. The National Development and Territorial Development Concept (NDTDC), adopted by the Parliament in 2014 after extensive consultation across ministries, county councils and local governments, includes several goals for subnational development, such as the concept of polycentricism, and considers different levels of urban centres, including Budapest and 67 other towns as urban areas with (potentially) international relevance as regional poles, which could have an impact on investment.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Main categories of SNG spending in 2016 included general public services (24.5% of SNG expenditure), followed by economic affairs/transport (20.4%), allocated in particular to regional development, road maintenance and public transportation. The sector in which SNGs play the biggest role is housing and community amenities (45.4% of total public spending in this area, or 0.4% of GDP), and to a lesser extent environmental protection (23.6% of public expenditure in this sector). The responsibilities of counties on matters related to health, education, social protection and culture have been continuously narrowing since the 1990s, as those tasks have been taken up by the central State. As a result, the shares of SNG spending in education, health, housing and community amenities, recreation and culture and environmental protection have sharply decreased since 2011.

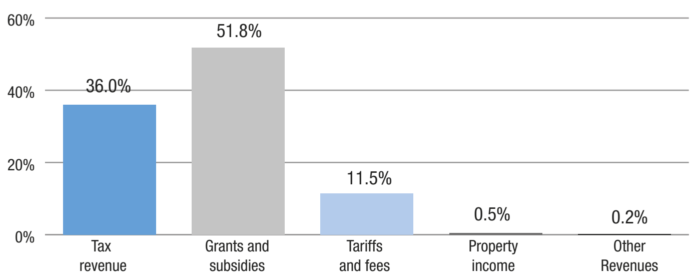
% GDP | % SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**1 686**	**6.3%**	**14.1%**
Tax revenue	607	2.3%	8.9%
Grants and subsidies	874	3.3%	
Tariffs and fees	193	0.7%	
Property income	9	0.0%	
Other revenues	3	0.0%	

% SNG REVENUE



OVERALL DESCRIPTION. The administrative reforms led between 2011 and 2014, carried out in the name of reallocation of tasks between local and central levels and costs savings, modified the system of local finance in Hungary and restrained the fiscal framework for local government financing. The main source of revenues is grants and subsidies, accounting for almost 52% of SNG revenues, above the OECD average (37.2%) and the EU28 average (44.1%). By contrast, the share of tax in SNG revenues is small, below the OECD and EU averages (respectively 44.6% and 41.1%). Municipalities are the only level of SNG to be able to levy taxes. Tariffs and fees provided substantial revenues in 2016, in line with the EU28 average (11.6%).

TAX REVENUE. While tax revenues accounted for 36% of SNG revenues (excluding the counties), the share of SNG tax revenue in public tax revenue and in GDP was also well below the OECD average (respectively 31.9% of public tax revenue and 7.1% of GDP) and the EU28 average (respectively 24.0% of public tax revenue and 6.4% of GDP).

Municipalities receive - almost exclusively - own-source taxes, the main local tax being the local business tax (LBT) which amounted to 75.5% of municipal tax revenue in 2016 and 27.2% of SNG revenue. This tax is imposed on companies located or registered in the municipal area and based on corporate gross margins. The rate is determined by the municipality, but capped at 2%. The LBT is the third largest income-generating tax at national scale in Hungary, and plays an important role in the financing of local governments.

Property taxes are the second highest tax received at the subnational level, but has a relative small role in Hungary compared to other OECD countries. Municipal property tax revenue accounted for 17.5% of municipal tax revenue in 2016 and 6.3% of SNG revenue. It amounted to 0.4% of GDP, well below the OECD average of 1.1% of GDP in 2016. Recurrent taxes on immovable property levied by municipalities include a building tax and a land tax, both paid by owners, and based either on area or floor space or on the adjusted market value. As the tax base typically does not depend on market value, revenues from property taxes remain low despite increases in property prices. Tax rates are set by each municipality, up to certain limits based on the consumer price index. It also includes a communal tax on households and a community tax. The number of municipalities levying building tax, land tax and communal tax has grown. In fact, by 2015 over 85% of municipalities had introduced such taxes. Other minor taxes include a vehicle tax (a shared tax), a municipal tourist tax and an environmental protection charge.

GRANTS AND SUBSIDIES. The 2011 constitutional reform modified the grants system and reduced their amounts, in accordance to the recentralisation of several local government responsibilities. Transfers to SNGs decreased by 4.6% on average per year in real terms between 2007 and 2017. Overall, grants and subsidies amounted to HUF 661.7 billion, compared to HUF 1 421.7 billion in 2008. As such, funds transferred from the Health Insurance Fund decreased sharply.

A stricter grant system was set up in 2013, shifting from an income-based system of block grants, to a task-based, expenditure-oriented system of earmarked grants for each local authority. Grants are now earmarked, for the vast majority to current expenditure (82.6% of total grants), and mainly in the fields of education, social protection and culture. The reform included the tightening of distribution rules as well as new equalisation criteria based on the tax capacity of each municipality, with the aim of assisting poorer regions, due to striking differences between local governments in terms of local business tax capacity. Thereby, some of the municipalities with low tax-income capacities receive a grant supplement. A mandatory deficit grant was also designed to cover for the deficit of municipalities. Overall, state funding may be granted twice a year to municipalities in difficulty, and grants are voted yearly by the Parliament.

OTHER REVENUES. Other revenues for municipalities include mostly user tariffs and fees for public services, which represented around 11.5% of total subnational revenues in 2016, against 14.9% on average in OECD countries but 11.6% in the EU28. Income from property is quite limited, below the OECD and EU28 averages (respectively 2.0% and 1.2% of SNG revenues).

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**135**	**1.1%**	**1.1%**	**100%**
Financial debt*	28	0.2%	0.3%	20.7%

* Currency and deposits, loans and bonds

FISCAL RULES. Tighter budgetary restrictions and new borrowing controls were introduced for SNGs in 2011 by the Cardinal Local Government Law, as part of efforts to reduce the national public debt. It forbids any operating deficit, and stipulates that SNGs are responsible for their own financial management. However, there is no national stability pact agreement between the central and local levels.

DEBT. The Cardinal Local Government Law set up an authorisation framework for local borrowing in 2012. Following the 2013 reform, the total debt of Hungarian local governments accumulated from 2002 to 2008 was taken over by the central government and consolidated in full between 2011 and 2014. It was done progressively in three stages based on the size of SNGs. The ratio of debt to be taken over was determined on the basis of the number of inhabitants in a particular municipality and the taxation power measured by the local business tax. As a result, the amount and the structure of outstanding debt profoundly changed, SNG debt accounted for 1.1 % of GDP in 2016 compared to 4.5% in 2010, and 1.1 % of public debt. It is made up of other accounts payable for 79% (commercial debt, arrears), the remaining part being financial debt ("Maastricht debt"). Financial debt is mainly composed of loans (92%), the share of bonds being 8%.

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Socio-economic indicators: OECD // Eurostat // World Bank // UNDP // UN Desa // ILO // Hungarian Statistical Office.
Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // Eurostat.
Other sources of information: OECD (2019) OECD Economic Surveys: Hungary 2019 // OECD (2018) Regions and Cities at a Glance 2018 // Éva Margit Kovács (2018) The impact of public service capacity on municipal cooperation in Hungary // European Committee of Regions (2016) Division of Powers // Palne Kovacs I. (2015) Regionalism in Hungary, Assembly of European Regions // Steiner E. (2017) Introduction to the Hungarian Local Government System // OECD (2015) Hungary: Reforming the State Territorial Administration // Ministry of National Economy (2015) Hungarian Local Government economic management and financing systems // Lentner C. (2014) The Debt Consolidation of Hungarian Local Governments.

ICELAND

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: ICELANDIC KRÓNA (ISK)

POPULATION AND GEOGRAPHY

Area: 100 243 km^2
Population: 0.343 million inhabitants (2017), an increase of 0.6% per year (2010-2015)
Density: 3 inhabitants / km^2
Urban population: 93.8% of national population
Urban population growth: 1.8% (2017 vs 2016)
Capital city: Reykjavik (63% of national population)

ECONOMIC DATA

GDP: 18.1 billion (current PPP international dollars), i.e. 52 825 dollars per inhabitant (2017)
Real GDP growth: 3.6% (2017 vs 2016)
Unemployment rate: 2.7% (2017)
Foreign direct investment, net inflows (FDI): - 7 017 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 22.1% of GDP (2017)
HDI: 0.935 (very high), rank 6

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Iceland is a constitutional republic with a parliamentary system. According to the 1944 Political Constitution, the Head of State is the President, elected by direct popular vote for four-year terms, and the government is led by the Prime Minister, appointed by the President with the support of the Parliament. The legislative power is vested in the unicameral Parliament (*Althingi*) which is the oldest Parliament in the world (it has existed since 930 a.d.) and whose 63 members are directly elected for four-year terms. The President is also vested with legislative power in the sense that he is empowered to sign bills into law, has veto power, and may send bills to the Parliament.

Iceland is a unitary country with a single-tier of subnational governments, made up of municipalities. Article 78 of the 1944 Constitution forms the basis of the legal status of local authorities and their relationship with the central government. Alongside the Constitution, local autonomy is enshrined in the Local Government Act of 1998, amended several times in particular in 2011. Other specific regulations are the Local Government Elections Act (5/1998), and the Local Government Finance Act (4/1995).

The municipalities are governed by municipal councils, named according to their size (city government, town government and parish councils) that are directly elected every four years. Local councils are composed of aldermen whose number varies depending on the population and are headed by a president (*oddviti* or *forseti* depending on the size of the municipality) elected by municipal council majority. The executive committee is the municipality's executive body and is composed of municipal council members designated by the council. It is in charge of the financial and administrative management of the municipality. Following elections, the municipal council may decide to appoint one of its members as mayor or may designate a non-political person to take on this role.

Through the 2011 revision of the Local Government Act, municipalities gained new responsibilities regarding service provision and support for disabled people. The law established new fiscal rules for municipalities together with enhanced arrangements for fiscal oversight of municipal finances and greater fiscal stability and new fora for central-local fiscal coordination. Other transfers are currently being discussed (e.g. elderly care, entire healthcare sector) but the main obstacle is the small size of many municipalities.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	74 municipalities *(sveitarfelag)*			
	Average municipal size: 4 640 inhabitants			
	74			74

OVERALL DESCRIPTION. Iceland has a single tier of local government, made up of municipalities. Municipalities in Iceland date back to the 11th century. Following gradual mergers, the number of local authorities increased slowly until the middle of the 20th century when it reached a peak of 229, after which it decreased again, falling from 124 in 2000 to 74 as of January 2018. Municipalities had to negotiate the merger plans between themselves, to be approved by local referendums. There has been two main waves through two comprehensive local referendums on municipal amalgamations, first time in 185 municipalities in 1993 and the second time in 66 municipalities in 2005. The main objective is to reach a minimum size to be able to provide efficient and high-quality services.

Despite the magnitude of the amalgamation process, it did not have a major impact on municipal fragmentation, which remains high, especially as the population in certain municipalities dwindles. As of 2017, the average size of municipalities is around 4 600 inhabitants while the median size is 880 inhabitants. Around 88% of municipalities have fewer than 5 000 inhabitants and 72% less than 2 000 inhabitants. Only six municipalities have more than 10 000 inhabitants, including the three largest municipalities: Hafnarfjörður (around 28 700 inhabitants), Kópavogur (35 250) and Reykjavík (123 246). These three municipalities, together with other five neighbouring municipalities, form the Greater Reykjavík ("The Capital Region"), accounting for 63% of national population. Municipalities in the urban area created an association in 1976 to cooperate in various fields such as waste policy, public transport and fire protection as well as defining the regional development programme.

An evaluation of merger policy conducted in 2010 shifted focus from mergers and recommended to promote inter-municipal cooperation instead, considering that cost-efficiency, economies of scale and capacity could be gained by inter-municipal service or cooperation arrangements. Inter-municipal cooperation takes place on a regional basis through regional boards, regional federations, or economic development agencies that are co-owned by the municipalities (Local Government Act no. 45/1998). Following the decentralisation of social services for disabled people to municipalities, inter-municipal cooperation became compulsory for municipalities of fewer than 8 000 inhabitants. In total, 197 formal cooperation arrangements exist throughout the country and the average involvement of a municipality in a cooperation arrangement is 13.5, however varying significantly by region and municipality (6–23). By far the most frequent areas of cooperation are primary school and various social services.

There is no regional government, but instead six regional associations of municipalities, based on regional cooperation between local governments. They also serve as a central government deconcentrated body. These regional associations are in charge of preparing and implementing regional development plans for their regions, in line with the Iceland 2020 – Governmental policy statement for the economy and community, which provides guidance. This national strategy emphasises the need to strengthen municipalities, and proposes to grant a special status to Reykjavik City and the whole capital area. In some cases, the regional associations have also been entrusted with special tasks from municipalities (e.g. waste collection and management of school offices).

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Municipalities' competences are not provided by a single Act, but rather by several sectorial laws. All municipalities have the same competences regardless of their size (principle of uniformity). Compulsory tasks are entrusted to them by law (Article 7.1 of the Local Government Act), which cover mainly education, urban planning and environment, and social welfare.

In addition to these assigned responsibilities, municipalities can also undertake additional tasks in the interests of their communities, provided that these tasks are not assigned to others by law, as enacted in the general residual provision (general competences, Art. 7.3) and provided that they have the budget to support these functions.

The role of local authorities became more important and comprehensive in 1996, when they embraced primary schools and social services. Since 2011, the municipalities have also taken over all services for disabled people. With this new competence, came the requirement to have a population threshold of at least 8 000 inhabitants. Only six municipalities are administering this task by themselves whereas others are running it through inter-municipal cooperation projects (*byggðasamlög*) which may cover up to 13 municipalities.

Moreover, local governments own almost all of the geothermal power companies, which supply heating to most homes in Iceland and, on an increasing scale, provide electricity to the aluminium industry. Several local governments also own companies that manage harbours.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPAL LEVEL
1. General public services	Internal administration; Issuing various licences for business; Building permits
2. Public order and safety	Fire services
3. Economic affairs/transports	Street/road construction and maintenance; Public transport; Economic promotion and employment; Harbours
4. Environmental protection	Waste collection and treatment; Wastewater; Environment protection; Public parks and open areas
5. Housing and community amenities	Water supply; Electricity; District heating; Town planning and building regulation; Social housing
6. Health	Monitoring of public and environmental health; Primary health services for the elderly
7. Recreation, culture & religion	Culture; Sports; Youth; Leisure; Public libraries; Museums
8. Education	Pre-schools; Primary and lower secondary schools; After school and summer holiday arrangements for children
9. Social protection	Care for disabled persons; Supplementary assistance to general pensions and income support programmes; Welfare services for the elderly; Child welfare; Youth support

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: municipalities, nursery schools, primary schools and senior residential institutions, as well as the Municipal Equalisation Fund.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. Provisions regarding local finance come from the Local Government Act (art. 3) and the Local Government Finance Act (Law 4 of 1995). Icelandic municipalities enjoy a significant degree of financial autonomy; however, their spending and revenue capacities are limited by the small size of most local authorities. The country was severely hit by the 2008 global financial crisis because of the bankruptcy of the banking system which had a significant role in the national economy. It triggered a major economic downturn with high unemployment and inflation. The government had to turn to the International Monetary Fund (IMF) for a bailout. This economic crisis severely disrupted its public finances, and led to an increase in local government debt. The recent growth of the tourism sector created new opportunities for revitalising regional economies, but it also presents a new challenge to municipalities that lack the capacity and resources to provide the necessary services and infrastructure.

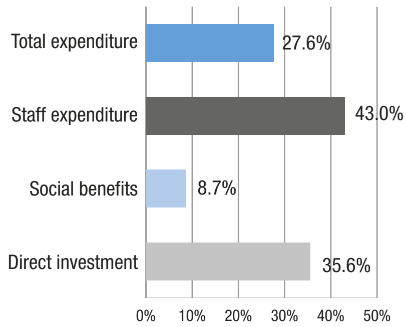
ICELAND

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**6 340**	**12.5%**	**100%**
Inc. current expenditure	5 787	11.4%	91.3%
Staff expenditure	2 949	5.8%	46.5%
Intermediate consumption	1 998	3.9%	31.5%
Social expenditure	266	0.5%	4.2%
Subsidies and current transfers	332	0.7%	5.2%
Financial charges	242	0.5%	3.8%
Others	0	0.0%	0.0%
Incl. capital expenditure	553	1.1%	8.7%
Capital transfers	54	0.1%	0.9%
Direct investment (or GFCF)	499	1.0%	7.9%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



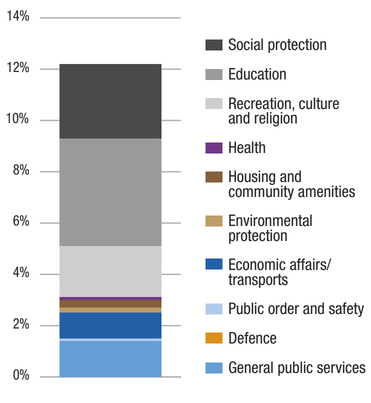
EXPENDITURE. The level of local expenditure in GDP and total public spending in Iceland is below the OECD average amounting to 16.2% of GDP and 40.4% of public spending in 2016. Icelandic local authorities are one of the biggest employers in the country. The share of staff expenditure in SNG expenditure is above the OECD average (36%) but SNG staff spending in public staff spending is below the OECD average (62.9%) but with the average for OECD unitary countries (43.0%). Administrative costs tend to weigh more on the smallest municipalities due to the prevalence of small municipalities. Overall, current expenditure accounted for around 91% of SNG expenditure in 2016.

DIRECT INVESTMENT. During the pre-crisis years, many municipalities had been investing in infrastructure as a way to attract new companies and inhabitants. After the crisis, direct investment at the national and local level slumped, and as of 2016 the share of SNG in total public investment remained below the OECD average (35.6% in Iceland versus 56.9% in the OECD). Between 2008 and 2016, SNG investment decreased by 9% per year in real terms. The 2011 fiscal rules and caps on municipalities' debt levels further restrained investments. Investment levels started to recover at the national level in 2015, mainly in the transport sector. Besides, the rise of tourism in the country incurred rising spending pressures, in particular regarding the upgrade and expansion of infrastructure, creating particular difficulties for local governments. Local governments can undertake development projects in combination with the Icelandic Regional Development Institute in the tourism sector.

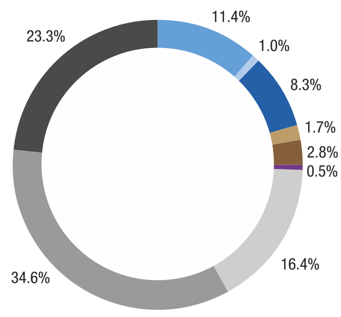
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Local authorities' spending in Iceland is particularly concentrated in the fields of education, social protection and recreation, culture and religion, which overall constitute 74% of SNG spending. The largest area of local spending is education, whose shares in SNG spending and GDP is higher than the average for OECD countries (24.8%). Municipalities are responsible for both current and capital expenditure, including teacher salaries, from pre-schools until lower secondary education, while the central government runs upper secondary schools and universities. Social welfare is also an important spending category, which represents a larger share than in the OECD countries (14.0%), since SNGs have been devolved functions relative to the care of the disabled, and are responsible for a part of general pensions schemes and income support programmes (for instance, for people whose unemployment benefits expire). Besides, municipalities' expenditure in housing and community amenities and recreation and culture account for 71.9% and 65.5% of general government expenditure (respectively). On the other hand, local authorities play a very minor role in the health sector, which remains a centralised function.

% GDP



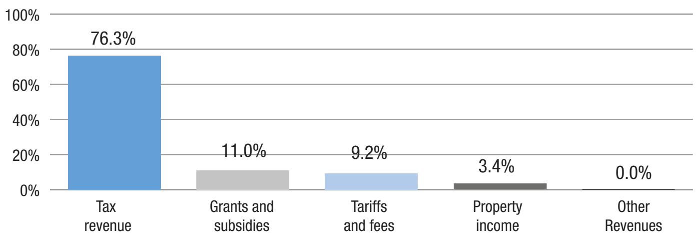
% SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**6 379**	**12.6%**	**21.7%**
Tax revenue	4 869	9.6%	19.9%
Grants and subsidies	701	1.4%	
Tariffs and fees	589	1.2%	
Property income	219	0.4%	
Other revenues	0	0.0%	

% SNG REVENUE



OVERALL DESCRIPTION. Iceland has the highest share of tax revenues in SNG revenue among all OECD countries, the OECD average being 44.6%. Consequently, Iceland also has the lowest share of intergovernmental transfers (11.0% vs 37.2% in the OECD on average). While tariffs and fees accounted for a small portion of SNG revenues compared to the OECD average (14.9%), the level of property income is particularly high (3.4% vs 2.0% in the OECD). Nevertheless, SNG revenue, which accounts for 12.6% of the GDP and 21.7% of public revenue, remains below the OECD average (respectively 15.9% and 42.4%).

TAX REVENUE. There is no tax sharing arrangements in Iceland and all municipal tax revenues come from own-source taxation. They derive primarily from the municipal personal income tax (PIT), which represented 81.2% of municipal tax revenue in 2016, i.e. 62% of total municipal revenue and 7.8% of GDP. The PIT is levied by both the central and local governments, the latter receiving a little more than half of total PIT receipts. The municipal share of the PIT corresponds to a flat percentage of total taxable income, which varies slightly across municipalities. This rate can vary between 12.44% and 14.52% (Art. 23 of the Law 4/1995), and was set on average at 14.45% in 2016.

The second source of local tax revenue is the property tax on residential and commercial buildings, which represented 18% of SNG tax revenue and 13.6% of SNG total revenue in 2016. The tax rate varies (up to 1.65%), depending on the municipality and the type of property (Art. 3, Law 4/1995). The property tax rate for residential housing (A-tax) is limited by the central government at 0.5%, and that on commercial premises (C-tax) at 1.32%. Local authorities are authorised to levy a special A and C tax of 25%. From 2006 to present, government buildings like schools and hospitals pay a rate of 1.32% for the property tax (B-tax). Overall, the property tax amounted to 1.7% of GDP, well above the OECD average (1.1% in 2016). There is also several small taxes on the use of goods and provision of services activities that account for 2% of the SNGs tax revenues.

GRANTS AND SUBSIDIES. Transfers mostly come from the Municipal Equalization Fund, established in 1937 and regulated by the Law 4 of 1995. This Fund has gradually expanded in the 1990s and more recently when SNGs took on greater spending responsibilities regarding elementary schools and care for persons with a disability. The main role of the Equalisation Fund is to equalise municipal tax revenue so they can all provide services to their inhabitants. The central government contributes to the Fund through an annual contribution corresponding to 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 that takes municipal expenditure and resources into account. The Fund is managed by the Minister of the Interior, assisted by a seven-member advisory committee appointed for a period of four years by the Association of Local Authorities and the Minister of the Interior. Recent discussions tended to promote a reform of the Icelandic equalisation scheme in order to promote further mergers and inter-municipal cooperation across municipalities, to enhance the efficiency of local policies. In 2016, 88.7% of grants were current grants, while 11.3% were capital grants.

OTHER REVENUES. SNGs have considerable autonomy in setting local fees and charges. They have their own business operations and institutions responsible for providing public services, such as water, electricity and heating utilities. Additionally, they receive revenue from sewage disposal fees, rental fees, license fees. A new parking fee to be levied outside urban areas was recently introduced to match increased expenditures for municipalities. However, the level of user charges and fees is below the OECD average. Property income includes revenues from rents and sales of assets as well as revenues from local public companies (dividends). It accounted for 3.4% of their revenue, above the OECD average of 2.0%. In the aftermath of the 2008 banking crisis, a small group of municipalities sold all their properties, such as school buildings, and rent them back through contracts.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**10 322**	**15.9%**	**17.3%**	**100%**
Financial debt*	6 715	10.4%	18.3%	65.1%

* Currency and deposits, loans and bonds

FISCAL RULES. . In 2011 the new Local Government Act 138/2011 introduced a budget and debt rule. For current operations, it obliges municipalities to balance their revenue and expenditure over a three-year period. Since 2011, local governments are also monitored by an independent external body, the Municipal Fiscal Oversight Committee (MFOC), which classify them into one of three categories depending on their compliance with these fiscal rules. Municipalities that do not comply with the rules may be sanctioned, its fiscal powers may be suspended by the Minister of Local Governments and vested in a financial management board. The new law on public finance (Public Finance Act, Law 123/2015, 28 December 2015) also includes relevant provisions for local government. It provides - for the first time - new rules on fiscal strategy, including both the State and the municipalities, based on a "Fiscal Strategy Plan".

DEBT. As a result of the investments made in the pre-crisis years, many municipalities had important amounts of debt denominated in foreign currencies that were indexed to inflation. When the *króna* collapsed in 2008, local debt exploded, burdening them financially. The SNG debt-ratio has increased 3 percentage points since 2013 (from 12.8% to 15.9%), and the share of the local debt in the total public debt also increased from 11.4% in 2013 to 17.3% in 2016. Still, fiscal policy has made significant progress in reducing the public debt. In 2001, the Local Government Act also introduced a debt rule, limiting total SNG debt and liabilities to 150% of total revenue. Local governments above the limit are required to bring the debt ratio under this benchmark within a period of ten years. Local governments with total debt exceeding 250% of revenue are prohibited from raising new debt except for refinancing. In 2016, the local debt level was below the OECD average both regarding the share of GDP (24.5%) and public debt (20.7%). Total outstanding debt is composed of financial debt (65%), insurance pensions (21%) and other accounts payable (14%). Financial debt comprises loans for 64% of debt stock and bonds (23%). The Municipality Credit Iceland (MCI) is a capital loan fund owned by the local authorities, providing between 25% and 30% of the financing needs of Iceland's municipalities.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: OECD
Last update: 02/ 2019
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Socio-economic indicators: OECD // World Bank // UNDP // UN Desa // ILO // Statistics Iceland.
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Other sources of information: OECD (2018) Regions and cities at a Glance // Icelandic Association of Local Authorities (2017) Local Government in Iceland // OECD (2017) OECD Economic Surveys: Iceland 2017 // Council of Europe (2017) Local democracy in Iceland – CLRA CPL32(2017)06final // Grétar Thór Eythórsson (2017) Inter-municipal cooperation: Democratic concerns, accountability and efficiency. The case of Iceland // Central Bank of Iceland (2016) Economy of Iceland, Public Sector // CEMR (2016) Local and Regional Governments in Europe Structures and Competences // European Committee of Regions (2016) Division of Powers // OECD (2015) "Iceland", in The State of Public Finances 2015: Strategies for Budgetary Consolidation and Reform in OECD Countries // Sverrisson, S., Hanesson, & Karel, M. (2014) Local Governments in Iceland. // Snaevarr, S. (2010) Responsibility for local government finance in Iceland. Workshop on Local Authorities' Fiscal Rules and Finances.

IRELAND

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: EURO (EUR)

POPULATION AND GEOGRAPHY

Area: 70 280 km^2
Population: 4.802 million inhabitants (2017), an increase of 0.3% per year (2010-2015)
Density: 68 inhabitants / km^2
Urban population: 62.9% of national population
Urban population growth: 1.5 % (2017 vs 2016)
Capital city: Dublin (25.0% of national population)

ECONOMIC DATA

GDP:444.8 billion (current PPP international dollars), i.e. 75 648 dollars per inhabitant (2017)
Real GDP growth: 7.8 % (2017 vs 2016)
Unemployment rate: 6.7 % (2017)
Foreign direct investment, net inflows (FDI): -3 436 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 23.4% of GDP (2017)
HDI: 0.938 (very high), rank 4 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Ireland is unitary state and parliamentary republic. Its current constitution was promulgated in 1937. The Irish Parliament (*Oireachtas*) consists of two Houses, the House of Representatives (*Dáil Éireann*) and the Senate (*Seanad Éireann*). General elections to the House of Representatives are held at least every five years, and elections to the Senate must be organised within 90 days of the dissolution of the lower house. The head of State is the President of the Republic, elected by direct universal suffrage for seven-year terms while the government is led by a Prime Minister (*Taoiseach*).

Ireland has traditionally been a highly centralised state. Local self-government was formerly recognised in the constitution for the first time in 1999 by way of an amendment (Article 28A), which introduced local elections. Since then a general trend towards more democracy at local level has gained traction. In 2001, the Local Government Act introduced a range of reforms detailed in the "Better Local Government" White Paper. In 2012, the strategies entitled "Reforming Local Government" and "Putting People First Report" dealt with issues of structures, functions, funding, efficiency and service, and governance and accountability, with the aim to strengthen local authorities' responsibilities, functions, leadership and financing mechanisms.

In 2014, a major reform took place through the Local Government Reform Act, which modified the territorial organisation of Ireland (mergers of local governments, abolition of the regional authorities) and changed the allocation of responsibilities across levels of government. The act resulted in both recentralisation and decentralisation processes and reinforced supervision of SNGs.

There is no formal representation of local governments before the central government, and no framework for the consultation of local and regional authorities.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	26 county councils, 3 city councils, 2 city and county councils.			
	Average municipal size: 154 912 inhabitants			
	31			31

OVERALL DESCRIPTION. Ireland is a unitary country with a single tier of subnational government composed of 31 county and city councils since the 2014 reform. Before the reform, Ireland had a level composed of eight regional authorities and two regional assembles that were established under the Local Government Act of 1991 but came into existence in 1994. However, these regional bodies were not directly elected and their members were appointed by the county and city councils in the region. The 2014 reform abolished these eight regional authorities and regional assemblies replacing them with three "regional assemblies" that are indirectly elected: the Connaught-Ulster Region, the Southern Region, and the Eastern Midland region.

MUNICIPAL LEVEL AND INTER-MUNICIPAL COOPERATION. Municipal level and inter-municipal cooperation. The 2014 Local Government Reform Act profoundly modified the territorial organisation at local level. The objective was to streamline the territorial structure, increase democratic governance and improve spending efficiency of local governments. This was achieved by reducing duplication of administrative functions linked to separate corporate bodies and refocusing resources on front-line services. The former 114 local councils (which had a complex two-tier structure made up of county and city councils at the top tier and borough and town councils at the lower level) were merged into a single-tier of 31 local governments. They are categorised under three different types of local authorities of equivalent status, each with a separate elected council: 26 county councils and five city councils, two of which have both the status of city and county councils. County councils represent the historical counties of Ireland, while City councils represent the country's five main cities: Dublin, Cork, Galway, Limerick and Waterford. The 2014 reform also introduced a system of sub-county governance, the Municipal Districts, which are designed to enhance democratic governance, subsidiarity and accountability. They also aim to improve operational efficiency and value for money. The 95 districts 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.

County and city councils have between three and seven councillors who are elected by direct universal suffrage every five years. Every year, each local authority elects, from within its councillors, a chairperson (or mayor) for a term of one year. Each local authority is also managed by a chief executive (formerly known as the city or county manager), appointed generally for a period of seven years. Plebiscites are planned for mid-2019 regarding municipal governance arrangements (i.e. the possibility of directly elected mayors) in the four main cities other than Dublin. Municipal districts have a single county-wide executive (the executive of the city/county council) and operational structure. Municipal districts councillors are elected simultaneously in local electoral areas to both a municipal district and county council, with members in common in the plenary council.

Overall, Irish municipalities are very large compared to the OECD and EU28 average (respectively 9 700 and 5 900 inhabitants), and the smallest local authority has 31 798 inhabitants (Leitrim County Council), meaning that all municipalities have more than 20 000 inhabitants, compared to 30% in the OECD on average. 59% of the population lives in cities of more than 50 000 inhabitants, and 41% in cities with more than 500 000 inhabitants (compared to 55% on average within the OECD). Dublin metropolitan area, which hosts 41% of Ireland's population, accounts for 53% of national GDP and generated 65% of national GDP growth over the period 2000-2016.

To favour inter-municipal cooperation, Ireland has implemented a shared services programme in several areas, including waste management, payrolls functions, building control, treasury management, and procurement.

REGIONAL DEVELOPMENT. Since the 2014 reform, regions play a very limited role. The three regional assemblies are indirectly elected, and enjoy a low degree of autonomy. Their financing is largely dependent upon their constituent local authorities. They are mainly in charge of regional development, including the adoption of Regional Spatial and Economic Strategies, and management of EU funds. Regional policy in Ireland is set out in the National Planning Framework (NPF) and the National Development Plan (NDP), both released in 2018, which form part of the "Project Ireland 2040", i.e. a planning and investment programme.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The Local Government Act 2001, as amended by the Local Government Reform Act 2014, provides the legislative basis for the distribution of local authorities' responsibilities. Overall, local authorities in Ireland have a relatively limited range of responsibilities compared to other OECD countries. The 2014 reform aimed at clarifying the allocation of responsibilities across levels of government. On one hand, some functions have been recentralised. For example, the functions related to water services have been transferred from local authorities to the State company "Irish Water" (Water Services Act 2013). Local authorities keep conducting certain water services on behalf of Irish Water, according to service level agreements that are running up to 2025. On the other hand, local governments were granted new responsibilities in planning, local and community development and support economic development and enterprises at a local level. This was made effective through the creation of Local Enterprise Offices integrating the functions of City and County Enterprise Boards as well as local government Business Support Units. In addition, the 2014 reforms introduced new management tools such as shared-service arrangements, corporate plans, increased use of technology, outsourcing of certain services and new modes of service delivery.

Today, county and city councils carry out a range of functions which mainly concern economic affairs, environmental issues, housing, cultural and recreation facilities, and community development. Municipal districts are involved in community engagement and leadership, a representation and ceremonial role, and have some policy and regulatory functions in areas such as planning, housing, roads, and environmental protection. In theory, there is no duplication or overlapping of functions of members between county/city councils and municipal district jurisdictions: matters that are decided at municipal district level are not dealt with at county/city level.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPAL LEVEL
1. General public services	Internal administration
2. Public order and safety	Fire services and civil defence
3. Economic affairs/transports	Local economic and community development; Road and bridges; Supporting enterprises and job creation at the local level
4. Environmental protection	Environmental services; Drainage; Waste management; Pollution control; Animal control
5. Housing and community amenities	Urban and land use planning; Housing and building (enforcement of minimum standards, assistance with housing provision); Planning permissions and development control
6. Health	
7. Recreation, culture & religion	Local arts, culture and leisure facilities and services; Libraries
8. Education	
9. Social protection	Social housing benefits; Social inclusion and poverty

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: county councils, city councils, and city and county councils, regional assemblies. From 2017, "Approved Housing Bodies" (AHBs) will be reclassified to the local government sector.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. The basic structures, procedures, financing arrangements of local authorities in Ireland are defined in the Local Government Act. Ireland is one of the most centralised countries within the OECD regarding fiscal indicators. Local governments in Ireland have very limited spending responsibilities, which have been decreasing for a decade with the transfer of responsibilities to central administration units and to external agencies. SNGs depend largely on central government grants. The country was severely hit by the 2007-2008 economic crisis, which provided the opportunity to enact a wide local government reform, which included a fiscal component, in particular through the introduction of a local property tax in 2013 and tighter fiscal budget rules and supervision.

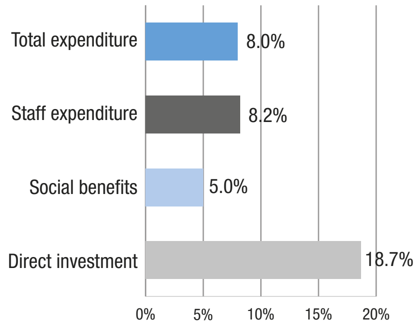
IRELAND

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**1 566**	**2.2%**	**100%**
Inc. current expenditure	1 269	1.8%	81.0%
Staff expenditure	419	0.6%	26.8%
Intermediate consumption	446	0.6%	28.5%
Social expenditure	374	0.5%	23.9%
Subsidies and current transfers	11	0.0%	0.7%
Financial charges	19	0.0%	1.2%
Others	0	0.0%	0.0%
Incl. capital expenditure	297	0.4%	19.0%
Capital transfers	44	0.1%	2.8%
Direct investment (or GFCF)	253	0.3%	16.2%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



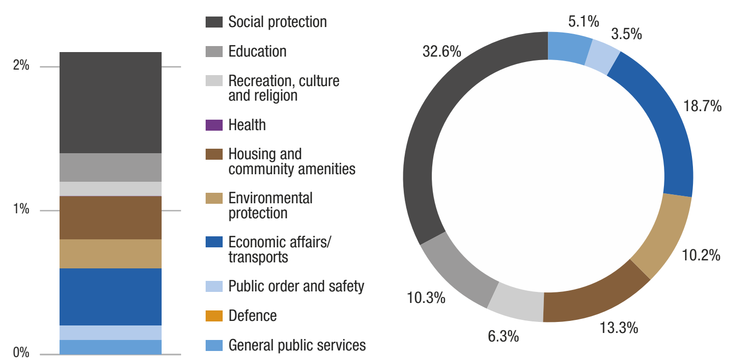
EXPENDITURE. Ireland has one of the lowest ratios of local expenditure to GDP and public spending among OECD unitary countries in 2016, together with Chile, Greece and Turkey as well as among EU 28 countries. In comparison, SNG expenditure across the OECD unitary countries accounted for 9.2% of GDP and 28.7% of public expenditure. Across the EU28, SNG expenditure amounted to 15.5% of GDP and 33.4% of public expenditure. The role of Irish SNGs as public employers is very limited (local staff spending represents 8.2% of total public staff expenditure vs 43.0% on average in OECD unitary countries), although it represents 26.8% of their expenditure. SNG expenditure experienced a strong decrease (7.2% on average per year in real terms between 2007 and 2017) resulting both from recentralisation trends, Better Local Government reforms, and from the 2008 recession. Staff spending in particular dropped significantly (3.6% on average per year in real terms between 2007 and 2017). Overall, between 1995 and 2016, the share of SNG expenditure in GDP and public expenditure decreased respectively by 10.6 percentage point and 23.2 percentage point, the highest decline among OECD countries.

DIRECT INVESTMENT. The share of SNGs in public investment is relatively low, accounting for 18.7% versus 50.7% in OECD unitary countries and 51.6% in the EU28, although SNGs are often merely acting on behalf of the central government to implement national investment programmes. It amounted to 0.3% of GDP, well below the OECD average for unitary countries (1.7%) and the EU28 average (0.4%). Irish SNG share in investment has fallen dramatically for the last decade, as a consequence of the economic crisis that hit the country and local government reform. It had not recovered to its 2014 pre-crisis level as of 2017. Between 2007 and 2017, SNG investment decreased by 16% on average per year in real terms, the highest drop in the EU. Most SNG investments were dedicated to transport infrastructure such as local roads, general economic affairs, housing and community amenities and environment protection. The Ireland National Planning Framework (NPF) is supported by a ten-year public investment strategy to 2027 for the development of regions, cities, towns and rural areas. A new funding model for Exchequer-funded public investment is being put in place to ensure that resources are allocated to projects and programmes that meet the NDP's priorities.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

In Ireland, SNG expenditure shows a different pattern of spending by economic functions than the average of OECD countries. Social protection is their top spending area, including social inclusion, poverty and social housing benefits (vs 16.3% in the OECD on average), followed by economic affairs and transport (in particular roads, transportation infrastructure and support to local economic development) and housing and community amenities. SNGs are responsible for more than half of total public spending in environmental services, and for a significant share of total public spending in housing and community amenities.

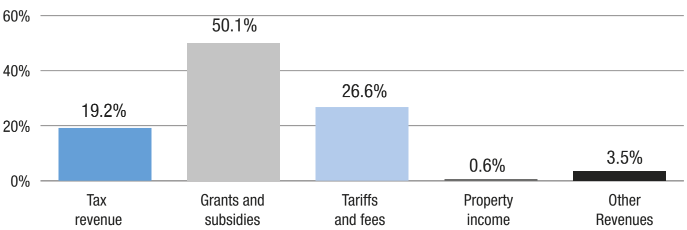
% GDP | % SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**1 603**	**2.2%**	**8.3%**
Tax revenue	308	0.4%	2.2%
Grants and subsidies	803	1.1%	
Tariffs and fees	427	0.6%	
Property income	10	0.0%	
Other revenues	56	0.1%	

% SNG REVENUE



OVERALL DESCRIPTION. Reflecting low SNG expenditure, Irish SNG revenue is very limited, and has been plummeting in recent years. Representing 8.3% of total public revenues in 2016, i.e. 2.2% of the GDP, it has one of the lowest ratios within the OECD and EU28. The main source of SNG revenues comes from grants and subsidies, which accounted for around half of their revenues, a level close to the average of the OECD unitary countries (48.8%) but above the EU28 average (44.1%). The second source of revenue is tariffs and fees, which accounted for 26% of SNG revenue, a ratio well above the OECD and EU28 averages (respectively 14.9% and 11.6%). The share of tax revenues is very low by international comparison (38.7% of SNG revenues on average in OECD unitary countries and 41.1% in the EU28).

TAX REVENUE. In addition of accounting for a small share of SNG revenues, local tax revenues amounted to only 0.4% of GDP and 2.2% of public tax revenues, well below the average for OECD unitary countries and EU28 countries (respectively, 4.7% and 6.4% of GDP and 19.8% and 24.0% of public tax revenue. Local tax revenues are mainly composed of two property taxes, one levied on commercial properties (commercial rates) and, since 2013, a local property tax on residential properties (LPT). Each individual local authority is responsible for the levying and collection of these taxes. The Annual Rate on Valuation (ARV), applied to the valuation of each property as determined by the Valuation Office, is set by the elected members of each local council as part of their annual budget. Commercial rates are compulsory for local governments, and generally levied on the occupiers of property. In Dublin City Council, the commercial property tax rate amounted to 26% of the value of a property as of 2017.

Regarding the LPT, 80% of revenue are retained locally for the funding of basic public services, while the remaining 20% are allocated to the equalisation fund. In 2015, new powers were conferred to local authorities to vary the LPT annual rate on valuation by up to 15%, with the aim of increasing their financial autonomy and funding sustainability. As of 2016, 11 local authorities had taken the opportunity to vary the LPT rate, and LPT represented overall 7% of SNG local revenue. Both taxes combined totalled 19.2% of SNG revenue and 0.4% of GDP in 2016, which is significantly low compared to the OECD average (property tax revenue accounts for an average of 1.1% of GDP in OECD countries).

GRANTS AND SUBSIDIES. Transfers from the central government include specific (earmarked) grants and a general grant, as well as the Local Government Fund (LGF) established in 1999, which is the most important. The LGF is financed by receipts from the motor tax (60%), from the local property tax (LPT - 25%), and from a contribution from the Exchequer (15%). In 2016, the LGF total budget accounted for around 63% of total grants and 31% of total SNG revenue. Prior to 2015, the LGF was used to provide funding to local authorities for their 'day-to-day' activities through "General Purpose Grants". Since 2015, they have been replaced by "Local Property Tax allocations". These allocations amount to 20% of local property tax receipts collected nationally, which are then redistributed for equalisation purposes through the LGF, taking into account expenditures and revenues of each local government (needs and resources model). The LGF is also used for payments to the Department of Transport for non-national roads and public infrastructure, payment to the Exchequer, and for subsidies to Irish Water. Local governments also receive grants from the Environment Fund, financed by the plastic bag levy and the landfill levy to support environmental initiatives, as well as from various government departments for particular services such as housing and road maintenance.

Most of the grants allocated by the central government must be used for specific services provided by local authorities. In 2016, current grants represented around 58% of total grants while capital grants accounted for 42%. 70% of the grants provided to local authorities were dedicated to two main sectors: housing and urban renewal (41%) and transport (29%). Funding was also disbursed in 2016 to compensate the local authorities for the shortfall in their respective budgets due to the transfer of water services to Irish Water, and the loss of income from rates on water infrastructure. Grants and subsidies have dropped significantly other the last 10 years by 10.2% on average per year in real terms from 2007 to 2017, the highest decline across the EU28.

OTHER REVENUES. Irish local governments also receive revenue from other sources, in particular tariffs and fees and property income. In 2016, Irish local councils raised substantial revenue from user charges and fees, including commercial water charges, rental income, waste charges, parking charges, planning application fees, and revenues from Irish Water for goods and services (whereas previously this income was incorporated within the general-purpose grant).

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**1 185**	**1.9%**	**2.3%**	**100%**
Financial debt*	939	1.5%	1.9%	79.2%

* Currency and deposits, loans and bonds

FISCAL RULES. Budget balance rules for local governments were introduced in 2004, after Ireland recorded a general government deficit in 2002. Local governments are required to prepare Annual Financial Statements (AFS) by the end of March, which are submitted to an independent audit by the Local Government Audit Service. The Medium-Term Budgetary Framework, published in July 2014, provides a compendium of how local government budgets shall be managed in general government accounting. The Irish Fiscal Advisory Council (IFAC), established in 2011, is responsible for assessing compliance with fiscal rules and assessing the fiscal stance adopted by the government. SNG performance is monitored through the National Oversight and Audit Commission for Local Government (NOAC), which was established in July 2014 to oversee local governments.

DEBT. The Local Government Act (Art.106) states that a local authority may borrow money in any manner it considers suitable for the effective performance of its functions, for capital expenditure exclusively ("Golden Rule"). However, local governments need prior approval of the central government, and are constrained by a debt ceiling of EUR 200 million for new annual borrowing. As a result, local government debt, at 1.9% of GDP and 2.3% of public debt, is significantly below the OECD average for unitary countries (respectively 14.5% of GDP and 11.8% of public debt in 2016). 79% of total outstanding debt is made up of financial debt ("Maastricht debt"), the remaining part comprising other accounts payable (commercial debt, arrears). Financial debt is composed exclusively of loans, most of which were borrowed from the central government.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: OECD
Last update: 02/ 2019

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Socio-economic indicators: OECD // Eurostat // World Bank // UNDP // UN Desa // ILO // Central Statistics Office (CSO).
Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // Eurostat.
Other sources of information: OECD (2018) OECD Economic Surveys: Ireland 2018 // OECD (2017) Effective public investment across levels of government, Ireland // Department of Housing, Planning and Local Government (2016) Annual Financial Statement, Amalgamated 31 local authorities // Office of the comptroller and auditor general (2016) Annual Report, Central Government Funding of Local Government // CEMR (2016) Local and Regional Governments in Europe Structures and Competences // Quinn B. (2015) Plus ça change, plus c'est la même chose? Local democracy in Ireland // OECD (2015) The State of Public Finances 2015: Strategies for Budgetary Consolidation and Reform in OECD Countries // Minister for the Environment, Community and Local Government (2012) A guide to: Putting people first.

ITALY

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: EURO (EUR)

POPULATION AND GEOGRAPHY

Area: 295 114 km²
Population: 60.537 million inhabitants (2017), a decrease of 0.1% per year (2010-2015)
Density: 205 inhabitants / km²
Urban population: 70.1% of national population
Urban population growth: 0.3% (2017 vs 2016)
Capital city: Rome (7.0% of national population)

ECONOMIC DATA

GDP: 2 387.4 billion (current PPP international dollars), i.e. 39 437 dollars per inhabitant (2017)
Real GDP growth: 1.5% (2017 vs 2016)
Unemployment rate: 11.2% (2017)
Foreign direct investment, net inflows (FDI): 9 235 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 17.5% of GDP (2017)
HDI: 0.880 (very high), rank 28

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Italy is a parliamentary democracy. According to its Constitution, which was ratified in 1947 and amended several times since then, the legislative power is vested in the bicameral parliament. The parliament is composed of the Chamber of Deputies and the Senate, which is elected by direct universal suffrage every five years. Senators are elected on a regional basis and are assigned to each region proportionally according to their population. The Chief of State is the President of the Republic, elected for a seven-year term by an electoral college comprising the two chambers of Parliament. The Chief of the Government is the Prime Minister (*Presidente del consiglio dei ministri*), appointed by the President with the confidence of the Parliament.

According to the Constitution, Italy is a unitary country, one and indivisible which recognises and promotes local autonomies, and implements the fullest measure of administrative decentralisation and adapts the principles and methods of its legislation to the requirements of autonomy and decentralisation. In its Articles 114 to 133, the Constitution lays down the fundamental elements of local and regional self-government, counting four administrative government layers at subnational level: regions, provinces, metropolitan cities and municipalities.

The decentralisation process started in 1990s, with law 142/1990 on the "Regulation of Local Autonomies" and then with the 1997 Bassanini reform which implemented the subsidiarity principle through different laws, referred to as "administrative federalism". This reform significantly modified the fiscal, administrative and political framework at the subnational level. Law 59/1997 in particular granted administrative powers to the regions. The most important piece of legislation on local authorities is the "Unified Laws on local authorities ("*Testo Unico*"), enacted by Legislative Decree No. 267 in 2000. In 2001, there was a major move towards decentralisation through the constitutional reform which enshrined the regions, provinces and municipalities in the constitution, placing them on the same level as central government. A clause listing the responsibilities of the central government was introduced while regions receive all residual competencies. Several implementing decrees were not adopted, however ("unfinished agenda"). In 2006, a national referendum rejected the constitutional reform that would have further strengthened the regions and paved the way to a federal state. In 2009, a new framework law on fiscal federalism was adopted, which reshaped subnational government functions and relations across levels of government as well as the fiscal framework. It initiated the transformation of the country towards more federalism and as a "regionalised country In 2014". Law 56/2014 (*Delrio Act*) introduced several profound changes concerning the provinces and the metropolitan cities. In 2016, a national referendum rejected the constitutional reform which intended to clarify the allocation of responsibilities between the central government and ordinary regions, abolishing "concurrent competencies" and recentralising several responsibilities (e.g. transport, labour, public finance and taxation).

In Italy, inter-governmental coordination mechanisms are well developed. There are three separate conferences – state-regions, state and local governments, and state-regions-local governments – which serve as intergovernmental fora.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	7 960 municipalities *(comuni)*		20 regions *(regioni)*	
	Average municipal size: 7 605 inhabitants			
	7 960		20	7 980

OVERALL DESCRIPTION. Italy has a two-tier system of SNGs, comprising 20 regions and 7 960 municipalities, since the reform of territorial organisation through law no. 56/2014 effective since January 2015, which abolished the intermediate level of 107 provinces.

REGIONS. Regions are composed of a regional council (*Consiglio regionale*) and a regional president (*presidente*). Both are elected for a five-year term by direct universal suffrage. The regional president chairs the regional executive committee (*Giunta regionale*) which is the executive body of the region. Regionalisation is asymmetric. Among the 20 regions, 15 have ordinary status (*regioni a statuto ordinario* – RSO) and five have special status (*regionai a statuto special* - RSS). These five regions were created in 1948 and granted special status including legislative and financial autonomy given their cultural and socio-geographical specificities (Aosta Valley, Friuli-Venezia Giulia, Sardinia, Sicily and Trentino-Alto Adige/Südtirol). The Trentino-Alto Adige/Südtirol region is further divided into two special-status provinces, Bolzano and Trento, with the same legislative powers as regions. Italy's regional organisation is marked by long-standing regional disparities, between North-Eastern regions and Southern regions. The RSOs were established in the early 1970s. Italian regions are very diverse by their geographic and demographic size and their level socio-economic development. The already large regional economic disparities in Italy have slightly increased over the last 16 years. In the province of Bolzano-Bozen, the level of GDP per capita was two and a half times higher than in Calabria in 2016.

MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION. Municipalities are governed by municipal councils (*Consiglio*) and mayors (*Sindaco*) elected by direct universal suffrage for five-year periods. The city board (*Giunta comunale*) is composed of deputy mayors appointed by the mayor. In 2009, as a special case, Rome was given a special legal status with the Article 24 of the law 42/2009 ("Roma capitale"). The capital city has more competences than a regular city, specific provisions on fiscal and budgetary matters, and a deeper administrative and organisational autonomy. Rome is divided into 10 municipalities, and each one is considered to be a local authority (a municipality) on its own.

The number of municipalities has been stable since the 142/1990, which imposed a minimum threshold on the creation of a municipality (10 000 inhabitants). However, the municipal local level is fragmented. While municipal average size is around 8 000 inhabitants (to be compared to 9 700 in the OECD and 5 900 in the EU28), the median size is around 2 430 inhabitants. Around 70% of Italian municipalities have fewer than 5 000 inhabitants and 44% fewer than 2 000 inhabitants. To reduce fragmentation, law no. 56/2014 encourages municipal mergers through central government and regional financial incentives.

Inter-municipal cooperation has been promoted since law 142/1990 went into effect, in particular through the creation of municipal unions (*Unione dei Comuni*) and mountain communities, and again with law 56/2014, which strengthened municipal unions and set up financial incentives for municipalities. It also established minimum thresholds of 10 000 inhabitants and 30 000 inhabitants in the mountain areas and extended the scope of tasks of municipal unions, including all basic functions of municipalities. Inter-municipal cooperation is compulsory for municipalities with fewer than 5 000 inhabitants. There were 586 Unioni in 2017.

At infra-municipal level, large municipalities, with a population of at least 250 000, can establish district councils (*Circoscrizione di decentramento comunale*). These bodies, formally recognised in 1976, sometimes have an elected committee and a President. Districts' powers, which vary from one city to another. Their tasks can include include schools, social services and waste collection.
A supra-municipal level, metropolitan cities were introduced with law 142/1990 offering the possibility for the ten major cities of Italy to establish "metropolitan cities" (città metropolitana). No real action was taken and several local initiatives remained unsuccessful (e.g. Bologna in the 1990s, Rome and Turin in the 2000s). Law 56/2014 ended two decades of gridlock over metropolitan governance reform and created the legal structure for the introduction of differentiated governance in ten major metropolitan areas and four additional cities in special regions.

Provinces were abolished as self-governing units and transformed into inter-municipal cooperation bodies, which also became "metropolitan cities" in each of the metropolitan areas designed by the law. Metropolitan cities and provinces are headed by mayors, presidents and council members, elected by mayors and city councillors of participating municipalities.

In addition, the central state appoints a prefect (*prefetto*) in each province as a representative of deconcentrated administrative units.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The regions and the two autonomous provinces have had 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 the State. The central government is exclusively in charge of foreign policy, defence and social protection, electoral legislation, local government and fundamental principles. Regions are in charge of healthcare, transport, social services and housing, economic development, environmental protection, etc. They also share some responsibilities with the central government, resulting in significant overlap (concurrent responsibilities). RSS have additional duties in healthcare, school systems and public infrastructure.

Following Law 56/2014, provincial tasks (transport, roads, environmental protection, among others) were transferred to regions, municipalities or new-intermunicipal bodies, depending on each region. Metropolitan cities were also devolved some of the provinces' former responsibilities such as territorial planning and coordination and supervision of municipalities' functions that are part of the metropolitan area. Provinces still have responsibilities regarding provincial roads and schools.

Responsibilities of municipal and inter-municipal associations involve mainly service provision, and competences in urban management (town planning, environment), local road networks, culture and recreation, and social welfare. They are also responsible for deconcentrated administrative competences related to registries, elections, military service, and statistics. Regions may attribute "non-core" competences to their own local authorities through regional legislation. Local authorities are however not governed by regional legislation, except in the five special statute regions.

Regions and municipalities can create state-owned companies as well as stock companies. In the health sector, health agencies (ASL) have been established. They are regional public bodies with a separate legal identity but are supervised by the regions.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONAL LEVEL	MUNICIPAL LEVEL
1. General public services	Regional administration; Relations with provinces, metropolitan cities and municipalities; Management of EU funds	Internal administration; Land registry; Building and commercial permits; Delegated administrative services
2. Public order and safety		Local police
3. Economic affairs/transports	International and EU relations; Research and innovation; Regional transport; Civil ports and airports; Large-scale transport and navigation networks; Communications; Energy; Regional land; Agriculture; Regional savings; Banks and credit institutions; Tourism; Employment agencies	Local transport; Local roads; Local economic development; Planning, programming and regulation of commercial activities and of industrial and trade zones
4. Environmental protection	Environmental protection	Environmental protection; Waste management; Waste water
5. Housing and community amenities	Housing	Town planning; Social housing; Water supply
6. Health	Health, through public healthcare agencies (construction and maintenance of hospitals, medical equipment, drugs, medical staff management, etc.	
7. Recreation, culture & religion	Sports; Cultural activities	Museums; Exhibition halls; Cultural activities; Theatres; Leisure
8. Education	Education	Pre-school and primary education; School-related services
9. Social protection	Complementary social welfare	Social services and community assistance (poverty reduction policies)

EUROPE

ITALY

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT FINANCE

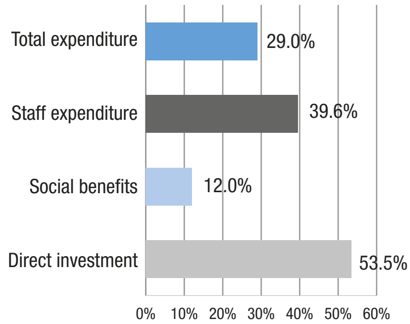
Scope of fiscal data			
Scope of fiscal data: regions and autonomous provinces, provinces, municipalities' unions, municipalities, mountain development bodies and chambers of commerce. The sector also includes other local organisations such as tourism bodies, port authorities, regional health agencies, regional development bodies, public research hospitals, universities, and water services regulatory authorities.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. Articles 117 and 119 of the Constitution provide the framework for the SNG financing system and public finance coordination, granting SNGs fiscal autonomy regarding revenues and expenditure. Article 119 was modified in 2009 by the framework Law on financial federalism no. 42/2009. The fiscal decentralisation and municipal federalism processes were slowed down by the economic and public finance crisis and political changes. Despite reforms to increase revenue capacity and financial autonomy, SNG expenditures, and particularly investment spending, have been limited.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**5 503**	**14.3%**	**100%**
Inc. current expenditure	4 856	12.6%	88.2%
Staff expenditure	1 483	3.9%	27.0%
Intermediate consumption	1 573	4.1%	28.6%
Social expenditure	1 044	2.7%	19.0%
Subsidies and current transfers	566	1.5%	10.3%
Financial charges	67	0.2%	1.2%
Others	123	0.3%	2.2%
Incl. capital expenditure	647	1.7%	11.8%
Capital transfers	202	0.5%	3.7%
Direct investment (or GFCF)	445	1.2%	8.1%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



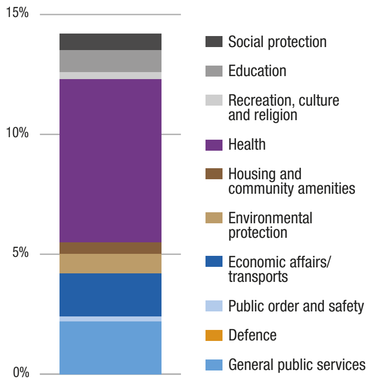
EXPENDITURE. The gradual but deep decentralisation process led to a strong increase in SNG expenditure. In 2016, Italian SNGs accounted for almost 15% of national expenditure as a share of GDP and 29% of public expenditure. However, these figures remain below the OECD average (respectively 16.2% and 40.4% respectively) and the EU28 average (15.5% of GDP and 33.4% of public expenditure). Regions represent around two-thirds of SNG expenditure, while municipalities represent 31.3% of total SNG revenue, and provinces and metropolitan cities 2.7%. SNG staff expenditure accounted for 40% of the public staff expenditure, which is below the OECD and EU28 average (respectively 62.9% and 50.9%).

DIRECT INVESTMENT. SNGs play an essential part in public investment, as they account for more than half of public investment in 2016, a share which is below the OECD average (56.9% in 2016) but above the EU28 average (50.9%). Overall, municipalities represented 47% of SNG direct investment in 2016, and provinces and metropolitan cities 5.3%, while the rest was funded by regions. Since the crisis, consolidation measures (cuts in grants) and tightening of constraints under the Internal Stability Pact, SNG investment has declined sharply, and has not recovered fully yet. In fact, SNG investment decreased by 5.4% per year in real terms between 2007 and 2017. It accounted only for 1.2% of GDP in 2016, which is below the OECD and EU28 average (1.7% and 1.4% of GDP). In 2017, an ambitious investment plan in infrastructure, notably in transport was adopted. The European Structural and Investment Funds for 2014-2020 are being carried out with the main objective of reducing regional disparities through infrastructure investments. Southern regions and metropolitan cities are also supported by the recently created Invitalia agency as well as by the Agency for Territorial Cohesion created in 2013 to provide technical support to central, regional and local administrations in the implementation of regional policy programmes and investment projects.

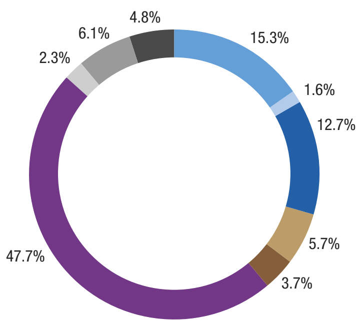
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

By far, health is the primary area of SNG spending, accounting for almost half of SNG expenditure and 6.8% of GDP in 2016 (vs 18.1% of public expenditure and 2.9% of GDP in the OECD). Health accounts for about 85% of regional spending. It is followed by general public services and economic affairs/transport. The share of social protection and education is lower than the OECD on average as these two sectors remain primary functions of the central government, in particular regarding staff management. SNGs are also responsible for the large majority of overall public spending in the areas of environmental protection, and housing and community amenities.

% GDP



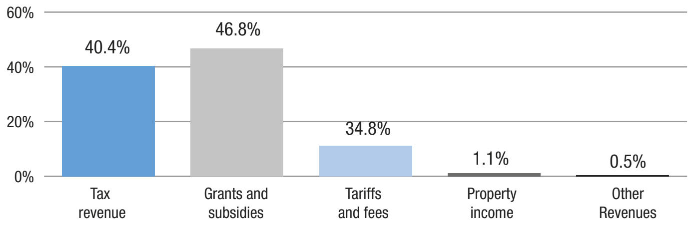
% SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**5 555**	**14.5%**	**30.9%**
Tax revenue	2 242	5.8%	19.8%
Grants and subsidies	2 598	6.8%	-
Tariffs and fees	624	1.6%	-
Property income	64	0.2%	-
Other revenues	28	0.1%	-

% SNG REVENUE



OVERALL DESCRIPTION. The 2001 Constitutional reform and the fiscal federalism law No. 42 of 2009 set a milestone for Italy in its gradual move towards fiscal 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. It also led to the replacement of a portion of central government grants by tax revenues equalisation payments. In 2016, intergovernmental transfers remained, however, the primary source of revenue, representing nearly 47% of SNG revenue, a share above the OECD average (37.2% in 2016). Consequently, the contribution of tax revenue to SNG revenue is also slightly below the OECD average (44.6%), while other sources of revenues (tariffs and fees) are quite low by international comparison.

In 2016, municipalities represented 31.2% of total SNG revenue, provinces and metropolitan cities 4.1%, and regions approximately 65%. Tax revenue accounted for 38% of regional revenue.

TAX REVENUE. Following the 1998 Bassanini Reform, tax revenue increased vastly from 25% in 1997 to 41% of subnational revenue after the 2009 reform. In 2016, tax revenue accounted for 5.8% of GDP (vs 7.1% in the OECD) and 19.8% of public tax revenue (vs 31.9% in the OECD). SNG tax revenue comprises both shared and own-source taxes.
Municipalities receive a share of the personal income tax (*compartecipazione* - IRE) but they do not have control over it. The central government also takes a share of certain national taxes, notably the PIT, the corporate income tax, excise duties, stamp tax, with the RSS.
Italian regions have several own-source taxes. The most important is a regional tax on productive output (*imposta regionale sulle attività produttive* - IRAP). The IRAP is a tax on economic activities, whose basic rate is 3.9% (from 1 January 2015). The regions have the ability to increase (up to 0.92%) or reduce the rate. Other regional taxes include a regional tax on vehicles, which is paid by the owner or user of the vehicle (around 9% of SNG tax), a regional tax on waste landfills and waste incineration plants as well as a regional surtax on the PIT (*addizionali regional all* - IRPEF) which varies from 0.7% to 3.33% depending on regions.

The main source of municipal tax revenue is the recurrent tax on property (18.3% of SNG tax revenue in 2016). It was reformed in 2013 with the creation of a single municipal tax (*Imposta unica comunale* - IUC) which incorporates three taxes: 1/ the IMU (*imposta municipale propria*), which is a real estate tax paid by owners of secondary residences only. The taxable base is determined in connection with the value of the property according to the cadastre. The regular tax rate is 0.76% of the taxable base, but municipalities may increase or reduce the rate, with a maximum of 0.3%. 2/ the TASI or "tax for indivisible services" which is a supplementary real estate tax, which is supposed to meet the expenses for the delivery of lighting, street cleaning, green areas and services that are provided equitably by municipalities to all citizens; 3/ and the TARI (waste tax) which must cover the cost of the service of collection and treatment of waste. Both the IMU and the TASI were repealed on primary residences (except luxury homes) in 2014 and 2015. A reform of cadastral values is still pending to fully exploit the potential of the property tax. In 2016, the recurrent property tax accounted for 1.1% of GDP, in line with the OECD average.

Municipal taxes also include a surtax on the PIT (*imposta addizionale comunale*), with some municipal leeway on the rate with a maximum of 0.8% (for Roma Capitale, 0.9%), a tax on advertising and touristic tax.

GRANTS AND SUBSIDIES. There are two separate systems of grants, one for the regions (RSO) and one for the municipalities. However, the 2001 constitutional reform and Fiscal Federalism Law of 2009 set the principles for both systems, introducing the obligation for the central government to determine and ensure, by providing adequate financing, uniform levels for public service provision across the whole country for a set of basic services assigned to regions and municipalities. The 2009 Law mandates that officials use both standard expenditure needs and fiscal capacity when calculating the allocation of equalisation transfers. This new equalisation system is therefore based on covering the costs of essential public services and equalising tax-raising capacities. It replaced the prior system of negotiated and discretionary transfers based primarily on historical levels rather than a formula-driven one. It is currently being implemented.

At regional level, the equalisation fund guarantees the coverage of essential public services (healthcare, education, social assistance) in regions with low tax revenue. The funds allocated by the State are calculated based on standard cost, for each service based on expenditure in the region that spends the least and no longer on historical cost. The Regional Health Fund is the most important component. It is allocated on a slightly modified per capita basis, upon agreement reached among regions and the central government within the State-Regional Governments Conference.

At municipal level, the Municipal Solidarity Fund (*Fondo di Solidarieta' Comunale* - FSC), created by law no. 228/2012, is the most important equalisation tool. Managed by the Ministry of the Interior, it is endowed by a share of the local property tax, as well as by contributions from the central government. Grants consist exclusively of general-purpose equalisation grants, allocated according to a complex formula taking into account both fiscal capacity and expenditure needs to ensure the provision of the "fundamental functions" of municipalities. The rest of the FSC continues to be distributed on the basis of the historical level of transfers to individual municipalities. Since the 2014 Stability Pact, a portion of the FSC has been used as incentives in favour of the merger of municipalities. Merged municipalities may receive grants that are up to five times bigger than regular municipalities, for a period of five years at the most.
In addition, Italian municipalities may also receive ad hoc earmarked transfers targeted to specific needs, including for investment projects.

OTHER REVENUES. Italian municipalities may collect a diverse range of fees and charges on installation of advertising (CIMP), occupation of public spaces by economic activities (TOSAP and COSAP), and to cover the cost of some public works by the municipality (ISCOP) or collection of traffic and parking fines. Regions are also entitled to collect charges and fees (e.g. on concessions made on regional public domain goods, on the right to study at the university, on phytosanitary activities, etc.). The share of tariffs and fees in SNG revenue is lower than in the OECD on average (14.9% in 2016).

ITALY

UNITARY COUNTRY

SNG may also collect revenue from business, commercial activities and revenue from the ownership of property (sale of movable and immovable property), interests and dividends from state-owned companies. Some decrees have been adopted, particularly concerning the attribution to the municipalities of a portion of the State's property ("public property federalism".

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**3 195**	**10.9%**	**7.0%**	**100%**
Financial debt*	2 325	8.0%	5.3%	72.8%

* Currency and deposits, loans and bonds

FISCAL RULES. In 1999, Italy introduced an Internal Stability Pact (*Patto di Stabilità Interno* - ISP) to ensure that the financial situation of central and regional governments is consistent with Italy's obligations under the European Union fiscal rules. ISP has been progressively modified and since 2001, local governments have been subject to ISP. Updated and approved yearly, they set targets for their fiscal balances, limits on expenditure growth as well as borrowing limits for SNGs, and may set specific rules for spending, for example on health. In particular, a Health Pact constrains current and capital expenditure on health care by region. Since 2003, a system of sanctions has been set up for non-complying municipalities mostly in the form of transfer cuts and freezes on hiring local staff. The Constitutional Act No. 1/2012 introduced the principle of balanced budgets in structural terms and bans the use of debt to finance the deficit. Implemented by law 243/2012, the law imposed a balanced budget on RSOs for 2015 and for local government as from 2016. The law provides regions with leeway to compensate for temporary imbalances among the municipalities located in their territories. This could strengthen the coordinating role of the regions vis-à-vis their municipalities. The 2012 law also reinforced the State role of coordination of public finance, subjecting SNG budgets to central state control. Accounting and transparency requirements were tightened. The recently established Parliamentary Budget Office (*Ufficio parlamentare di bilancio* - UPB), whose autonomy is referred to in the 2012 Constitutional Law, has the mandate to analyse and monitor public finance developments, including at the subnational level, and evaluate compliance with budget rules.

DEBT. Regional and local use of debt is limited to financing investment expenditure ("Golden Rule"). There are additional prudential rules on new borrowing (debt service), which are included in the provisions of the annual finance law. Municipalities and regions may issue bonds according to specific prudential rules. SNG outstanding debt as a share of GDP and public debt is below OECD averages (24.5% of GDP and 20.7% of public debt in 2016) as well as the EU28 average (14.3% of GDP and 14.4% of public debt in 2016). It is made up of financial debt for 73% of debt stock ("Maastricht debt"), and other accounts payable, i.e. commercial debt and arears (27%). The majority of SNG financial debt is in the form of bank loans largely issued to domestic financial institutions, in particular the Italian public bank Cassa Depositi e Prestiti (89%). The share of loans has increased over the past years compared to the use of bonds, which has declined, representing only 11% of the financial debt stock in 2016. In 2016, Italian regions stopped issuing new debt, but instead relied on the central government for funding. In addition, the central government established programmes to restructure SNG debt in 2013-2014, including a programme for bond repurchases. In 2016, Italian SNGs remained however the third-largest group of issuers among European regions and municipalities, after Germany and Spain.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: OECD
Last update: 02/ 2019
www.sng-wofi.org

Socio-economic indicators: OECD // Eurostat // World Bank // UNDP // UN Desa // ILO // ISTAT.
Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // Eurostat // ISTAT
Other sources of information: G. Brosio (2018) Ambition beyond feasibility? Equalization transfers to regional and local governments in Italy // Andrle, M., Hebous S., Kangur A., & Raissi M., (2018) Italy: Toward a Growth-Friendly Fiscal Reform // OECD (2018) Regions and cities at a glance // OECD (2017) Multi-level governance reforms: overview of OECD countries // OECD (2017) OECD Economic Surveys: Italy 2017 // Congress of Local and Regional Authorities (2017) Local and regional democracy in Italy, Council of Europe // Unicredit (2016) Financing Italy's regional and local governments // European Committee of Regions (2016) Division of Powers // Decarolis, F., & Giorgiantonio, C. (2015) Local public procurement regulations: The case of Italy. // European Commission. (2014) Investment in Italy, Bruxelles.

KOSOVO

UNITARY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: EURO (EUR)

POPULATION AND GEOGRAPHY

Area: 10 887 km^2
Population: 1.831 million inhabitants (2017), i.e. an increase 0.80% (2016- 2017)
Density: 168 inhabitants / km^2
Urban population: 38.3% of national population (2011)
Urban population growth: n.a.
Capital city: Pristina (11.3% of national population)

ECONOMIC DATA

GDP: 19.7 billion (current PPP international dollars), i.e. 10 754 dollars per inhabitant (2017)
Real GDP growth: 4.5% (2017 vs 2016)
Unemployment rate: 27.5% (2016)
Foreign direct investment, net inflows (FDI): 324.8 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 27.3% of GDP (2017)
HDI: 0.739, rank N/A (2016)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Republic of Kosovo is a democratic parliamentary republic, which declared its independence from Serbia in February 2008. From 1999 to 2008, Kosovo was an internationally-administered territory based on UNSC Resolution 1244, ruled by a bifurcated central government composed of the United Nations Mission in Kosovo (UNMIK) and the Kosovo Provisional Institutions of Self-Government (PISG).

Since 2008, legislative power has been vested in the unicameral National Assembly, composed of 120 deputies (including 20 seats reserved for minority representatives), while the executive power is exercised by the Prime minister, indirectly elected by the Assembly, and ministers of Kosovo. Early presidential elections were held in 2017 due to a no-confidence vote and internal crisis regarding Kosovo's borders. The EU-Kosovo Stabilization and Association Agreement (SAA) entered into force in 2016 as the first contractual relationship between the European Union and Kosovo. Moreover, Kosovo is expected to apply to become a member of the Council of Europe (CoE) in the coming years.
The governing body of the municipalities are the municipal assembly (*Kuvendi I Komunës* in Albanian and *Skupstina Opstine* in Serbian) with members (from 15 to 51) directly elected by universal suffrage for a four-year term. The mayor (*Kryetar/Gradonacelnik*), who is the highest executive body of the municipality, is elected through direct elections also for a four-year term.
Decentralisation in Kosovo has been a top-down process. Based on the 2007 Comprehensive Proposal for the Kosovo Status Settlement of President Ahtisaari, the 2008 Constitution recognises municipalities as the basic territorial unit of local self-governance, and states that their organisation and powers are specified by law (Art. 12). Chapter 10 of the Constitution guarantees the right to local self-government, as exercised by representative bodies elected through general, equal, free, direct, and secret ballot elections (Art. 123). Municipalities enjoy a high degree of local self-governance and must ensure the active participation of all citizens in their decision-making process.

Likewise, law no. 03/L-040 on Local Self Government (enforced in 2008), defines the legal status of municipalities, their competencies, general principles pertaining to municipal finances, the organisation and functioning of the municipal bodies, intra-municipal arrangements and inter-municipal co-operation. Other basic laws were adopted in June 2008 as part of the "Ahtisaari Package laws", in particular Law 03/L- 049 on local government finance, Law 03/L-041 on administrative municipal boundaries and Law 03/L-072 on local elections.

In 2016, the government launched a second phase of its decentralisation process through the Ministry of Local Government Administration. To this end, it has defined a Strategy and an Action Plan for local self-government for 2016-2026, aimed at promoting the role and consolidating the functions of municipalities. It has five main components: 1/ Increasing economic, social and local structural sustainability to ensure that the parameters of local policies and financial modalities will bring innovation to the development of municipalities. 2/ Creating a framework for good governance and effective regulation to ensure democratic representation of citizens and professional and efficient administration of municipalities. 3/ Strengthening institutional capacities of local self-government to meet the demands of citizens and achieve sustainable improvement in municipal services for citizens. 4/ Strengthening partnerships between local government, civil society and businesses to create active, comprehensive and cohesive citizens. 5/ Promoting cultural and natural heritage and affirmation of cultural, ethnic and linguistic diversity in municipalities to affect the social, economic and cultural development.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	38 municipalities (*Komunë* in Albanian and *Opština* in Serbian)			
	Average municipal size: 48 176 inhabitants			
	38			38

OVERALL DESCRIPTION. Kosovo has a single-tier subnational government system made of 38 municipalities. Territorial decentralisation in Kosovo merges with ethnic decentralisation, considering that the 10 Serbian-majority municipalities, and the four municipalities located in the northern part of Kosovo, are clearly distinct from their Albanian-majority counterparts.

In 2013, Kosovo-Albanian and Serbian government representatives signed the so-called Brussels Agreement. The accord envisages the integration of the four municipalities with a Kosovo-Serb majority, which are located in the north of Kosovo, into Kosovo's institutional system. It also would devolve to them enhanced powers in terms of secondary health services and university education (see below).

Municipalities are large by international standards (more than 48 000 inhabitants on average, with a median size of 39 000 inhabitants, vs 9 700 inhabitants on average in the OECD and 5 900 in the EU). Three-quarters of municipalities have more than 10 000 inhabitants. The Capital city, Pristina, which has around 208 000 inhabitants in 2017, is followed by Prizren (190 000 inhabitants) and three cities with between 95 000 and 101 000 inhabitants (*Gjakovë, Pejë and Ferizajof*). A separate law for the Capital City of Pristina was approved in 2018 with budgetary effects starting in 2019.

Municipalities are subdivided into settlements (villages and urban areas) to ensure that services are offered to all citizens on a local basis. With the approval of the municipality, villages and urban areas, alone or in co-operation, may carry out some tasks that are within the responsibilities and powers of the municipality. Each municipality regulates the division of its sub-localities. In 2016, there were 1 469 settlements in Kosovo (villages / *fshat* in Albanian and *selo* in Serbian).

In 2001, the Assembly of the Republic adopted a law to regulate inter-municipal co-operation amongst municipalities of Republic of Kosovo. The law enables them to develop inter-municipal co-operation structures on matters of mutual interest in the delivery of their competences. The law defines several forms of co-operation such as joint working bodies, joint administrative bodies, joint public institutions, joint public enterprises and joint public-private partnerships. It also indicates that the government can encourage and support financially such inter-municipal co-operation through financial and administrative incentives. However, little inter-municipal co-operation has been initiated between municipalities.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The Law on Self-Local Government (2008) transferred significant functions to local governments, primarily in the social sector, divided into three types: own competences, delegated powers and enhanced powers. Own competencies are granted by law as sectors for which local governments have full power, such as local economic development, education and health, tourism, cultural and leisure activities. Municipalities draw up their own Development Plans, which set budget priorities.

Delegated competencies are mainly performed by municipalities on behalf of the central level, such as distribution of social assistance and administrative duties. Enhanced (or extended) competencies are entrusted to certain municipalities with a Serbian majority in the areas of health, education and cultural affairs. These competencies also enable constituents, for instance, to select local police station commanders (in an example of an 'asymmetric decentralisation' of sorts). Some municipalities in Kosovo also deliver certain services through local public enterprises (e.g., local economic development).

However, the basic legislation on the functioning and the transfer of competencies from the central to the local level in Kosovo has not been fully implemented yet. New laws affecting the powers of municipalities are still being adopted. Lack of capacity and inter-institutional co-ordination, intercommunity tensions and the insufficient involvement of citizens undermine the efficiency of municipalities to deliver the services they are in charge of.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPAL LEVEL
1. General public services	Delegated: Cadastral records; Civil registry; Voter registration; Business registration and licensing. Own: Municipal general administration; Licensing of local services and facilities; Promotion and protection of human rights
2. Public order and safety	Own: Local emergency response; Enforcement of civil protection; Fire-fighting
3. Economic affairs/transports	Own: Local economic development; Tourism; Local roads; Local public transportation
4. Environmental protection	Delegated: Forestry protection Own: Local environmental protection; Provision and maintenance of public parks and spaces; Sewerage and drainage; Waste management
5. Housing and community amenities	Own: Urban and rural planning; Land use and development; Implementation of building regulations and building control standards; Water supply; Local heating schemes; Public housing
6. Health	Own: public health; Public primary health care. Expanded: Secondary health care
7. Recreation, culture & religion	Own and expanded: Culture and leisure. Own: Sports
8. Education	Own: Provision of public pre-primary, primary and secondary education, including registration and licensing of educational institutions, recruitment, payment of salaries and training of educators and administrators. Expanded: higher education
9. Social protection	Own: Provision of family and other social welfare services, such as care for the vulnerable, foster care, child care, elderly care, including registration and licensing of these care centres, recruitment,payment of salaries and training of social welfare professionals. Delegated: Distribution of social assistance payments (excluding pensions)

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: all municipalities.	Other	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. Since 2006, Kosovo has been transitioning from having the least decentralised system in South-East Europe to one of the most decentralised, along with Macedonia. However, while local governments in Kosovo are devolved a large array of competences, their autonomy is limited in terms of financial resources and capacities. The Constitution recognises the need to specify the financial resources available to municipalities in Kosovo, including municipal own-source revenues, grants, and other sources of finance. In addition, law no. 03/L-048 on Public Financial Management and Accountability (last amended in 2013) describes a wide range of procedures, in the area of finance, to be followed by municipalities (e.g. how to draft and pass municipal budgets).

On this basis, the 2008 Law on Local Government Financing (LGF) sets the general principles regarding fiscal decentralisation. Article 2 defines "Municipal Financial Autonomy" whereby municipalities in Kosovo shall be entitled to adequate financial resources of their own, that they are free to use as they see fit in the delivery of the municipal services that are part of their remit. It also states that the municipality has the right and authority to autonomously regulate and manage financial resources that are generate from own-source revenues or provided under a general grant.

EUROPE

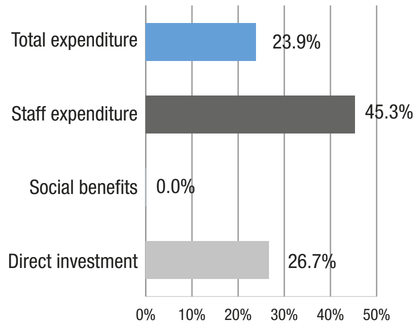
KOSOVO

UNITARY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**683**	**6.7%**	**100%**
Inc. current expenditure	509	5.0%	74.5%
Staff expenditure	414	4.1%	60.6%
Intermediate consumption	65	0.6%	9.5%
Social expenditure	0	0.0%	0.0%
Subsidies and current transfers	15	0.1%	2.2%
Financial charges	0	0.0%	0.0%
Others	15	0.2%	2.2%
Incl. capital expenditure	174	1.7%	25.5%
Capital transfers	0	0.0%	0.0%
Direct investment (or GFCF)	174	1.7%	25.5%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



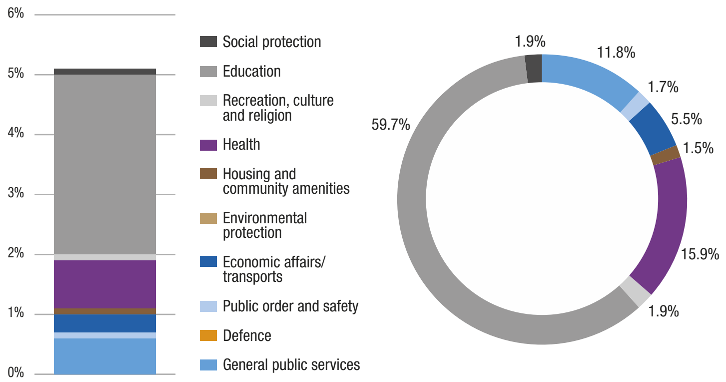
EXPENDITURE. Despite large transfers of responsibilities in key areas, the share of subnational expenditure in GDP and public expenditure is relatively low, in particular compared to the EU average (15.5% of GDP in 2016 and 33.4% of public expenditure in 2016). The weight of staff spending is particularly significant, resulting from the fact that municipalities are responsible for teachers' salaries. In 2013, Pristina was the only municipality to allocate the lion's share of its budget to capital expenditure.

DIRECT INVESTMENT. Total public investment in Kosovo has dropped in 2014–2015 to 7% of the GDP. Yet, the share of local investments in the total public investment has increased from 22% in 2009, and after a historic high of 28% in 2015, it decreased to 26.7% in 2016. In 2016, local governments in Kosovo devoted 25.5% of their total expenditures to investment. Before 2015, around half of local investment was dedicated to general public services. However, in 2016, this represented only 9% of local investments, whereas investments related to economic affairs (roads and transport infrastructure) represented 57% and those related to housing and community amenities (basic local government services) 17%.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Local governments in Kosovo are primarily responsible for the financing of all pre–university schooling, which accounts for 60% (max.) of their total spending. Their second main area of spending is health (16%), mostly in primary and secondary healthcare, followed by general public services. However, local spending on education and healthcare remain controlled, in large part, by the central government. Compared to other countries in South-East Europe and the EU, SNGs play a smaller role in housing and community amenities.

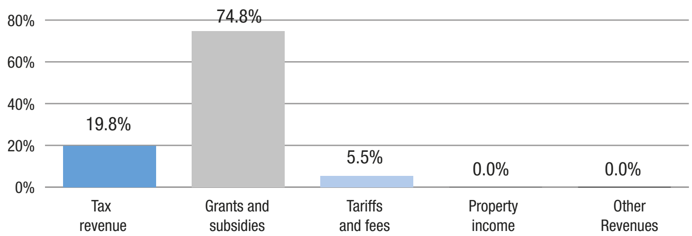
% GDP | % SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**766**	**7.5%**	**28.1%**
Tax revenue	151	1.5%	6.0%
Grants and subsidies	573	5.6%	
Tariffs and fees	42	0.4%	
Property income	0	0.0%	
Other revenues	0	0.0%	

% SNG REVENUE



OVERALL DESCRIPTION. Despite a small public sector, Kosovo has the smallest total public revenue as a percentage of GDP within South-East Europe. The local share of total public revenues in Kosovo is below the EU average of 34.8% in 2016. The share of local finances in GDP between 2010 and 2016 was stable at around 7%. According to Article 7.1 of the LGF Law, the budget resources of municipalities consist of own source revenues, the operating grant, grants for enhanced competencies, transfers for delegated competencies, extraordinary grants, financial assistance from the Republic of Serbia and proceeds from municipal borrowing. According to the 2018 Budget Law, all revenue from healthcare and education are to be dedicated to these two respective sectors only. Local revenues in Kosovo have increased in the recent years, due to the devolution of new responsibilities as SNGs are now responsible for paying the wages of workers in the education and health sectors. The devolution of new competences to local governments since 2006 was also accompanied with a change in the structure of local revenues in Kosovo, and the introduction of conditional and unconditional intergovernmental transfers. As a result, the share of grants and subsidies is particularly high compared to that of taxes.

TAX REVENUE. The main source of tax revenue of municipalities is the property tax. After years of low collection rates, significant efforts have been made by the Kosovo Cadaster Agency to improve registration and billing, which increased the minimum property tax rates enforced by municipalities. However, its yield remains stable at 0.4% of GDP,

In October 2018, a new Law on Immovable Property Tax came into force, introducing a tax on land in addition to the tax on property, to be effective in 2019. According to the LGF Law, municipalities may also collect Business License Fees, Motor Vehicle Fees, Municipal Administrative Fees, among others.

GRANTS AND SUBSIDIES. In Kosovo, the intergovernmental transfer system includes a fiscal equalisation mechanism in the form of an unconditional grant (General Grant), as well as specific grants.

The General Grant is defined by law as 10% of the general government's total revenues. Municipalities receive a lump sum payment of EUR 140 000, minus EUR 1 per capita for all local governments with more than 40 000 inhabitants. Therefore, municipalities with populations of greater than 140 000 do not receive a payment. The rest of the grant pool is then allocated to municipalities based on a formula depending on the population (89%), size of the municipality (6%), the number of ethnic minorities (3%), and 2% for municipalities in which the majority of the population comes from a national minority. Since 2009, the size of this unconditional grant has increased in line with national budget revenues, as well as own revenues, and the central government introduced investment grants in the scheme. According to NALAS (Network of Associations of Local Authorities of South-East Europe), this general grant represented 35% of SNG revenues in 2017.

The two main spending area of SNGs, education and health, are funded through specific block grants, determined by a National Grant Commission in accordance with a Medium-term Expenditure Framework (MTEF). The Education Grant is allocated to local governments on the basis of a formula that considers the wages of teachers, administrators and support staff, goods and services, building maintenance, and specific education policies. The Health Grant is also allocated through a formula based on the population. According to NALAs, local governments derived 49% of their revenues from block grants in 2017 (38% for education and 11% for primary healthcare). A special fund was also established to help the four Serbian–majority municipalities in the north of Kosovo, financed from customs duties collected on the border with Serbia.

OTHER REVENUES. Besides the property tax, municipalities also receive revenues from construction permits (infrastructure development charges, in the form of Land Development Fees), which have generated increasing revenue since 2014.
They are also allowed to collect municipal charges including regulatory charges, education and health co-payments, as well as rental income. Fines-penalties including traffic fines and fines for municipal offences, and are collected at the central level by the Ministry of Internal Affairs before being allocated to municipalities.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. According to the Law on Public Finance Management and Accountability, municipalities must publish an annual financial report. However, they do not do so on a regular basis. Reports by an internal auditor in recent years revealed that in most municipalities in Kosovo internal controls on local finances are lacking. This led to a new law on the Internal Control of Public Finances. Since 2009, municipalities have an annual ceiling on current expenditure growth of 0.5%.

DEBT. Municipalities can access loans and debt markets (national capital markets only) to finance capital investments ("Golden Rule") with the authorisation of the municipal assembly and of the Ministry of Economy and Finance. However, access is subject to strict conditions: total annual debt service should not exceed 15% of municipalities' own-revenues from the past fiscal year and the total amount of outstanding municipal debt should not exceed 50% of their own-revenues from the past fiscal year. Grace periods are not allowed. Only a few municipalities had to use borrowing in 2016.

Socio-economic indicators: Eurostat // World Bank // UNDP // UN Desa // ILO // Kosovo Agency of Statistics.
Fiscal data: IMF-GFS // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // NALAS // Kosovo Agency of Statistics.
Other sources of information: NALAs (2018) Fiscal decentralisation indicators for South-East Europe // Gap Institute (2017) What are the real competences of municipalities? // CEMR (2016) Local and Regional Governments in Europe Structures and Competences // Kosovo Local Government Institute and Local Government Information Unit (2016) Necessity to re-think decentralisation // Kasemets, K. (2015) Policy Making Review Kosovo, OECD SIGMA Papers // Institute for Advanced Studies (2014) Budgeting practices in six municipalities in Kosovo // Ebel, R. Péteri G. (2007) The Kosovo Decentralization Briefing Book, Kosovo Foundation for Open Society.

LATVIA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: EURO (EUR)

POPULATION AND GEOGRAPHY

Area: 64 490 km^2
Population: 1.941 million inhabitants (2017), a decrease of 1.2% per year (2010-2015)
Density: 30 inhabitants / km^2
Urban population: 67.3% of national population (2017)
Urban population growth: -1.0% (2017 vs 2016)
Capital city: Riga (32.8% of national population)

ECONOMIC DATA

GDP: 53.6 billion (current PPP international dollars), i.e. 27 592 dollars per inhabitant (2017)
Real GDP growth: 4.5% (2017 vs 2016)
Unemployment rate: 8.7% (2017)
Foreign direct investment, net inflows (FDI): 1 138 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 19.9% of GDP (2017)
HDI: 0.847 (very high), rank 41 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Republic of Latvia is a parliamentary constitutional republic and "an independent democratic republic", according to article 1 of the Constitution, which dates back to 1922, with the declaration of Latvia's independence and which was re-ratified in 1993. As a unitary state, it has a President as Head of State and a Prime Minister as Head of Government. The country has a unicameral Parliament (the *Saeima*) composed of 100 representatives elected by direct popular vote for a four-year period. The Parliament elects the President for a period of four years. The Prime Minister is nominated by the President, with the support of a majority in the Parliament. The country has been a member of the European Union since 2004.

The 1992 Constitution does not have any specific provisions giving local self-government a constitutional foundation. However, some articles of the Constitution refer to subnational governments. The Constitutional Court considers that Art.101 on citizen participation in local authority activities is a safeguard for local self-government, and that the highest law on local governance is the European Charter of Local Self Government, ratified by the country in 1996.

The decentralisation process began in 1993 with a series of laws regulating subnational governments. The most important was the 1994 Local Government Act which defines the general framework for SNGs including their organisation, responsibilities and finances. The law provides that "local governments, within the scope of their competence and the law, shall act independently". It was completed by the 1995 Act on Local Governments Budgets and the 1998 Act on Equalisation of Self-Government Finance (amended in 2015). The same year, the Act on Administrative Territorial Reform was adopted to promote municipal amalgamations. The process has been slow and amendments were adopted to postpone the implementation of the territorial reform until 2009. Finally, the reform was effective on 1 January 2009, following the adoption of The Act on Elections of the Republic city council and municipality council of 2008 and the Act on Administrative Territories and Populated Areas of 2008. It resulted in the abolition of the district level (*rajons*) and in the simplification of the municipal landscape, composed of many small municipalities of different types, which were merged into bigger municipalities.

Between 1998 and 2009, plans had been in the works to replace the 26 abolished districts with self-governing regions (between 5 and 10) that would have had a wider range of responsibility. Finally, regions were not created and regional development responsibility was given to five planning regions, established at supra-municipal level by the State in 2002 through the Act on Regional development of 2002. They are legal entities under public law but are not directly elected. They have indirectly elected regional councils, made up of municipal representatives, acting as "inter-municipal cooperation" bodies created for the purpose of coordinating spatial planning, economic development, public transportation, management of investment programmes (including European Union funds). The regional development council elects the chair and executive director (head of the administration of the planning region). The 2008 Law on Administrative Territories and Populated Areas indicates that the cabinet must propose a new draft law on the full introduction of regional governments but it has not been implemented.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	110 municipalities *(Novads)* 9 cities *(Republikas Pilseta)*			
	Average municipal size: 16 312 inhabitants			
	119			**119**

OVERALL DESCRIPTION. Latvia's territorial organisation is the result of a large territorial reform conducted in 2009 (Law on Administrative Territories and Populated Areas) changing from dual-level municipalities to single-level municipalities: 524 local authorities (municipalities, rural territories, district towns, "republican cities") were merged in one single tier of government, comprising 110 municipalities (*Novads*) and 9 "republican cities" (*Republikas Pilseta*) under state jurisdiction.

Republican cities are urban administrative territories, with well-developed commercial activities, transport and community jurisdiction facilities, social and cultural infrastructure, as well as a minimum population threshold of 25 000 inhabitants. Other municipalities are the result of the merger of several rural administrative territories, or of a former urban town and the surrounding rural administrative territories. Five municipalities have several towns in their territory. Despite this distinction between republican cities and municipalities, their competences and sources of revenue are the same.

Each local government has a local council (*dome*) as a legislative body. Its members and councillors are elected by direct universal suffrage for four-year mandates. Members of the local council then elect the chairperson (*priekšsēdētājs*) of the council for a four-year term.

Municipalities are quite large on average, amounting to around 16 300 inhabitants (median size 6 600 inhabitants) but there are large disparities in terms of demographic size: municipalities range from 1 060 inhabitants for the smallest to 639 000 inhabitants in Riga, the capital city. Around 35% of municipalities have fewer than 5 000 inhabitants and 5% less than 2 000.

Riga is the largest city in the Baltic States. The Metropolitan area of Riga (Riga Planning Region) is home to more than half of the Latvian population and contributes to about 69% of national GDP. While the benefits of coordination across local governments within the metropolitan area of Riga are receiving increasing attention by Latvian municipalities, no formal governance arrangements covering the entire metropolitan area are yet in place. Riga is one of the republican cities but does not have a specific legal status as capital city.

Municipalities are divided into sub-municipal divisions, including 76 towns and 497 civil parishes under county jurisdiction.
Besides planning regions which can be considered as forms of inter-municipal cooperation, cooperation between municipalities, which is authorised by the Local Government Act, is well developed in areas such as cultural and sporting activities, education and transport services.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The Local Government Act enacted in 1994 and amended several times since then, regulates the organisation of local authorities and their competences. Local governments have three types of competences: mandatory autonomous functions set out by law, 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. In compliance with the law, the government, when it delegates tasks to municipalities must ensure that those municipalities have the resources necessary for the performance of such tasks. The Latvian system also includes a general residual clause of competence. Local government competences cover the provision of basic services, housing, local planning and community amenities, environment, education and social assistance and social services. Municipalities also rely on local public companies to provide local public services. There were 78 "capital companies" in 2016 which mainly operate in the areas of water supply and sanitation and waste management.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPAL LEVEL
1. General public services	Registration services (birth, land registry, etc.); Collecting statistical information
2. Public order and safety	Municipal police; Public order and civil protection
3. Economic affairs/transports	Economic development (facilitating economic activity); Licencing for commercial activities; Public transport; Local roads; Public infrastructure
4. Environmental protection	Public management of forests and water
5. Housing and community amenities	Local planning; Social housing; Public space; Water and heating supply; Waste management
6. Health	Hospital maintenance; Health care
7. Recreation, culture & religion	Sports; libraries; Local museums; Culture
8. Education	Pre-school; Primary and Secondary education; Organisation of continuing education for teaching staff
9. Social protection	Personal social services; Child protection; Elderly; Disabled.

SUBNATIONAL GOVERNMENT FINANCE

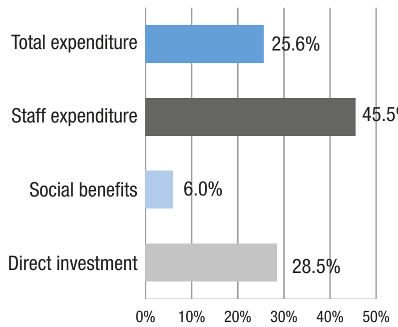
Scope of fiscal data: municipalities, counties and local government organisations, as well as capital companies controlled and financed by local governments.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. Revenue and expenditure assignments to local authorities are specified under the 1994 Local Government Act. Other key pieces of legislation relating to fiscal matters and fiscal relationships between national and local governments are the Act on the Budgets and Financial Management of 1994, the Act on Local Governments Budgets of 1995, as amended, the 1998 Act on Local Government Finance Equalisation, amended in 2015, and the Act on Taxes and fees of 1995, as amended. According to art. 96 of the Law on Local Governments, municipalities are regularly consulted by the central government through the Latvian Association of Local and Regional authorities and participate in the decision-making process, in particular concerning fiscal issues.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**2 429**	**9.5%**	**100%**
Inc. current expenditure	2 139	8.4%	88.1%
Staff expenditure	1 190	4.6%	49.0%
Intermediate consumption	617	2.4%	25.4%
Social expenditure	185	0.7%	7.6%
Subsidies and current transfers	124	0.5%	5.1%
Financial charges	22	0.1%	0.9%
Others	1	0.0%	0.0%
Incl. capital expenditure	290	1.1%	11.9%
Capital transfers	17	0.1%	0.7%
Direct investment (or GFCF)	273	1.1%	11.2%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



LATVIA

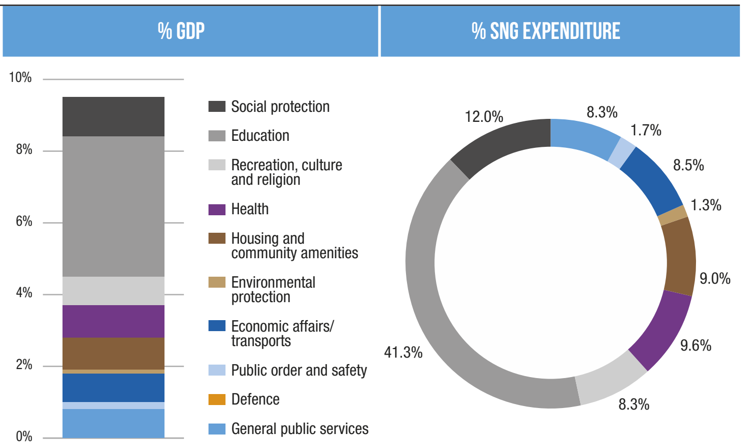
UNITARY COUNTRY

EXPENDITURE. The share of SNG expenditure in GDP and total public expenditure is in line with the OECD average for unitary countries (respectively 9.2% of GDP and 28.7% of public expenditure in 2016) but below the EU28 average (15.3% of PDG and 33.5% of public expenditure). The share of staff expenditure in SNG expenditure is particularly high (49.0% vs 31.3% on average in the unitary countries of the OECD and 32.9% in the EU28. The share of SNG in public staff spending is also high, in line with international standards (on average 43.0% in OECD unitary countries and 50.9% in the EU28). These high ratios correspond for the large part to teacher wages. In fact, Latvian public employment as a share of the active working population is the highest among EU countries, and local authorities account for 60% of public sector employees.

DIRECT INVESTMENT. SNG investment amounted to a small share of GDP and public investment in 2016, compared to international standards: respectively 1.7% of GDP and 50.7% of public investment in OECD unitary countries and 1.4% of GDP and 51.6% of public investment in the EU28. Latvian SNG investment has been severely affected by the crisis and fiscal consolidation measures, decreasing by 4.3% per year in real terms between 2007 and 2017. In addition, Latvia is heavily dependent on EU Structural and Investment Funds (ESIF). Latvia will receive up to EUR 5.6 billion until 2020 i.e. around 3% of GDP annually over the period 2014-2018 and 65% of public investment. In 2016, Latvia, like other EU countries benefiting the most from cohesion funds, has suffered from a "cliff effect" - suddenly turning negative after the 2015 deadline for payments under the last EU programming period. In 2017, SNG investment seems to have rebounded, amounting to 1.7% of GDP and 42.1% of public investment.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

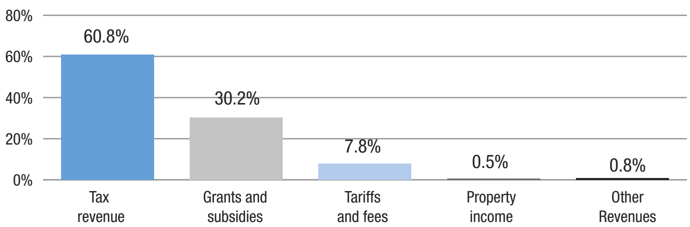
A significant share of SNG expenditure is allocated to education, in particular for the payment of teachers' salaries, and the financing of the maintenance and operating costs of educational facilities. Education accounts for almost half of SNG expenditure, a much larger percentage than the OECD and EU averages (respectively 24.8% and 19.6%) as well as 3.9% of GDP, in line with the OECD average (4.0%) and above the EU28 average (3.1% of GDP). Far behind, social protection is the second most important area of SNG spending, followed by health spending. SNGs in Latvia are also responsible for the majority of public spending in housing and community amenities, and to a lesser extent in recreation, culture and religion.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**2 487**	**9.7%**	**26.1%**
Tax revenue	1 513	5.9%	26.0%
Grants and subsidies	750	2.9%	
Tariffs and fees	193	0.8%	
Property income	12	0.0%	
Other revenues	19	0.1%	

% SNG REVENUE



OVERALL DESCRIPTION. The level of SNG revenue in GDP and public revenue is below the EU28 average (respectively 15.3% of GDP and 33.5% of public revenue). The main source of SNG revenue is taxes, which are mainly shared. Tax revenue accounted for almost 61% of SNG revenue, a level well above the OECD average for unitary countries (38.7%) and the EU28 average (44.6%). By contrast, the share of grants and subsidies is lower than the averages for the OECD unitary countries and EU28 (respectively 48.8% and 44.1%) while revenues coming from local public services (tariffs and fees) and property income account for a small share of SNG revenue, below OECD and EU28 averages.

TAX REVENUE. As a share of GDP and as a percentage of public tax revenue, SNG tax revenues are slightly above the OECD average for unitary countries (4.7% and 19.8% respectively).

According to the 1994 Act on Taxes and fees, all taxes are "state taxes". As a result, there is not own-source taxes in Latvia in a technical sense. All taxes benefiting SNGs are apportionments in the collection of some State taxes i.e. shared taxes.

The most significant shared tax is the personal income tax (PIT): its receipts represented 84% of SNG tax revenues in 2016, 51.1% of SNG revenue and 5.0% of GDP. The PIT is regulated and collected by the State Revenue Service. It is partially redistributed to municipalities according to residence criteria, i.e. the number of inhabitants. In 2017, each local authority received 80% of the tax collected in its territory. Municipalities with wealthy residents receive more money than a similar authority with the same number of inhabitants but having less economic capacity.

Another important shared tax is the property tax levied on all land and buildings, either used for commercial or housing purposes (since 2010). 100% of receipts are redistributed to municipalities. In 2016, it accounted for 15% of local tax revenue, 9% of local revenue and 0.9% of GDP, below the OECD average (1.1% of GDP in 2016). It is a fully local voluntary tax, yet local governments can modify the tax rate since 2013 within limits set by the State. Besides, the uniform application of the property tax is distorted by local practices. Some local authorities provide property tax rebates which are more than compensated for by income tax revenue, leading to tax competition between local governments.

Moreover, local governments also receive 25% of the tax on lotteries and gambling and a share of the natural resource tax (which must be used for environmental protection purposes only). The natural resource tax is split into sub-taxes (tax on pollution, on radioactive waste, incineration of dangerous waste). The public tax system is being overhauled by a reform adopted in the summer of 2017. The key measures focus on the reduction of personal and corporate income taxes at the general government level.

GRANTS AND SUBSIDIES. Nearly all grants from the central government are earmarked and in 2016, 96% of them were current grants, against 4% of capital grants. Transfers include, in particular, grants for the remuneration of teachers, road maintenance and construction, investment projects or financing of EU projects.

The main non-earmarked grant is the Local Government Finance Equalisation Fund (LGFEF). The local government financial equalisation system was created in 1995 to compensate for the significant differences in the financial capacity among local governments in Latvia and regulated in 1998 through the Law on Local Government Finance Equalisation. The LGFEF aims at balancing the different tax capacities (measured by revenues from PIT and property tax) and an estimation of the "financial needs" related to the municipalities' responsibilities, which is itself calculated using several demographic criteria. The share of the LGFEF is significant for some municipalities. In 2013, the fund was fed by five republican cities and 13 municipalities from the Riga region, while it benefitted 92 local government units. 10 local governments did neither receive or finance the fund. Again in 2013, 77% of the LGEF was funded by contributions from republican cities, 11% from municipalities and 12% from the state budget grant.

The equalisation law was amended in 2015 and a new system introduced in 2016. It contains revised principles for the evaluation of demographic and income criteria, and takes into account the property tax, in order to bring the incomes of the less wealthy local governments closer to those of wealthier municipalities.

OTHER REVENUES. Other revenues come from user charges and fees for administrative services, issuance of official documents and certificates, ownerships of animals, advertisement, delivery of construction permits and other administrative offences. In 2016, tariffs and fees accounted for 0.8% of GDP in 2016 and almost 8% of SNG revenue. Revenues generated by asset sales and rentals, as well as generated by local public companies represented 0.5% of the SNG revenue in 2016.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**991**	**7.4%**	**15.2%**	**100%**
Financial debt*	807	6.0%	13.5%	81.5%

* Currency and deposits, loans and bonds

FISCAL RULES. The budget process is governed by the Law on Budget and Financial Management both for central and local government, including a budget balance rule for municipalities.

DEBT. SNGs can only borrow long term 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. Total local borrowing is overseen by an interministerial Council for Loans and Guarantees.

In 2016, SNG debt amounted to 7.4% of GDP, a level which is below the OECD average for unitary countries (14.5% of GDP) and the EU28 average (14.3% of GDP). As a share of public debt, Latvian local debt is slightly above the OECD average for unitary countries (11.8% of public debt) and the EU28 average (14.4%). Financial debt ("Maastricht debt") makes up the bulk of total outstanding debt (81.5%), the remaining part being composed of insurance pensions. Financial debt is composed exclusively of loans as local governments cannot issue debt securities.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: OECD
Last update: 02/ 2019
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Socio-economic indicators: OECD // Eurostat // World Bank // UNDP // UN Desa // ILO // Latvia Central Statistical Bureau
Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // Eurostat
Other sources of information: Congress of Local and Regional Authorities (2018), Local and Regional Democracy in Latvia, Monitoring Committee // European Commission (2018), Country Report Latvia 2018 // Garcia K., Jewell A., Tudyka A., (2018), Republic of Latvia, Selected issues, IMF // OECD (2017), "Latvia", in National Urban Policy in OECD Countries // European Committee of Regions (2016) Division of Powers // Vilka, I. (2015), The role of local government finance equalisation on rural development in Latvia, University of Latvia, Riga.

LITHUANIA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: EURO (EUR)

POPULATION AND GEOGRAPHY

Area: 65 286 km^2
Population: 2.848 million inhabitants (2017), a decrease of 1.3% per year (2010-2015)
Density: 44 inhabitants / km^2
Urban population: 66.1% of national population
Urban population growth: -1.4% (2017 vs 2016)
Capital city: Vilnius (19.0% of national population)

ECONOMIC DATA

GDP: 93.3 billion (current PPP international dollars), i.e. 32 764 dollars per inhabitant (2017)
Real GDP growth: 3.8% (2017 vs 2016)
Unemployment rate: 7.1% (2017)
Foreign direct investment, net inflows (FDI): 1 191 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 18.8% of GDP (2017)
HDI: 0.858 (very high), rank 35

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Republic of Lithuania is a semi-presidential republic, with a President as Head of State and a Prime minister as Head of Government. The President is elected by direct universal suffrage for a five-year term. The country declared its independence in March 1990 and the Constitution of the Republic of Lithuania came into force in 1992. Legislative power is vested in the Parliament (*Seimas*), which is composed of 141 members, among which 70 members are elected through an open-list proportional representation system, whereas the remaining 71 members come from individual constituencies. The country became a member of the European Union in May 2004.

Lithuania is a decentralised unitary state, with a single-tier of subnational governments, made up of municipalities. Local government is enshrined in the Constitution whose Chapter X is dedicated to "Local Self-Government and Governance". Article 119 states that "the right to self-government shall be guaranteed to the administrative territorial units of the State" and article 120 that "municipalities shall act freely and independently within their competence defined by the Constitution and laws". More precise provisions are specified in the 1994 Law on Territorial Administrative Units and their Boundaries (LTAUD and the 1994 Law on Local Self Government (LLSG). The LLSG defines municipal functions and ensures their autonomy. It was amended in 2002 and 2014, which empowered municipalities with more competencies.

There is no regional level in Lithuania, although it was envisaged in 2001 to create five self-governing regions that would replace and assume the functions of the 10 counties representing the central government at territorial level. After several years of talks, the project was shelved and, instead, it was decided in 2010 to abolish the State counties and redistribute their functions among the municipalities and the central government. Counties have been replaced by regional development councils composed of municipal councillors, but which are not self-governing entities. They serve as statistical units and deconcentrated entities, in the form of regional development councils composed of municipal councillors, which remain under the direction of the Ministry of Interior and whose administrative capacities and functions remain limited. Since 2010, the Law on Regional Development has been amended several times to develop the role of the Regional Development Council, in a context of significant regional disparities. However, there is now a new discussion on a deeper transformation of the regional development councils. According to a White Paper published in December 2017, the reform could lead to increasing their responsibilities and resources, providing them with legal personality and autonomous powers, together with a modification of the regional borders. This could result in creating a new subnational tier of government.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	60 municipalities *(savivaldbyés)*			
	Average municipal size: 47 140 inhabitants			
	60			60

OVERALL DESCRIPTION. Lithuania has a single-tier of local self-government composed of 60 municipalities (*savivaldbyés*). The number of municipalities results from the mergers of 581 local governments in 1994 into 56 municipalities. Since the creation of four new municipalities between 1994 and 2000, the number of municipalities has remained stable. The municipal level comprises seven city municipalities (miestas), 43 district municipalities (rajonas), and 10 "common" municipalities. Following the amalgamation process, Lithuanian municipalities are now among the largest in Europe and the OECD. The average size of municipalities is around 47 000 inhabitants (vs 9 700 in the OECD and 5 900 in the EU) while the median size is around 28 500 inhabitants. Only 3% of all municipalities have fewer than 5 000 inhabitants (to be compared to 47% in the EU28 in 2016) while 75% have more than 20 000 inhabitants (vs 26% in the EU28). The demographic change has been uneven across the country. Since 2000, the population has declined by more than 20% in 70% of municipalities as a result of emigration, and increased in only four municipalities, including the three largest cities (Vilnius, Kaunas and Klaipėda). Vilnius, the capital city, has around 550 000 inhabitants and does not have a special legal status.

They have the same organisation, status and competences. The local council (*savivaldybės taryba*) is the municipality's legislative and decision-making body and is made up of members elected by direct universal suffrage for four years. Since the municipal elections in 2015, mayors (meras) are directly elected by popular vote at the same time as municipal councils, for four years. He/she is the head of the municipality and local civil service, and chairs local council meetings. The local council also elects a director of administration who is in charge, for up to four years, of all executive tasks.

The local council has the power to establish smaller territorial units (*seniūnija*) that, acting in a certain territory of the municipality, provide daily local services to citizens in a given municipality area. There are around 545 wards (called "elderships" and which derive from former municipalities), each headed by a civil servant appointed by the director of municipal administration. Vilnius has 21 elderships. From 1 January 2017, municipal councils can give districts that meet certain criteria set by law the ability to manage their own budgets.

The 2014-2020 National Development Programme highlights the lack of co-ordination and inter-municipal co-ordination between municipalities, which hinders their effectiveness. In fact, there is no tradition of inter-municipal co-operation. The LLSG enables municipalities to enter into contracts to perform services jointly with other municipalities. It also allows them to delegate some administrative or public services to other municipalities; but there are no specific organisational arrangements for inter-municipal co-operation and little past experience to draw on.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Municipal competences were set by the 1992 Constitution and by the article 5 of the 1994 Law on Local Self Government (last amended in 2014). The abolition of state counties in July 2010 led to the transfer of their competencies to municipalities (eight functions primarily in healthcare, education and social services) and to the central government (22 functions).

In 2012, a pilot project of decentralisation of social assistance was launched in five cities, giving municipalities full management responsibility. In 2015, following the success of the pilot project, municipalities were also transferred responsibilities. For instance, the funding of social assistance became an independent municipal function.
Municipal competences are divided into either independent or delegated responsibilities. Independent competences include responsibilities in many areas while delegated competences comprise the participation in labour market policy, agriculture and rural development, among others. Despite this classification, the assignment of responsibilities across levels of government lacks clarity. Despite the wide range of areas over which municipalities exercise some responsibilities, municipalities carry out primarily an implementation role, and have relatively limited regulatory powers.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPAL LEVEL
1. General public services	Establishment and maintenance of municipal establishments; Public registry services (delegated)
2. Public order and safety	Civil protection and fire protection (delegated)
3. Economic affairs/transports	Local economic development and tourism (independent); Local roads and public transport (independent); public areas (independent); Administration and registration of agriculture (delegated); Local labour market measures (delegated)
4. Environmental protection	Environment (independent)
5. Housing and community amenities	Territorial planning (independent); Waste and sanitation (independent); Supply of potable water (independent), supply of heat (independent); Housing, Cemeteries
6. Health	Primary Health care and public health services (independent); Organisation of secondary health care (delegated)
7. Recreation, culture & religion	Libraries, Local cultural centres and museums ((independent); Management of local archives (delegated)
8. Education	Pre-school, primary and secondary (partly independent and delegated); Adult education (vocational training)
9. Social protection	Social services (independent); Calculation and payment of social benefits and compensations (delegated); Protection of children's rights (delegated)

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: municipalities, budgetary organisations (schools, kindergartens, social care institutions, local museums, libraries), enterprises controlled by local government (Vilnius City Housing, Vilnius Development Company) and public health care institutions established by municipalities.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. According to the Constitution, municipalities draft and approve their budgets, have the right to establish local levies and provide for tax and levy concessions at the expense of their own budgets within the limits and according to the procedure provided for by law (article 121). The national budgetary system consists of an independent state budget as well as independent municipal budgets (Art. 127). The major legal acts ruling the budgetary autonomy of local governments are the Law on Methodology for the Establishment of Local Government Budgetary Revenues, the Law on Budget Structure and on Local Government, the Law on the Methodology of Municipal Budget Income Estimation, and the Law on State and Local Government Budget. The law gives municipalities the right to freely use over 60% of their financial resources for the exercise of independent functions assigned to them by law. Up to 40% of the financial resources are made up of special targeted subsidies, which are allocated either for state-delegated functions or for municipal investment projects financed according to the State Investment Programme.

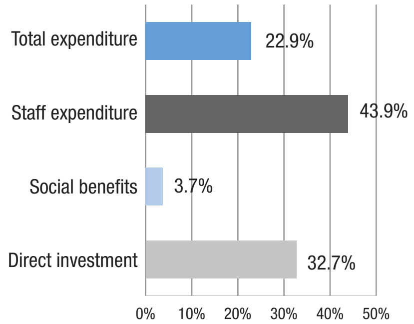
LITHUANIA

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**2 341**	**7.8%**	**100%**
Inc. current expenditure	2 041	6.8%	87.2%
Staff expenditure	1 290	4.3%	55.1%
Intermediate consumption	525	1.8%	22.4%
Social expenditure	139	0.5%	5.9%
Subsidies and current transfers	84	0.3%	3.6%
Financial charges	3	0.0%	0.1%
Others	1	0.0%	0.1%
Incl. capital expenditure	300	1.0%	12.8%
Capital transfers	6	0.0%	0.2%
Direct investment (or GFCF)	294	1.0%	12.6%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



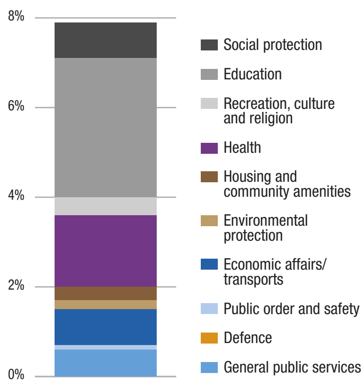
EXPENDITURE. Lithuanian SNG spending as a percentage of GDP and public expenditure is below the OECD average for unitary countries (9.2% of GDP and 28.7% of public expenditure) and the EU28 average (respectively 15.5% and 33.4% in 2016). The share of SNG staff expenditure in subnational expenditure is the highest in the OECD and in the EU28 (it was 36% in the OECD and 32.9% in the EU28 2016). The share of SNG staff spending in total public staff spending is also high but at the same level of the OECD average for unitary countries (43.0%) and lower than in the EU28 (50.9%). One explanation is that SNGs in Lithuania have significant competences in the health and education sectors and are responsible for the payment of teacher salaries and those of health administrative staff. As such, at the country level, 44% of the public labour force is employed at the SNG level. On the other hand, municipalities play a minor role regarding current social protection expenditure (3.7% of total public current social spending vs 13.5% on average in EU28 countries in 2016).

DIRECT INVESTMENT. SNGs are responsible for around one-third part of the general government direct investment, which is significantly below the OECD average for unitary countries (50.7% in 2016) as well as the EU28 average (51.6%). The share of SNG investment in GDP is low compared to the OECD average for unitary countries (1.7%) and the EU28 average (1.4%). SNG investments are dedicated primarily to economic affairs and transport (74.1%), education (19.3%), and others such as health. In order to boost public investment the Public Investment Development Agency (VIPA) was established in April 2013. Municipalities are also entitled to receive EU funds to improve their infrastructure, and the National government encourages them to invest in such projects through the VIPA.

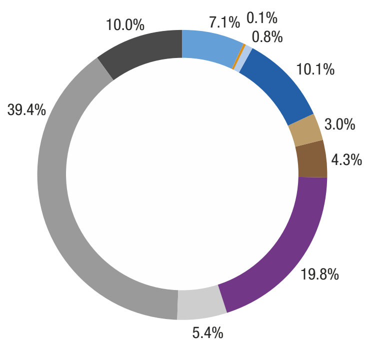
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

The largest category of SNG spending in Lithuania is by far education, which represents more than 39% of total SNG expenditure (vs 19.6% in the EU28 on average), as municipalities have extensive responsibilities in this area. In 2016, municipalities carried out around 60% of total public spending in the education sector. Health is the second main item of SNG expenditure (19.8% to be compared to 13.1% in the EU28). Municipalities own a large share of the primary care centres, polyclinics and small-to-medium size hospitals, and they are responsible for delivering numerous public health activities. Municipalities are also progressively setting up and running or contracting Public Health Offices (there are currently 47 across all the municipalities). Other major categories of spending include, economic affairs and transport, and social protection, a growing area for municipal intervention since 2012. However, despite the important social programmes that have been put in place in order to deepen the decentralised scheme of social welfare, responsibility transfers have not been fully accompanied by an increase in local finances, which might create fiscal and social problems in the long term.

% GDP



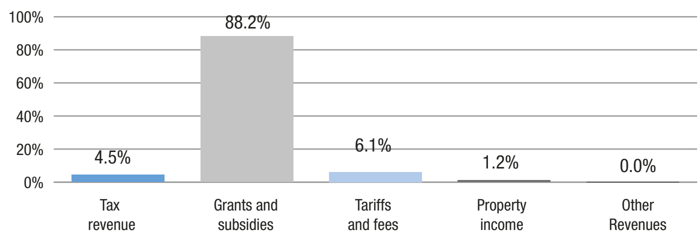
% SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**2 490**	**8.3%**	**24.2%**
Tax revenue	112	0.4%	2.2%
Grants and subsidies	2 197	7.3%	
Tariffs and fees	151	0.5%	
Property income	30	0.1%	
Other revenues	0	0.0%	

% SNG REVENUE



OVERALL DESCRIPTION. Municipalities are highly dependent on central government transfers and subsidies, which represent almost 90% of their revenue (compared to 48.8% on average in the unitary countries of the OECD and 44.1% in the EU28). Taxes and other own-source revenues (tariffs and fees and property income) accounted for less than 12% of SNG revenues in 2016. Taxes, in particular, play a small role in municipal budgets, accounting only for 4.5% of SNG revenues (vs 38.7% on average in the unitary countries of the OECD and 41.1% in the EU28). The budget of the Vilnius municipality is the largest of all the municipal budgets in Lithuania; however, in terms of financial independence, its situation is analogous to other Lithuanian municipalities.

It is important to note that since 2014, and the implementation of the SNA 2008 accountability system, personal income tax (PIT) proceeds redistributed by the central government to SNGs are no longer considered to be 'tax revenue' in the form of a shared tax but rather considered 'transfers', hence the drop in ratios related to tax revenue since 2013 in Lithuania.

TAX REVENUE. Most municipal taxes are own-source taxes, which was a result of the 2014 reform of the SNA. Since the reform, revenues from the PIT are classified as transfers and no longer as tax revenue. Some shared taxes remain however, in particular the tax on pollution (paid by individuals and companies that emit pollutants from stationary and mobile sources) and the tax on state natural resources. For both taxes, a fixed share of 70% of total income is attributed to local budgets.

Municipal own-source tax revenues consist primarily of two recurrent on immovable property, one on real estate and one on land. Overall, these two taxes accounted for 86.1% of municipal tax revenue and 3.9% of their revenue. It amounted to 0.3% of GDP, a level well below the OECD average (1.1% in 2016). The tax on real estate is paid by legal entities and physical persons that own or use the real estate. The annual tax rate is 0.3 – 3% of the taxable value of the real estate; since 2013 however, the exact rate is set by local municipal councils within limits set by law. The tax is calculated on the basis of the market value of the immovable property, set by the state enterprise Centre of Registers. Land tax payers are defined as owners of private land situated in Lithuania, except forestry land. The tax rate varies from 0.01 to 4% of the taxable value of the land and a specific rate has been established by the municipalities since 2013. Other municipal taxes include a land lease tax applied to state-owned land that is leased for companies at a rate established by municipalities as well as tax on inherited properties.

GRANTS AND SUBSIDIES. There are two main categories of transfers: a "general budget grant" and specific targeted grants.
The "general budget grant" is based on the redistribution of revenues from the PIT, collected by state tax institutions. 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 on indices for each budgetary year. In 2016, the total PIT share for municipalities increased from 72.8% to 75.5%, representing around one-third of SNG revenues. A mechanism of fiscal equalisation is set across local governments to ensure the transfer of resources to the less wealthy municipalities. The criteria used to allocate PIT to the municipalities changed in 2016. Municipalities receive a percentage of the 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 a 100% share of PIT whereas those above are donors. This distribution might generate conflicts, and in 2018, the Vilnius region administrative court ruled in favour of the city of Vilnius. The government committed to hand back a portion of the collected PIT to Vilnius (EUR 55 million by 2018).
Specific targeted grants are assigned to specific competences or for implementing particular programmes. Since 2016, these grants also include the EU and other international financial aid funds. Overall, 91% of grants were current grants in 2016, and 9% were capital grants.

OTHER REVENUES. According to the law on charges, Lithuanian municipalities have the right to determine eleven types of local charges. However, user charges and fees for the provision of municipal services accounted for only 6.1% of SNG revenue in 2016, a level below the OECD average for unitary countries (10.1%) and the EU28 average (11.6%). Other revenues include property revenue (1.2%) e.g. sales of assets and leasing of state-owned land.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**298**	**2.1%**	**4.0%**	**100%**
Financial debt*	244	1.7%	3.6%	81.9%

* Currency and deposits, loans and bonds

FISCAL RULES. The Constitutional Law on the Implementation of the Fiscal Treaty includes the balanced budget principle, which entered into force in 2016 and applies to municipalities.

DEBT. 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 financing investment ("Golden Rule"), and the issuance of municipal bonds on capital markets is not authorised. Short-term loans are allowed in order to finance investment projects, to cover debts, to cover temporary income shortfalls, or to provide guarantees for loans to companies controlled by the municipalities. 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. The Ministry of Finance must be informed when local governments take out loans or conduct guarantee operations. A pilot-project started in 2018 for the creation of a Local Development Fund is ongoing. It enables municipalities to have more favourable credit conditions. In 2016, total outstanding debt for SNGs accounted for 2.1% of GDP and for 4.0% of the general government debt, two ratios well below the OECD average for unitary countries (14.5% of GDP and 11.8% of public debt). The financial debt ("Maastricht debt") accounted for 82% of outstanding debt (1.7% of GDP and 3.6% of public debt) while other accounts payable accounted for the remaining part (18%). Financial debt is made up of loans only.

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Socio-economic indicators: OECD // Eurostat // World Bank // UNDP // UN Desa,// ILO // Lithuanian Department of Statistics.
Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // Eurostat // Lithuanian Department of Statistics // OECD (2018) Key Data on Local and Regional Governments in the European Union.
Other sources of information: Council of Europe (2018) Local democracy in Lithuania CPL35(2018)02final // OECD (2018) OECD Reviews of Health Systems: Lithuania 2018 // National Regional Development Council (2017) Lithuanian Regional Policy White Paper on "Lithuanian Regional Policy for harmonious and sustainable development, 2017-2030 // European Committee of Regions (2016)Division of Powers // OECD (2015) Regulatory Policy in Lithuania: Focusing on the Delivery Side, OECD Reviews of Regulatory Reform // Klimovský, D, Mejere, O, Mikolaityte, J, Pinterič, U, Saparniene, D (2014) Inter-Municipal Cooperation in Lithuania and Slovakia: Does Size Structure Matter? // Davulis, G, Pelleckis, K, Slavinskaite, N, Development of Local Municipality Taxes and Principles of Fiscal Policy in Lithuania.

LUXEMBOURG

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: EURO (EUR)

POPULATION AND GEOGRAPHY

Area: 2 586 km^2
Population: 0.597 million inhabitants (2017), an increase of 2.2% per year (2010-2015)
Density: 231 inhabitants / km^2
Urban population: 90.7% of national population
Urban population growth: 3.2% (2017 vs 2016)
Capital city: Luxembourg (20.1% of national population)

ECONOMIC DATA

GDP: 62.2 billion (current PPP international dollars), i.e. 104 175 dollars per inhabitant (2017)
Real GDP growth: 2.3% (2017 vs 2016)
Unemployment rate: 5.5% (2017)
Foreign direct investment, net inflows (FDI): 6 623 (BoP, current USD millions, 2016)
Gross Fixed Capital Formation (GFCF): 17.0% of GDP (2017)
HDI: 0.904 (very high), rank 21

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Grand Duchy of Luxembourg is a representative democracy, in the form of a constitutional monarchy. Under the Constitution of 1868, it has a unicameral Parliament (*Chambre des députés*) made up of 60 seats, with deputies elected by proportional representation for five-year terms. Voting is compulsory for parliamentary and municipal elections. The executive branch of the government is composed of the Grand Duke, as Head of State, whose powers are conferred by dynastic succession, and by the Government, led by the Prime Minister (*formateur*), appointed by the Grand Duke with the support of the Chamber of Deputies.

Luxembourg is a unitary State with a single-tier of local government, called municipalities (communes). The 1868 Constitution (Chapter IX on municipalities) and the 1988 Municipal Organisation Act (*Loi communale*, amended in 2013) constitute the fundamental laws of the division of powers between the State and the Municipalities. They define municipalities as autonomous authorities with a territorial basis, and a legal personality with the responsibility of managing their own assets and interests under central government supervision.
Given the country's small territorial size, decentralisation of spending responsibilities and fiscal resources remains limited in Luxembourg.

Each municipality is governed by a municipal council, with councillors elected directly by the inhabitants of the municipality for a six-year term of office. The municipal council is headed by a mayor (*bourgmestre*) or a college of mayors, appointed by the Grand Duke. As such, mayors represent both the state and the municipalities.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	102 municipalities *(communes)*			
	Average municipal size: 5 850 inhabitants			
	102			102

OVERALL DESCRIPTION. The Grand Duchy of Luxembourg has a single tier of subnational government composed of 102 municipalities (*communes*). According to the 1988 Municipal Law, 12 communes have the legal status of towns (*Stied*).

Municipalities have existed in Luxembourg since 1789. A first wave of mergers reduced the number of municipalities from 130 to 118 during the 1970s. In 2009 the government adopted a plan for promoting voluntary municipal mergers and local referenda within the framework of the "Integrative Blueprint for Territorial and Administrative Reform in Luxembourg". This was followed by another one in 2015 and the entry into force of the last three amalgamation laws, which has resulted in a decrease to 102 municipalities as of 1 January 2018. Criteria for mergers included the size of communes (the minimum population was set at 3 000 inhabitants and the minimum surface area at 100 km^2), the geomorphologic characteristics, the road/rail links and existing co-operation (intercommunal associations). The central government provides financial support to the process. In 2016-2017, the average size of municipalities remains quite small, smaller than the OECD average (9 700 inhabitants) but on par with the EU average (5 900 inhabitants). Around three-quarters of municipalities have fewer than 5 000 inhabitants (vs 47% in the OECD and the EU28), and 37% have fewer than 2 000 inhabitants.

Municipalities can gather in municipal associations (*syndicats de communes*) in order to streamline the provision of services within their jurisdiction (Law of 23 February 2001). There are around 75 intercommunal associations, active in sectors related to water, wastewater, waste management, sport, education and natural areas. In addition, national policies are implemented at the local level through contracts between municipalities and the state through the Ministry of Spatial Planning, as stated in the conventions for territorial cooperation. This legally non-binding instrument aims to promote inter-municipal and multilevel cooperation and to foster sustainable regional development, primarily regarding infrastructures.

Luxembourg also has three Districts (Luxembourg, Diekirch and Grevenmacher) and 12 Cantons, which were established for territorial and administrative purposes only. Cantons are a level of State administration without own competences, whereas districts are deconcentrated units of State administration. The Grand Duke appoints a District Commissioner (*commissaire de district*) in each District, as a contact point between the central Government and local administrations and a coordinating point between Municipalities. Most of the decisions taken by the Municipalities (except for the Municipality of Luxembourg) are under the District's direct supervision, and most of their decisions are subject to the Government or Grand Duke's approval.

The 2003 Master Programme for Territorial Planning (PDAT) is the key instrument of national spatial planning. A public consultation was launched in 2018, to contribute to the update of the PDAT in 2019. The Integrated Transport and Spatial Planning Concept (IVL), developed in 2004, defines more precisely the polycentric urban spatial model of Luxembourg.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The 1988 Municipal Government Act (*loi communale*, as amended in 2013) 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 the central government or delegated) and optional responsibilities. The main mandatory tasks for municipalities include pre-school and primary education, spatial planning and urban development, utilities, local roads and traffic regulation, environmental protection, police and security zones and the management of registry offices. Moreover, optional responsibilities may cover several areas such as culture, sports, housing, tourism, etc. District commissioners are responsible for ensuring the compliance of municipal regulation with national laws, and for the maintenance of public order and safety.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPAL LEVEL
1. General public services	Internal administration; Management of registry office.
2. Public order and safety	Emergency services; Police (shared with the State); Fire and rescue services
3. Economic affairs/transports	Local roads; Traffic regulation; Public transport (optional); Local economic development and tourism (optional)
4. Environmental protection	Waste management and sanitation
5. Housing and community amenities	Spatial planning; Urban and land development; Water supply; Gas and electricity supplies (optional); Housing (optional); Cemeteries
6. Health	Public hygiene and health; Management of clinics and hospitals; Care homes (optional)
7. Recreation, culture & religion	Sport and music education (optional); Cultural affairs (optional)
8. Education	Pre-school and primary education (infrastructure and operating costs); Buildings and school organisation
9. Social protection	Social welfare; Kindergartens; Child reception facilities; Welfare activities; Care of the elderly (optional)

SUBNATIONAL GOVERNMENT FINANCE

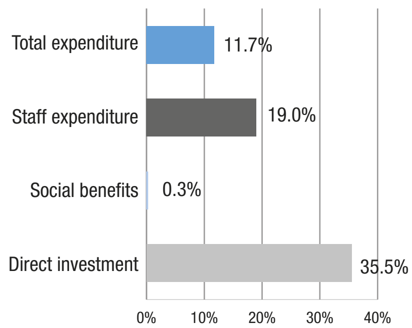
Scope of fiscal data: municipalities, social offices and inter-communal associations.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. Provisions concerning municipal finance are specified in the constitution (article 99) and the Municipal Organisation Act. SNGs are entitled to adequate financial resources of their own, that shall be comparable with the responsibilities that are entrusted to them by law. They may dispose freely of those resources. In 2017, the local fiscal system was reformed through the Law of 14 December 2016 which introduced a new equalisation grant. The Global Subsidy Fund for Municipalities (Fonds de Dotation Globale des Communes - FDGC), which replaced the Communal Fund for Financial Grants (Fonds Communal de Dotation Financière, FCDF). The objective of the reform was to improve the stability of local finances and to reduce the disparities between municipalities by re-adjusting the equalisation criteria.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**5 055**	**4,9%**	**100%**
Inc. current expenditure	3 489	3.4%	69.0%
Staff expenditure	1 700	1.7%	33.6%
Intermediate consumption	1 105	1.1%	21,9%
Social expenditure	66	0.1%	1.3%
Subsidies and current transfers	615	0.6%	12.2%
Financial charges	2	0.0%	0.0%
Others	1	0.0%	0.0%
Incl. capital expenditure	1 566	1.5%	31.0%
Capital transfers	71	0.1%	1.4%
Direct investment (or GFCF)	1 495	1.5%	29.6%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. As a small country, Luxembourg belongs to the OECD countries with a centralised governance. Spending decentralisation is limited: the share of SNGs in GDP and total public spending is low, compared to the OECD average for unitary countries (9.2% of GDP and 28.7% of public expenditure) and the EU28 average (15.3% of GDP and 33.5% of public expenditure). Local spending varies greatly across municipalities due to differences in sizes and economic activity. Staff expenditure accounts for one-third of SNGs expenditure and only 19% of public staff expenditure (vs 43% in OECD unitary countries and 50.9% in the EU28). Overall, current expenditure accounted for only 69% of expenditure, reflecting the fact that municipalities have a limited scope of responsibilities, and focus therefore on capital expenditure, financing public infrastructure and utilities.

LUXEMBOURG

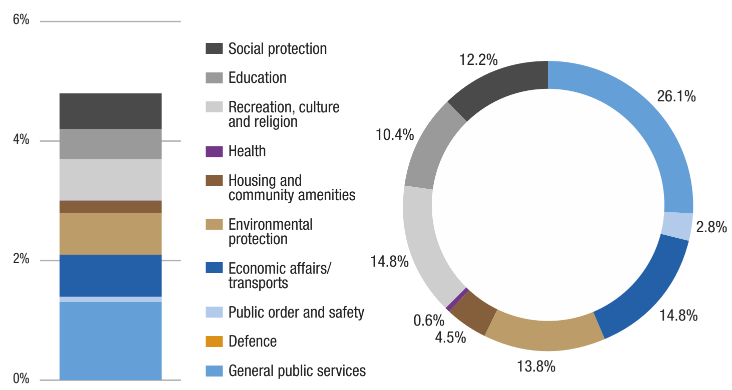
UNITARY COUNTRY

DIRECT INVESTMENT. A significant part of total SNG expenditure (almost one-third of SNG expenditure) is dedicated to direct investment, which is significantly above the OECD and EU28 average (13.8% of OECD unitary countries and 8.7% in the EU28).

Municipalities are key public investors: SNG investment stood at 1.5% of GDP in 2016 (1.7% on average in the OECD unitary countries and 1.4% in the EU28 in 2016). SNGs accounted for 35.5% of public investment, which is below the OECD average for unitary countries (50.7%) and the EU28 average (51.6%). However, the level of total public expenditure in GDP is among the highest of the OECD (4.0%) and the highest per capita (EUR 4 100 vs EUR 1 280 in the OECD). Economic affairs and transport consume the bulk of SNG expenditure and particularly road infrastructure, followed by culture, recreation and religion and, increasingly, environmental protection.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

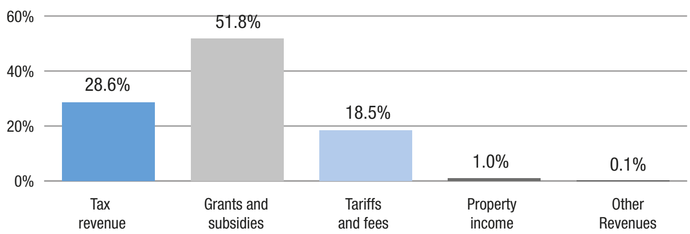
In addition to general public services expenditure, which accounts for one-quarter of SNG expenditure, other areas of SNG spending are quite balanced: economic affairs/transports, recreation and culture and environmental protection accounted for around 15% while education and social protection accounted around 10-12%. In general, except for general services, SNGs in Luxembourg have fewer responsibilities in other sectors than the average of OECD countries. The share of education in municipal expenditure has decreased since 2009 from 24% in 2008 to 10% in 2016 following a law that removed the responsibility for teachers' wages from municipalities to the central government, in exchange for the devolution of infrastructure and operating costs.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**5 311**	**5.2%**	**11.9%**
Tax revenue	1 517	1.5%	5.4%
Grants and subsidies	2 750	2.7%	
Tariffs and fees	985	1.0%	
Property income	51	0.1%	
Other revenues	8	0.0%	

% SNG REVENUE



OVERALL DESCRIPTION. As for expenditure, SNG revenue accounts for a relatively low share of total public revenue and of GDP, as compared to other OECD and EU countries. Municipalities rely mainly on grants and subsidies, which account for around half of their revenue, a level slightly above the average of OECD unitary countries (48.8%) and around 10 percentage points above the EU28 average (41.1%). Taxes, tariffs, fees, and property income accounted for another half of revenue with a significant weight of tariffs and fees by international standards.

TAX REVENUE. The share of tax revenue in total local revenue, in GDP and in public tax revenue in Luxembourg is relatively low, below the OECD average for unitary countries (38.7% of SNG revenue, 4.7% of GDP and 19.8% of public tax and) as well as the EU28 average (respectively 41.1%, 6.4% and 24.0%) in 2016.

All municipal taxes are own-source. The most important tax by far is the municipal trade tax (*impôt commercial communal* – ICC). Established in 1936, the ICC represented 91.5% of municipal tax revenue in 2016, 26.1% of municipal revenue and 1.4% of GDP. This tax is levied on the profits of commercial companies only. Each municipality determines a rate - approved by the central government - which is applied to the tax base. This rate can range from 225% to 350% of the applicable tax base. In order to be competitive and attractive, larger municipalities tend to apply the lowest rate, 225%. Tax collection is made by the central government and receipts are not redistributed in full directly: a horizontal equalisation mechanism redistributes ICC receipts among municipalities according to different criteria. The contribution of a municipality to this "Participation fund" used to range between 42% and 67% of ICC revenue located on its territory, with various intermediate differences. Since the reform of local finances in 2017, and the creation of the FDGC, the municipalities are only able to keep up to 35% of the ICC receipts, within the limit that this should not exceed more than 35% of the national average per capita. The rest goes to the equalisation fund.

In addition to the ICC, municipalities also receive a property tax (*impôt foncier*) levied on land and buildings. It accounted for 4.7% of local tax revenue, 1.4% of municipal revenue and 0.1% of GDP, well below the OECD average (1.1% of GDP in 2016). As for the ICC, the property tax rate is set by the municipal council but submitted for the approval of the Ministry of Interior. Other minor taxes include a gambling tax, a tourist tax, an entertainment tax, a dog tax, and a recently introduced local tax on undeveloped urban land has been rarely used.

GRANTS AND SUBSIDIES. Until 2016, the main intergovernmental transfer was the Communal Fund for Financial Grants (Fonds Communal de Dotation Financière, FCDF). Established in 1987, it represented 70% of all transfers from the central government to municipalities. The FCDF was not earmarked. Annual funding of the FCDF was 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. In 2016, it represented around 52% of local revenue. The Law of 14 December 2016 created the Global Subsidy Fund that is dedicated to Municipalities (Fonds de Dotation Globale des Communes-FDGC), which replaced the FCDF.
The allocation of the new FDGC to municipalities is done primarily accordingly to calculations based on criteria such as the population (82%), number of salaried jobs (3%), socio-economical indicators (9-10%), concentration of social housing (0-1%) and surface area (5%), and to a lump sum amount. The ICC contribution to this Fund was also increased, because ICC receipts are a source of inequality across municipalities. Other current and investments grants are all earmarked, such as state contributions for the operating of childcare facilities, subsidies for public transport provided by the communes and groupings of communes, subsidies for cultural events, music teaching, etc. In 2016, capital grants represented 15% of total grants, and 7.5% of SNG revenue. The Master Programme for Territorial Planning includes subsidies for infrastructure investments of municipalities (although at least two municipalities must participate), and subsidies for regional economic activity zones.

OTHER REVENUES. The share of tariffs and fees in local governments' revenue is very high, well above the OECD average for unitary countries (10.1% in 2016) and the EU28 average (11.6%). Municipalities receive user charges for services such as water distribution, provision of gas and electricity, disposal of household waste, etc. Changes in tariffs must be approved by the Ministry of Interior.
Property revenue (interests, dividend, assets sales, etc.) stands for a small percentage of local revenues (1% versus 2% OECD average).

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**2 200**	**2.3%**	**8.4%**	**100%**
Financial debt*	1 859	1.9%	8.6%	84.5%

* Currency and deposits, loans and bonds

FISCAL RULES. Accounting rules are laid down in the Art. 107 of the Constitution and in the communal law (as amended in 2013). Municipal budgets are drafted by the municipal councils, before being approved by the Minister of Interior. Municipalities are not prohibited from running an operating deficit according to the Communal Law. A supervision body of the Ministry of Interior (*Service de contrôle de la comptabilité communale*) is in charge of legal and financial audits for local governments.

DEBT. Municipal borrowing is under the supervision of the Ministry of Interior and 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 above EUR 50 000 must be approved by the Ministry of the Interior. Issuing bonds is allowed, but rarely used.
The share of local debt in GDP and public debt are much lower than the averages of OECD unitary countries (respectively 14.5% of GDP and 11.8% of public debt in 2016) as well as the EU28 average (14.3% of GDP and 14.4% of public debt). Outstanding debt is made up of financial debt ("Maastricht debt" for 85% and other accounts payable (15%). Financial debt is composed exclusively of loans. The Municipality of Luxembourg is the only municipality to have issued debt securities in the past (2014).

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Socio-economic indicators: OECD // Eurostat // World Bank // UNDP // UN Desa // ILO // National Institute of Statistics and Economic Studies of the Grand Duchy of Luxembourg.
Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // Eurostat.
Other sources of information: Ministère de l'Intérieur (2018) Bilan de la réforme des finances communales // Banque Centrale du Luxembourg (2017) La réforme des finances communales de 2017 // OECD (2016), "Luxembourg", in OECD Regional Outlook 2016: Productive Regions for Inclusive Societies // European Committee of Regions (2016) Division of Powers // Chamber of Local Authorities (2015) Local democracy in Luxembourg, Strasbourg // Banque Centrale du Luxembourg (2016) Bulletin BCL 2016 // Syndicat des Villes et Communes Luxembourgeoises (2014) Coordination et gouvernance des finances publiques.

MALTA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: EURO (EUR)

POPULATION AND GEOGRAPHY

Area: 320 km^2
Population: 0.460 million inhabitants (2017), an increase of 0.6% per year (2010-2015)
Density: 1 438 inhabitants / km^2
Urban population: 94.5% of national population
Urban population growth: 2.2% (2017 vs 2016)
Capital city: Valletta (46.2% of national population)

ECONOMIC DATA

GDP: 19.1 billion (current PPP international dollars), i.e. 41 479 dollars per inhabitant (2017)
Real GDP growth: 6.4% (2017 vs 2016)
Unemployment rate: 4.0% (2017)
Foreign direct investment, net inflows (FDI): 3 462 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 23.2% of GDP (2016)
HDI: 0.878 (very high), rank 29

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Malta is a parliamentary republic. The unicameral House of Representatives (*Kamra tad-Deputati*) is composed of 65 members, elected by a system of proportional representation for a five-year term. The head of state is the President, elected by the members of the parliament, also for a five-year term. The president appoints the head of Government, the Prime Minister. The Maltese Constitution dates back to 1964, and it was amended in 2001 in order to incorporate the system of local government through article 115A.

Malta is a unitary country with a single tier of local government. The local government subsector was first established in Malta in 1993 through the Local Councils Act. A new chapter, entirely dedicated to local governments, was later added to the 2001 Maltese Constitution, namely Chapter XA. However, there is no explicit recognition of local self-government in either text. The Local Councils Act is the main piece of legislation regarding the establishment, operation and organisation of subnational governments. It established local councils as statutory local government authorities having a distinct legal personality, provided an exhaustive list of their functions and the powers of the central government to carry out supervision and control over them. The Local Councils Act is supported by 11 “schedules”, which provide further details on SNG functioning (e.g., municipal associations, financial regulations, local council procedures, etc.).

Each local government is administered by a local council (*Kunsilli Lokali*), with councillors elected by the residents of the municipality for a five-year term. It is led by a mayor (*sindku*) for the same duration. The mayor is the political representative of the local council. The mayor is elected after receiving the highest number of votes within the political party that gained the overall majority during the local election. The executive, administrative and financial head of the council is the executive secretary who is designated by the local council for three years.

The Local Councils Act was substantially revised in 1999, in 2005 and more recently in 2009 (Act No. XVI), as part of the broader 2009 Local Government Reform. This reform has several components, including the creation of five regional committees, namely (four on the island of Malta and one on the island of Gozo). They are composed of representatives from the local councils located in each region, and chaired by a Chairman elected by the Councillors of the relevant municipality. According to a 2010 government directive, the regional committees are considered a new level of government that supersedes local government (although it is not recognised as a self-government according to international standards). Their responsibilities, which are limited, are devolved or delegated to them by the central government or by the local councils of the region.

At the end of 2018, Parliament published a white paper to discuss the next local government reform. It proposes to dissolve the administrative committees, among other recommendations. Regarding regions, it proposes to strengthen the responsibilities of regional committees (in particular in waste management) and to increase resources to carry out their functions. Regional councils would also assist local councils in the management of EU funds. Overall, the forthcoming reform will also address issues of citizen participation, local human resources and local councillor responsibilities. However, the initial drafts of the reform do not address the issue of subnational finance.

There is no formal consultation on behalf of the central government with the Association of Local Councils and the local councils. However, the government recently set up a Local Government Good Governance Working Group (LGGG) with a view to serving as a consultative forum and making recommendations to strengthen good governance practices at local level. It comprises representatives from the Association of Local Councils, the Association of Maltese Local Council executive secretaries, the Office of the Auditor General and the Department of Local Government Monitoring and Support.

TERRITORIAL ORGANISATION

2018 MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
68 local councils *(Kunsilli Lokali)*			
Average municipal size: 6 500 inhabitants			
68			68

OVERALL DESCRIPTION. Malta is the smallest EU Member State both in terms of surface area and population, although it is the most densely populated. Malta is an archipelago of seven islands but only the three largest are inhabited: Malta, Gozo and Comino. Almost the entire population lives in urban areas.

Malta has a one-tier local government system, made of 68 local councils. There are 54 local councils in Malta and 14 in Gozo. Local councils are quite diverse. In terms of demographic size, they range from around 300 inhabitants to 22 300 in Birkirkara while an average size of around 6 500 inhabitants and a median size of around 4 100 inhabitants. Approximately 19% of local councils have fewer than 2 000 inhabitants and only five cities have more than 15 000 inhabitants (Sliema, Citta' Pinto, San Pawl Il-Baħar, Mosta and Birkirkara). The capital city, the city of Valletta, is the political, economic and cultural centre of the country; yet, it is not the most populated as a local council (5 750 inhabitants) although its functional urban area, which includes Northern Harbour and Southern Harbour, is much larger (213 000 inhabitants). La Valetta does not have special constitutional or legal status compared to other local councils.

The 2009 reform introduced further division of local councils into "communities" (*hamlets*) run by an administrative committee directly elected for five years also by the residents of each community. Subsequently, 16 subordinate administrative committees were set up in the larger hamlets.
Moreover, at the upper regional level, five regional committees were set up in 2009, namely the Gozo Region, the Northern Region, the Central Region, the South Eastern Region and the Southern Region.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The responsibilities of the Local Councils have been gradually extended since 1993; however, they remain relatively limited. According to Part IV of the Local Councils Act, local councils have a definite list of functions. Decentralised services encompass mainly the delivery of basic services, culture and recreation and management of public spaces, as well as the administration of property, enforcement of regulations in several sectors and the provision of e-government services.

The 2016 Development Planning Act empowered local councils by introducing local territorial plans and ensuring local councils participate in talks related to the implementation of "major projects" within their jurisdictions.

Art. 33(3) of the Local Councils Act stipulates that the central government may also gradually devolve any functions to local councils if it considers it feasible, starting with a small number of local councils as a test group. With the approval of the central government, Local Councils may enter into public-private partnerships or work with non-governmental organisations.

In June 2009, a "Code of Good Practice for Local Government" was issued with respect to local governance, primarily aimed at assisting councillors to provide the best service and promoting transparency and inclusivity.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPAL LEVEL
1. General public services	Internal administration; Commerce licenses and permits (delegated); Support to citizens with regards to their rights (transport, communications, taxation)
2. Public order and safety	Local courts
3. Economic affairs/transports	Promotion of entrepreneurship (delegated); Maintenance of road infrastructure and road signs
4. Environmental protection	Waste management; Maintenance of public gardens/parks; Protection of the natural environment (delegated)
5. Housing and community amenities	Maintenance and cleaning of public areas; Urban planning and development; Public property and bus shelters (delegated); Restoration, design or alteration of the facade of buildings
6. Health	Health and rehabilitation centres; Health district offices
7. Recreation, culture & religion	Maintenance of children's playgrounds, sport, culture or other leisure centres; Local public libraries (delegated); Safeguard of local identity (delegated); Assistance to local artists, musicians and athletes (delegated); Organisation of cultural and sport activities (delegated)
8. Education	Establishment and maintenance of childcare centres, kindergartens (shared with the central level); Maintenance of educational services or buildings (shared with the central level); Promotion of lifelong learning
9. Social protection	Day-care and night-care centres for senior citizens (shared); Promotion of social policy initiatives (delegated)

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: local councils, regional committees, and Association of Local Councils.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. The Local Councils Act and the 2001 Constitutional amendment provide the framework for SNG finance. Local councils have very low revenue-generating powers. Local Councils in Malta are currently unable to levy or collect local taxes and charges. Their own revenues are generated entirely from tariffs and fees. Therefore, they are heavily dependent on government grants, which limits their capacity to manage effectively their expenditure (over which they have little decision making-power). Several legislative amendments related to financial and procurement regulations are currently being discussed. However, the first drafts of the next local government reform (2018 White Paper) do not address the issue of local council financing.

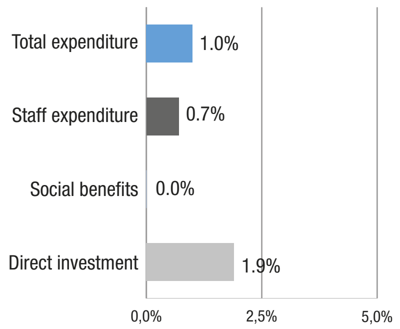
MALTA

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**145 333**	**0.4%**	**100%**
Inc. current expenditure	126 261	0.3%	86.9%
Staff expenditure	29 753	0.1%	20.5%
Intermediate consumption	96 126	0.2%	66.1%
Social expenditure	0	0.0%	0.0%
Subsidies and current transfers	0	0.0%	0.0%
Financial charges	381	0.0%	0.3%
Others	0	0.0%	0.0%
Incl. capital expenditure	19 073	0.0%	13.1%
Capital transfers	382	0.0%	0.3%
Direct investment (or GFCF)	18 691	0.0%	12.9%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



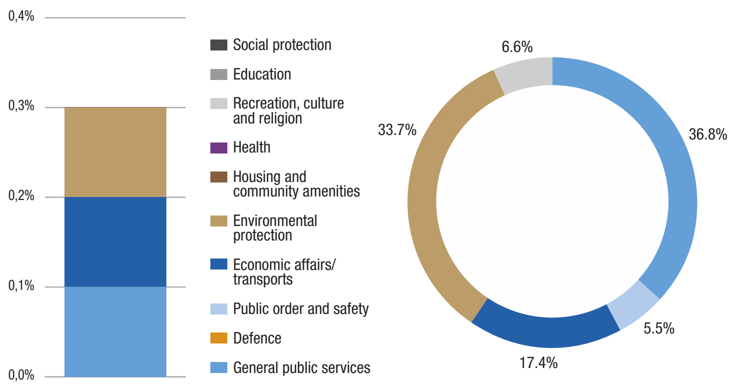
EXPENDITURE. SNG spending ratios in Malta are the lowest among EU countries and well below the average (15.5% and 33.4% in 2016). Local councils have very few spending responsibilities, which is reflected in a low level of subnational staff expenditure as both a share of public expenditure and SNG expenditure (compared to EU average of respectively 50.9% and 32.9%). This is also the result of legislation that ties the maximum number of local council employees to the size of its population. The bulk of SNG spending is dedicated to intermediate consumption. Most expenditures are regulated and approved by the central government and the House of Representatives, through allocation provisions in the annual budget. Spending power is thus very restricted.

DIRECT INVESTMENT. SNG investment remains very limited as a share of public investment and GDP, well below the EU28 average (1.4% of GDP and 51.6% of public investment). However, investment represented around 13% of SNG expenditure in 2016, slightly above the EU average (8.7% in 2016). Most SNG investments are dedicated to the maintenance of roads and transport infrastructure (79.2%), and the rest is spent on general public services. Some local councils are engaged in research and development on policies related to sustainable development and environmental issues.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

The responsibilities of local councils are narrow in Malta, focusing on just a few areas. The main category of SNG spending is general public services. Administrative tasks represented almost 37% of their expenditure to be compared to 16.5% in the EU28 in 2016. It is followed by environmental protection (primarily: waste management, landscaping and maintenance of parks and gardens) and economic affairs and transport (maintenance and upkeep of existing establishments, roads and facilities). In general, expenditure for each function is pre-determined and factored into the grant allocated to the local council. Therefore, they have no room for manoeuvre for the use of funds. On the other hand, local governments have no power or responsibility regarding housing and community amenities, health, education and social protection, whereas these are major subnational spending areas in other EU countries.

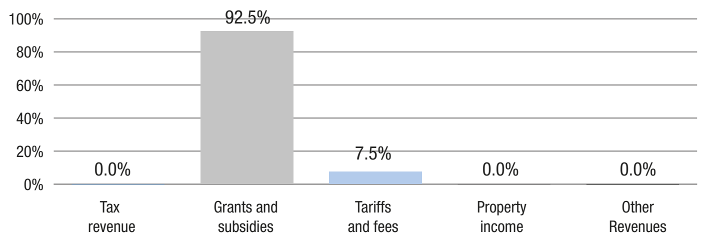
% GDP | % SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**161 736**	**0.4%**	**1.1%**
Tax revenue	0	0.0%	0.0%
Grants and subsidies	149 529	0.4%	
Tariffs and fees	12 207	0.0%	
Property income	0	0.0%	
Other revenues	0	0.0%	

% SNG REVENUE



OVERALL DESCRIPTION. As for expenditure, the share of SNG revenue in public revenue and GDP in Malta is the lowest among EU countries. In addition, local councils have very limited fiscal autonomy. Almost all SNG funding comes from central government transfers. Grants and subsidies accounted for 92.5% of SNG revenue, to be compared to 44.1% in the EU28. Local councils are not able to levy or collect local taxes and charges, according to the Local Councils Act.

TAX REVENUE. The Local Councils Act does not make reference to tax collection. As a result, Local Councils have no tax revenue (neither own-source nor shared).

GRANTS AND SUBSIDIES. Local Council revenue mainly comes from the allocation of the annual grant to each local council by the Minister of Finance under the Appropriation Act. It is dedicated to the functions of local councils, which covers landscaping and maintenance of parks and gardens, road maintenance, and waste management. These central government transfers to local councils are organised under Article 55 of the Local Councils Act. The amount appropriated is based on a complex formula specified in the Eighth Schedule of the Local Councils Act. It is based on each council's 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 the 16 statutory functions. The 2009 local council reform resulted in an increase in the number of earmarked grants, which reached EUR 37 million in 2016. In 2015, a new fund was introduced to finance local cultural projects, and another fund was announced in the Annual Budget 2015 that would aim to assist local councils to implement capital projects. The initial contribution to the fund would correspond to the budget allocated to the 2017 local elections.

OTHER REVENUES. Local councils are allowed to increase own revenues by charging fees for the services they provide and from specific municipal activities. Fees and licences can by implemented by local councils (e.g., advertisement on street furniture, the administration of the Council property, use of council facilities, etc.). Nevertheless, revenue from tariffs and fees as a share of subnational revenue remains below the EU average (7.5% vs 11.6% in 2016). Local councils do not have property income.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**95 745**	**0.2%**	**0.3%**	**100%**
Financial debt*	13 351	0.0%	0.1%	13.9%

* Currency and deposits, loans and bonds

FISCAL RULES. Through its Minister of Finance and Minister of Local Government, the central government is granted, by the Constitution and other relevant texts, extensive rights and powers to be involved in the conduct of local affairs. Local councils have to submit annual budgets to the central government for indirect supervision and approval. The Monitoring Unit (MU) of the Department for Local Government monitors the financial commitments of local councils, ensuring that they adhere to the financial regulations and procedures outlined in the Local Councils Act of 1993. An additional monitoring function is carried out, as required by law, by the local government auditors, who are appointed by the auditor general. The National Audit Office, a fully autonomous entity, is in charge of the annual auditing of all local councils

DEBT. According to the Local Councils Act, local councils cannot borrow (or lend) funds, without the express written consent of the central government. When authorised, funding is supposed to be done by the allocation of supplementary funds by central government, and not by borrowing. The tight subnational borrowing and lending rules explain the low level of the overall local debt, particularly in comparison to the EU28 average (14.3% of GDP and 14.4% of public debt). It is made up of other accounts payable (86%) and financial debt ("Maastricht debt") for the remaining part. Financial debt is negligible (0.05% of public debt).

Socio-economic indicators: Eurostat // World Bank // UNDP // UN Desa // ILO // Malta National Statistics Office
Fiscal data: Eurostat // OECD (2018) Key Data on Local and Regional Governments in the European Union // OECD (2018) Subnational governments in OECD countries: key data (brochure and database).
Other sources of information: Parliamentary Secretariat for local government and communities (2018) White paper on Local Government Reform // OECD (2018) Key Data on Local and Regional Governments in the European Union // European Commission (2017) Country Report Malta // Council of Europe (2017) Local democracy in the Republic of Malta, Congress of Local and Regional Authorities // CLGF (2017) The local government system in Malta // European Committee of Regions (2016) Division of Powers // CEMR (2016) Local and Regional Governments in Europe Structures and Competences // Calleja Ragonesi I., Mifsud I. (2015) Local Government in Malta, Assembly of European Regions Study on Local Government, University of Malta.

MONTENEGRO

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: EURO (EUR)

POPULATION AND GEOGRAPHY

Area: 13 810 km^2
Population: 0.622 million inhabitants (2017), an increase of 0.1% per year (2010-2015)
Density: 45 inhabitants / km^2
Urban population: 66.5 % of national population (2017)
Urban population growth: 0.5% (2017 vs 2016)
Capital city: Podgorica (28.5% of national population)

ECONOMIC DATA

GDP: 12.0 billion (current PPP international dollars), i.e. 19 352 dollars per inhabitant (2017)
Real GDP growth: 4.7% (2017 vs 2016)
Unemployment rate: 16.1% (2017)
Foreign direct investment, net inflows (FDI): 560.3 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 24.8% of GDP (2017)
HDI: 0.814 (very high), rank 50

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

According to the 2007 constitution, Montenegro is a unitary state with a republican form of government and a one-tier structure of government. Between 1992 and 2003, Montenegro was part of the Federal Republic of Yugoslavia. From 2003 to 2006, the country was part of the State Union of Serbia and Montenegro. During the Referendum of 21 May 2006, the Montenegrin population voted in favour of independence from the union and on 3 June 2006, the Montenegrin Parliament declared its independence followed by the proclamation of the new Constitution of Montenegro on 22 October 2007. The President of Montenegro is elected by direct universal suffrage for a five-year period. The Prime Minister who is the head of the government is proposed by the president to the Parliament. The Parliament is a unicameral system, consisting of 81 members elected for a four-year period by direct universal suffrage.

Article 22 and chapter 4 of the Constitution guarantee the right of local self-government and specifies the intergovernmental structure. The Constitution established the municipalities as the basic form of local self-government, enshrining their independence in carrying out their functions, drafting their own budgets and financing said functions with own-source revenues and resources provided by the state.

Besides the Constitution, other legal provisions dealing with subnational government matters include the Law on Local Self-Government and the Law on Local Self-Government Financing, both promulgated in 2010 and amended subsequently. The Law on Local Self-Government regulates the functioning of the municipalities, whereas the law on local financing lays out the financial autonomy of the municipalities as well as fiscal regulations.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	21 municipalities *(opština)* 2 urban municipalities			
	Average municipal size: 27 060 inhabitants			
	23			23

OVERALL DESCRIPTION. Montenegro has a one-tier system of local government, comprising 23 municipalities (*opština*) of which 21 are local administrative units, and two are urban municipalities (i.e., the Capital City of Podgorica and the Historic Royal Capital of Cetinje).

MUNICIPALITIES. Municipal authorities consist of the Municipal Assembly and the mayor. The assembly, whose members are elected for four years, is the representative body of the citizens whereas the mayor, elected by the assembly by the majority vote of a total number of councillors for a period of 4 years, is the executive body of the municipality.
The average size of municipalities (around 27 000 inhabitants) is high by international comparison (9 700 inhabitants in the OECD and 5 900 in the EU) but the median size is lower (18 300). However, five municipalities (22% of total) have fewer than 5 000 inhabitants. Municipalities are further subdivided into approximately 1 310 settlements, which are urban localities (around 50) and rural communities (villages). These local communities (*mjesna zajednica*) are bodies in which the citizens participate in decisions on matters of relevance to the local community.

The capital city of Podgorica is part of the metropolitan area of the city of Podgorica. With almost 200 000 inhabitants in 2017, the capital city accounts for around 32% of the total population. It is made up of two “city municipalities” (*gradska opština*) created in 2006. These two districts of Golubovci and Tuzi have the status of a municipality according to the Capital City Law and the Podgorica City Charter. The second largest city is Nikšić with 70 000 inhabitants, followed by two cities having around 43 000 inhabitants (Bar and Bijelo Polje).

INTER-MUNICIPAL CO-OPERATION. Municipalities may freely enter into an association, in accordance with the law on Local Self-Government (Article 16 of the Law on Local Self-Government). In 2011, the Montenegrin government adopted the 2011-2016 development strategy for inter-municipal co-operation, along with the 2011-2013 action plan for its implementation. Inter-municipal co-operation is also addressed in the Law of Local Self-Government. Article 131 of said law stipulates that municipal assemblies may establish inter-municipal communities in order to perform, in a more economic and efficient manner, certain affairs related to public administration and public service delivery.

Additionally, the “Regional Development Law” divided the country into three regions for statistical purposes. They do not have legislative or other power.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Primary education, kindergartens, social assistance and elderly care, which often fall under the responsibilities of local governments in the OECD countries, are handled by central authorities in Montenegro. The 2010 Law on Local Self-Government (last amendments in 2014), in its articles 32 and 33, assigns relevant competencies to the municipalities. They mainly intervene, both in terms of provision and regulation, in economic and social development areas, including the development of community affairs, entrepreneurial development, issuance of land and business permits, protection of local environment and preservation of natural resources, local public transportation, sport, and recreational activities, development of library and archive activities, as well as the prevention and management of natural disasters.
In addition, Montenegrin municipalities are owners of public utility companies dealing with waste management, water distribution and local public transportation.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPAL LEVEL
1. General public services	Municipal administration
2. Public order and safety	Protection of the local population and rescue services; Prevention of natural disasters, fires, explosions, damages; Local law enforcement
3. Economic affairs/transports	Local public transport; Local economic development including entrepreneurial development; Agricultural land; Tourism; Management of construction land; Investment policy
4. Environmental protection	Environmental development and protection
5. Housing and community amenities	Urban and spatial planning at local and regional level; Urbanism (building permits); Land development and management, protection of buildable land; Water management
6. Health	
7. Recreation, culture & religion	Culture; Sport; Development of libraries; Protection of monuments of local importance; Recreation for children, youth, and adults
8. Education	Construction and maintenance of education facilities (primary and secondary education); Provision of social care for pupils; Co-financing of investment and material expenditure
9. Social protection	Home care; Help at home for the elderly and disabled people; Child welfare; Consumer protection

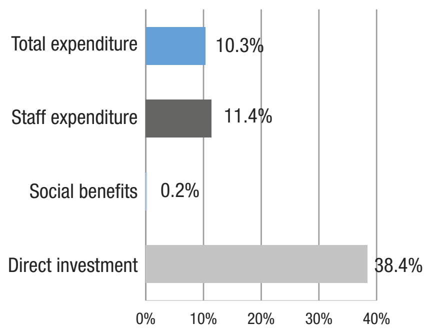
SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: 23 local government units.	SNA: Other	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. Municipalities of Montenegro finance their assigned responsibilities through local taxes and fees, shared taxes, subsidies and grants from the State Budget and other resources that fall within the legal boundaries. Besides the Constitution, which contains provisions relating to local finance, the 2010 law on local government describes the different types of resources, the financial equalisation mechanisms and the use of conditional grants.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
Total expenditure	**991**	**5.6%**	**100%**	
Inc. current expenditure	808	4.6%	81.5%	
Staff expenditure	221	1.3%	22.3%	
Intermediate consumption	96	0.5%	9.7%	
Social expenditure	5	0.0%	0.5%	
Subsidies and current transfers	188	1.1%	19.0%	
Financial charges	276	1.6%	27.8%	
Others	22	0.1%	2.3%	
Incl. capital expenditure	183	1.0%	18.5%	
Capital transfers				
Direct investment (or GFCF)	183	1.0%	18.5%	



EXPENDITURE. In 2016, SNG total expenditure amounted to 5.6% of GDP and 10.3% of public expenditure in 2016, a level below the average of OECD unitary countries where SNG expenditure reached 9.2% of GDP and 29% of public expenditure. Among the current spending lines, financial charges (including the repayment of interest) accounted for close to 28% of total SNG expenditure followed by staff compensation with 22.3%. Subsidies and transfers to institutions, individuals, NGOs and the public sector came in third with 19% of total SNG expenditure. SNGs are not big public employers, accounting only for around 11% of total public spending.

DIRECT INVESTMENT. Although public investment recovered in 2014-2015, the share of direct investment by the municipalities continued to decline to amount to less than 40% in 2016 (i.e., 1.0% of GDP). These levels are below the average for OECD (50.7% in 2016) and EU (46.1% in 2017) unitary countries. Investment however represented 18.5% of total SNG expenditure, which is higher than in OECD and EU unitary countries (respectively 13.8% and 10.9%).

MONTENEGRO

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

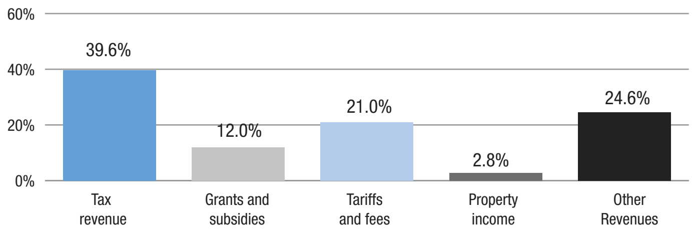
Municipalities have few competencies in the social and education sectors. Most of their spending are in housing and community amenities, economic affairs and transport, environment and municipal administration.

% GDP	% SNG EXPENDITURE

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**1 107**	**6.3%**	**11.6%**
Tax revenue	438	2.5%	11.1%
Grants and subsidies	133	0.8%	
Tariffs and fees	233	1.3%	
Property income	31	0.2%	
Other revenues	272	1.5%	

% SNG REVENUE



OVERALL DESCRIPTION. Municipalities are mainly financed through own-source revenues (i.e., taxes, tariffs and fees and other sources). Taxes, in particular, are the most important revenue source, representing close to 40% of total SNG revenues. This share is on par with OECD and EU28 unitary averages (38.7% and 36.8% respectively), a high ratio if compared to other countries in the South East Europe. By contrast, the share of transfers from the central government is particular low, amounting to 12% of SNG revenue (vs 49% in the OECD and EU unitary countries). According to the Network of Associations of Local Authorities of South-East Europe (NALAS), Montenegro's intergovernmental finance system – and its very high share of own revenues - is unique in the region.

Yet, the distribution of local revenues varies significantly across municipalities: while tax revenues are significant in some municipalities, central government transfers make up a large share of other municipal budgets.

The government plans to change the distribution of funds from the central government to promote the distribution of revenues according to needs and incentivise own-source revenues where possible.

TAX REVENUE. Although tax revenues account for a large share of SNG revenue, in line with OECD and EU averages, the weight in GDP and public tax revenue is well below OECD and EU averages for unitary countries (respectively 4.5% and 4.7% of GDP; and 16% and 20% of public tax revenue).

Tax revenues are composed of shared taxes and own-source taxes, the latter being the main source of tax revenue.
Concerning shared taxes, municipalities receive 12% of the PIT (13% for Podgorica and 16% for Cetinje) and 80% of the real estate transfer collected within their jurisdiction by the central government. The transfer tax on real estate accounted for 10.8% of municipal tax revenue and 4.3% of municipal revenue.

Municipal own-source taxes include a surtax on the personal income tax (PIT) and the property tax.

A municipality may impose a PIT surtax on local individuals and legal entities at a maximum rate of 13% (or up to 15% for the Capital City of Podgorica and the Historic Royal Capital of Cetinje). The surtax on PIT shall be paid on the personal earnings tax, self-employment tax, tax on property and property rights, and capital gains tax.

The property tax was decentralised in 2003 and constitutes the main source of revenues. In 2016, it accounted for 50.5% of municipal tax revenue, 20.0% of municipal total revenue and 1.3% of GDP, a figure significantly higher than in many OECD and EU countries (the OECD average is 1.1% of GDP in 2016). As of 2018, the property tax rates are set between 0.25% and 1.00% of market value (from 0.08% and 0.8% in 2003). Local governments are responsible for tax assessments based on data from the State Statistics Office and/or State Tax Authority on the market value of a square meter of property in each jurisdiction. In the absence of such data, the municipal governments can hire experts to define the market value.

Overall, the PIT (as a share and a surtax) represented a significant source of revenue: 38.7% of SNG tax revenue, 15.3% of SNG revenue (i.e., 1.0% of GDP).

GRANTS AND SUBSIDIES. The grant system comprises two categories of funds: an Equalisation Fund and conditional grants. In 2016, the Equalisation Fund constituted the bulk of intergovernmental transfers, amounting to 94.1% of total grants and 11.3% of SNG total revenue.

The Equalisation Fund is composed of resources coming from different budget lines: 11% of the PIT, 10% of the tax on real estate transfers, 100% of the tax collection on the use of motor vehicles, boats and planes and 40% of the revenues collected from concession fees of gambling. The allocation is formula-based and considers the fiscal capacity of the municipality (60%) and the budgetary needs (40%). To benefit from the Equalisation Fund, a municipality should have an average fiscal capacity (per capita) in the last three fiscal years that is lower than the average fiscal capacity of all other municipalities, also over the same three-year period. Recently the Ministry of Finance proposed amendments to the equalisation mechanisms to improve the current weaknesses of this fund, in particular its disincentive effect on tax collection and accuracy of data on own-source revenues (to obtain a larger share of the Equalisation Fund).

Other direct transfers or grants from the central government budget to municipalities account for a small percentage of total municipal revenue, and are mostly intended for co-financing of European funds for projects aimed at municipal infrastructure development. Municipalities are also entitled to conditional grants from the State Budget with the objective of financing investment projects that involve one or more municipalities. To receive the grant, municipalities must agree to a multi-annual investment plan. Funding is limited to 50% of the estimated project cost.

OTHER REVENUES. Other income includes revenues from tariffs and fees, property income and other revenues accounting for almost 50% of SNG revenues, which is particularly high by international standards.

In 2016, tariffs and fees constituted the third most important revenue source for SNGs and represented 21% of their total revenues, and 1.3% of GDP. They include user charges on local public administration services and utilities such as waste management and water provision; fees for utility equipment of construction land and for the use of municipal roads; fines stemming from misdemeanour convictions. There is also a land development fee, which is regulated by the Law on spatial planning and construction and paid by the investor before construction can begin. This fee is the most substantial local capital revenue; it remains very relevant to the municipal budget despite a decline due to the economic downturn in 2009.

Municipalities also receive a percentage of fees transferred from the central government, including: 70% of the revenue from concessions and other fees for using natural resources awarded by the State; revenue from annual fees for the registration of motor vehicles, tractors and trailers; and 30% of the public revenues collected on the use of motor vehicles and their trailers.

In 2016, property income reached 2.8% of SNG total revenue, a ratio that is much higher than the averages for OECD (1.1% in 2016) and EU28 (1.2% in 2017). Municipalities are entitled to resources from the sale and rental of municipal properties, income from capital (interests, stakes and shares, etc.) and from concessions.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**638**	**3.6%**	**5.7%**	**100%**
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. Municipalities were hit hard by the crisis and continue to struggle with fiscal consolidation. According to the 2014 Law on Budget and Fiscal discipline, which applied to central and subnational governments, the budget deficit of a SNG in any given year shall not exceed 10% of its revenues in that year. If the SNG exceeds the budget deficit ceiling in a given year without the Ministry of Finance's approval, the Minister shall be obliged to withhold the transfer of the appropriated part of the funds from the State Budget to the SNG. The amount withheld is equal to size of deficit.

DEBT. According to the law on local self-government financing, municipalities are legally enabled to issue debt securities and take out long-term loans, provided they obtain the consent of the central government. Long-term loans are only approved for the financing of capital infrastructure projects or for the purchase of capital assets, in compliance with approved Perennial Capital Investment Plan, and shall not be used to finance current expenditure ("Golden Rule"). Municipalities may also take out short-term loans in order to meet short-term liquidity needs. There is, however, a debt ceiling. To receive an approval for any further borrowing, the total payments of principal and interest, the payments under a leasing contract, repayment of obligations for the prior period and any other debt obligations may not exceed 10% of the actual current income of the municipality in the year preceding the year of borrowing.

In 2016, total outstanding debt (unconsolidated) for SNGs reached 3.6% of GDP and 5.7% of total public debt, which is below the OECD average for unitary countries (14.5% of GDP and 11.8% of public debt in 2016) and the EU28 average 14.3% of GDP and 14.4% of public debt in 2016).

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: OECD
Last update: 02/ 2019

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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO // MONSTAT Statistical Office of Montenegro (2017) Statistical Yearbook of Montenegro 2017.
Fiscal data: Union of Municipalities of Montenegro // Ministry of Finance of Montenegro: Report on the General Government Debt as of 31 December 2016 // Central Bank of Montenegro – Fiscal Development // OECD (2018) Subnational Government in OECD countries: key data.
Other sources of information: Network of Associations of Local Authorities of South-East Europe - NALAS (2018) Fiscal Decentralization Indicators for South-East Europe// Committee of the Regions (2016) Division of powers // Government of Montenegro (2016) Public Administration Reform Strategy in Montenegro (2016-2020) // Council of Europe Chamber of Local Authorities (2015) Local Democracy in Montenegro // Kraan, D. et al. (2012) Budgeting in Montenegro, OECD Journal of Budgeting.

NETHERLANDS

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: EURO (EUR)

POPULATION AND GEOGRAPHY

Area: 33 688 km^2
Population: 17.127 million inhabitants (2017), an increase of 0.3% per year (2010-2015)
Density: 508 inhabitants / km^2
Urban population: 91.1% of national population (2017)
Urban population growth: 1.1% (2017)
Capital city: Amsterdam (6.6% of national population)

ECONOMIC DATA

GDP: 899.5 billion (current PPP international dollars), i.e. 52 521 dollars per inhabitant (2017)
Real GDP growth: 3.2% (2017 vs 2016)
Unemployment rate: 4.8% (2017)
Foreign direct investment, net inflows (FDI): 316 541 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 20.3% of GDP (2017)
HDI: 0.931 (very high), rank 10 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Netherlands is a parliamentary constitutional monarchy. The Kingdom of the Netherlands consists of four countries: the Netherlands, Aruba, Curacao and Saint Maarten, and the three special municipalities Bonaire, Saint Eustatius and Saba. The Kingdom is governed by the Kingdom Statutes; however, every country within the Kingdom is autonomous and has its own constitution (within the framework of the Kingdom Statutes).

The Netherlands is a decentralised unitary state with a three-tier system, which consists of local government, provincial government and national government, without hierarchy between the three levels. The hierarchy only exists in the decision making powers of the three levels of government. The country has a bicameral parliament, which consists of the House of Representatives and the Senate. The 150 members of the House of Representatives are elected by direct popular vote on the basis of party-list proportional representation for four years. The 75 members of the Senate are elected by the members of the Provincial Councils and three Electoral Colleges from the Caribbean part of the Netherlands every four years, following the provincial council elections. It does not however formally represent local and provincial governments.

Decentralisation is enshrined in the 1848 Dutch Constitution, last revised in 2002. Chapter 7 of the Constitution (Art. 123 to 133) is dedicated to provinces, municipalities, water boards and other public bodies. Provinces and municipalities both have deliberative assemblies elected by direct universal suffrage for four-year terms. Councils elect members of their own executive councils, which are collegial boards, each headed by mayors (for municipalities) and King's Commissioners (for provinces), appointed by royal decree based on the recommendations of local councils. In 2002 and 2003, the clear-cut separation of powers between the deliberative assemblies and executive councils was set, which strengthened the subnational administration system.

The Provinces Act (1992) and the Municipalities Act (1992) provide a legal framework for vertical coordination between the three levels of governments. The General Administrative Law Act and the Decree on the Legal Status for Council and Committee Members also frame the subnational system. At the central level, the Ministry of Interior and Kingdom Relations, is in charge of decentralisation reforms, multi-level and public-private cooperation and support to the municipalities.

Reinforcing decentralisation has been a continuous trend for several years, based on the idea of better governance and that the allocation of tasks and functions to the right levels of government is crucial for the efficient use of resources and the creation of an environment conducive to social and economic development. Therefore, since the 1950s government functions and services have gradually been decentralised in the Netherlands. However, the decentralisation process has accelerated recently. Since the 2007-10 Coalition Agreement and the 2010-2012 Coalition Agreement, several tasks and powers have been decentralised to provinces and municipalities and greater autonomy has been given to them. In 2012, a new impetus was given to this process by the 2012-2017 Coalition Agreement. Decentralisation has been high on the Dutch agenda for many decades. In 2015, the latest decentralisation process was formally carried out, which resulted in the transfer of large responsibilities to municipalities in the social sector (youth health, long-term care and employment support for young disabled people). The reform also aimed at revitalising and strengthening the role of the provinces with more focused powers in regional planning, economic development and coordination.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	380 municipalities *(Gemeenten)*		12 provinces *(Provincies)*	
	Average municipal size: 45 071 inhabitants			
	380		12	392

OVERALL DESCRIPTION. The Netherlands two-tiers of provincial and local government comprise of 380 municipalities and 12 provinces in 2018 (355 as of January 2019), including three overseas entities (Bonaire, Saint Eustatius and Saba). The SNG system also includes a functional layer at the regional level comprising the Dutch water authorities (*waterschappen*).

MUNICIPALITIES. Municipalities are the basis of the Dutch decentralised unitary state. Over the years, a municipal merger process has led to a gradual but significant drop in the number of municipalities, from 913 in 1970, to 443 in 2007, 380 in January 2018 and even 355 in January 2019, after several mergers of municipalities in the North and West of the Netherlands at the end of 2018. A new "Policy Framework for Municipal Revision" was adopted in March 2019 to structure the process of municipal mergers. Today, the municipal average size is large, especially compared to the OECD or EU average (respectively 9 700 and 5 900 inhabitants in 2017) as well as the median size (26 500 inhabitants). Only 2% of municipalities have less than 5 000 inhabitants (vs 44% on average in the OECD).

The urban areas of Amsterdam, Rotterdam, Den Haag and Utrecht, which combined reach 2.3 million inhabitants, form a metropolitan area referred to as "*Randstad*". Around 700 inter-municipal cooperation structures were created in the period from 2010 onwards under the Joint Regulations Act (WGR Act), such as joint bodies for levying taxes, or in the areas of public health, waste processing or even social services. Regional partnerships led to the creation of sub-regions with competences in specific sectors, such as youth-care regions, and social-support regions. Eight city-regions were established in 1995 by the central government as inter-municipal cooperation entities, but they were abolished in January 2015. Subsequently, new metropolitan governance arrangements have emerged in the two large urban areas, of Amsterdam, and the Metropolitan Region of Rotterdam-The Hague. To strengthen urban areas, the Dutch government also developed a National Urban Agenda in 2015, which is still active in 2019. However, no specific mechanisms for metropolitan governance have been created yet at the country level.

The Netherlands also has a network of 2 200 villages and community councils that are legal entities organised according to public law (Sections 83-84 of the Municipalities Act) or according to private law (as an association or foundation). In 2012, 53% of Dutch municipalities had at least one village council or one community council.

PROVINCES. Regional organisation has remained stable for many years. The consolidation of provinces into larger regions has been debated since the 1960s but never materialised, due to the opposition of provinces. The last project of provincial consolidation was presented in 2013-2014. It consisted of a first phase to merge the three provinces of Utrecht, Flevoland and Noord-Holland, called the "North Wing Province" as a top-down process and, in a second phase, to promote a gradual consolidation as a bottom-up process. This proposal failed in April 2014 because there was a lack of majority in the Parliament to support the law.
The inter-provincial association proposed the abolition of the water authorities in 2010 yet the idea was also abandoned.
The subnational level also comprises de-concentrated central government agencies, which are controlled and financed by central government units and have a local function (regional labour market offices, regional police services or regional healthcare services).

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

A characteristic of the Dutch system is that many areas of responsibility are shared between the central government and SNGs. The central level is entitled to intervene at the local and regional level; however, the local and regional level enjoy autonomy and have substantial leeway, as long as they are comply with national law.

The decentralisation process started in 2007 has since transferred new responsibilities to the provinces and municipalities, along with important implementation and enforcement powers. Besides key responsibilities in spatial planning and urban development, provinces are in charge of administrative and financial supervision of municipalities and water boards, and play a key role in vertical coordination. Municipalities have a wide range of responsibilities, either entrusted by laws, or assigned by higher levels. In 2015, they were transferred new functions in social services (youth healthcare, long-term care and employment support for young disabled people). Discussions are currently ongoing on the role municipalities will have to play regarding energy shift policies and responsibilities in the years to come (a ban on the use of natural gas is planned for 2030).

Finally, regional water authorities (*waterschappen*) are responsible for flood control, irrigation and drainage, (municipal) waste water purification, and water quality.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	PROVINCES	MUNICIPALITIES
1. General public services	Supervision of municipalities and regional water authorities	Municipal administration; Administrative duties (passports, identity documents and driving licences)
2. Public order and safety		Public order in the municipality and relationships with police forces; Criminality prevention; Public safety; Disaster management (shared)
3. Economic affairs/transports	Provincial roads, cycle paths and bridges; Regional public transport (bus, regional trains); Inland water transport and infrastructure; Regional development agencies; Promotion of the region and coordination of touristic local policies	Municipal streets and roads; Traffic and parking regulations; Local tourism strategies and policies; Public transport and school buses (only the cities Amsterdam, Rotterdam and The Hague)
4. Environmental protection	Environmental protection plans and policies; Water (groundwater plans and regulation); Energy and climate; Renewable energy; Air quality; Soil protection and cleaning; Noise; Production and transport of hazardous; Supervision of municipal environmental policies; Nature areas	Parks & green areas; Waste management; Sewerage; Local environmental policy; Soil protection and cleaning
5. Housing and community amenities	Spatial planning	Land-use plans; Planning permission; Urban planning (shared); Civil engineering (shared); Street cleaning; Public lighting
6. Health		Municipal medical services (vaccination, prevention,hygiene); Youth health care; Elderly heath care; Long-term care
7. Recreation, culture & religion	Environmental and recreational planning; Financial support of cultural activities; Protection of cultural heritage; Provincial museums	Financing of cultural activities; Cultural facilities and recreational areas; Local sport policies and subsidies
8. Education		Public primary and secondary education (school buildings only)
9. Social protection	Social housing grants	Income support for less than fully disabled persons; mediation, training Assistance to the unemployed, people with disabilities and the elderly in their home environment Youth care services Social assistance and local employment schemes

NETHERLANDS

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT FINANCE

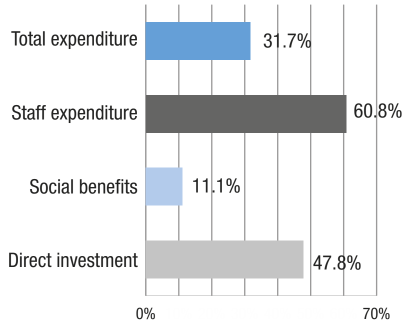
Scope of fiscal data: provinces, public water boards, municipalities, communal arrangements at the municipal level (inter-municipal structures), special schools and private non-profit institutions with a local function.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. Article 132 of the Constitution, which covers the organisation of the provinces and municipalities, determines the taxes that may be levied by each SNG level. The 1996 Financial Relations Act regulates the intergovernmental financial relations. The Municipalities Act and Provinces Act include extensive provisions on municipal and provincial finances. Overall, government functions in the Netherlands are mostly centralised, but SNGs, especially municipalities, have significant budgets and spending responsibilities.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**6 965**	**13.8%**	**100%**
Inc. current expenditure	6 130	12.1%	88.0%
Staff expenditure	2 668	5.3%	38.3%
Intermediate consumption	1 892	3.7%	27.2%
Social expenditure	1 215	2.4%	17.4%
Subsidies and current transfers	302	0.6%	4.3%
Financial charges	17	0.0%	0.2%
Others	37	0.1%	0.5%
Incl. capital expenditure	834	1.6%	12.0%
Capital transfers	68	0.1%	1.0%
Direct investment (or GFCF)	766	1.5%	11.0%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



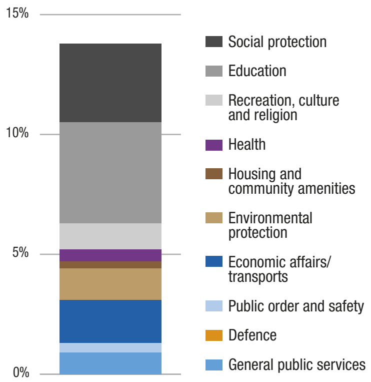
EXPENDITURE. The share of SNG in public expenditure in the Netherlands is below the OECD average (16.2% of GDP and 40.4% of public spending in 2016). However, the share of Dutch SNGs in public staff spending is significant, close to the OECD average (62.9%) and above the OECD average for unitary countries (43%), reflecting important administrations, especially at the municipal level (there are on average 185 000 civil servants working in municipal governments compared to 13 000 officials working in provincial government). Within SNG expenditure, provinces accounted for 7% of SNG expenditure in 2016, municipalities and inter-municipal bodies 67%, the remaining part being composed of public water boards and other local government bodies.

DIRECT INVESTMENT. In 2016, 47.8% of total public investment was carried out by SNGs in the Netherlands compared to an OECD average of 56.9% and to an EU average of 50.9%. This figure has plummeted 16.6 percentage points since 2013, in line with budget cuts at regional and local levels. However, direct investment remains a key function of Dutch provinces and municipalities, representing 11% of their total spending in 2016, in line with the OECD average. 52% of SNG investment is carried out by municipalities and inter-municipal cooperation bodies. The share of the provinces is lower (15%). Other SNG investors are public water boards (10% of SNG investment) and other local government bodies.
Most SNG investments are dedicated to economic affairs, local transport and infrastructures, followed by education, environment protection and adaptation to climate change. At the regional level, high levels of investments on research & development aim at strengthening regional competitiveness. Investment projects to be co-funded by the central government are subject to review by the Ministry of Infrastructure and the Environment according to several criteria.

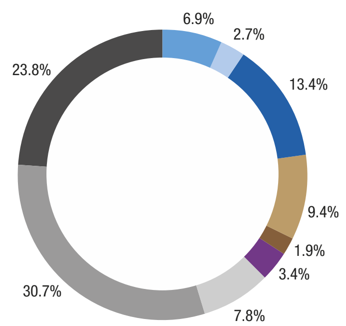
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Education and social protection were the two largest spending items for SNGs in the Netherlands in 2016: together they represent 54.5% of subnational expenditure compared to 39% in the OECD area. Education is the main spending sector for SNGs, given that they are in charge of providing primary and secondary education, but also of the management of buildings and related facilities. The share of social protection has increased significantly in recent years. From 13% in 2008 and 20% in 2013, it accounted for 24% of SNG spending in 2016, in line with the policy of decentralisation of healthcare at the country level. Besides, SNGs are responsible for the vast majority of total public spending in the areas of environmental protection, housing and community amenities (water distribution, street lighting, etc.) and recreation and culture, especially since they include infrastructure projects.

% GDP



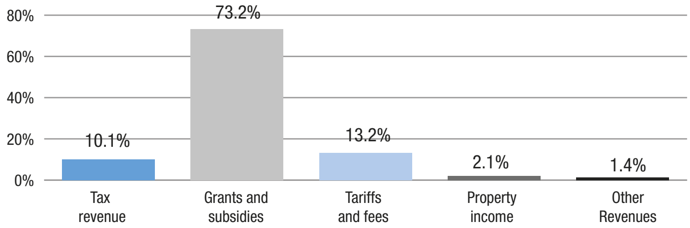
% SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**7 003**	**13.9%**	**31.6%**
Tax revenue	706	1.4%	5.9%
Grants and subsidies	5 124	10.1%	-
Tariffs and fees	923	1.8%	-
Property income	150	0.3%	-
Other revenues	100	0.2%	-

% SNG REVENUE



OVERALL DESCRIPTION. Dutch provinces and municipalities are mainly funded by grants from the central government. More than 73% of Dutch SNG revenue comes from transfers, whereas SNG tax revenue represents only 10.1% of SNG revenue. The share of grants in SNG revenue is one the highest in the OECD where it amounted to 37.2% on average. By contrast, SNG tax ratios are some of the lowest in the OECD, well below OECD averages (44.6% of subnational revenue in 2016), reflecting strong fiscal imbalances. Municipalities represent the greater share of SNG revenues, with a budget on average ten times higher than the budget of provinces.

TAX REVENUE. SNG tax revenue accounted for only 1.4% of GDP and 5.9% of public tax revenue, two ratios that are below the OECD averages (7.1% of GDP and 31.9% of public tax revenue). In 2016, municipalities accounted for 58% of SNG tax revenue and the provinces for 16%. The remaining 26% is the share of public water boards as they collect their own taxes and levies (waste water treatment levy, water systems levy and a pollution levy).
The taxes that may be levied by SNGs are listed in the Province Act and the Municipality Act. A large part of municipal tax revenue comes from the property tax (OZB), based on property value, and 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 tax rates, but only within limits established by the central government. The property tax accounted for 52.3% of SNG tax revenue and 5.3% of total SNG revenue. It amounted to 0.7% of GDP in 2016, a level which is below the OECD average of 1.1% of GDP. Other local taxes include the parking tax, the tourist tax, dog tax, sewerage charges, levies on water pollution, a tax paid for the use of municipal land, etc. Taxes on water pollution and sewerage charges accounted for 28.7% of SNG tax revenue in 2016. There is no tax sharing system. Provincial taxes come almost entirely from the surtax on the motor vehicle tax, the rate of which is capped by the central government. Water authorities can tax within their individual territory.

GRANTS AND SUBSIDIES. Transfers to municipalities are divided between a general grant (Municipalities Fund or *Gemeentefonds*), an integration grant, a decentralisation grant (including a new Fund for social affairs to accompany the decentralisation in the social sector) and specific grants from departments meant to cover the expenses of obligatory delegated tasks. The Municipal Fund consists of a lump-sum payment. It has a strong equalising function and the formula takes into account spending needs and tax capacity of municipalities, with the aim to enable all municipalities to finance equivalent service levels at equivalent tax rates (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), allocated payments from the government funds (integration and decentralisation grants) as well as specific grants for delegated tasks.
The two Municipalities and Provinces Funds have become the main source of revenue for municipalities and provinces. On the other hand, earmarked funds (integration and decentralisation grants) are meant to cover the expenses of obligatory delegated tasks in areas such as primary education and social services. Their share in local income has been decreasing, and in 2016 they represented on average 27% of municipal income, with variations among municipalities.

OTHER REVENUES. Other major sources of revenue for SNGs are user charges and fees and income from property and land leases. Provinces receive significant revenues from dividends from utility companies, in particular energy companies, and from the privatisation of public utilities in the energy sector.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**4 862**	**11.2%**	**14.4%**	**100%**
Financial debt*	3 427	7.9%	11.0%	70.5%

* Currency and deposits, loans and bonds

FISCAL RULES. 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, including a multi-annual budget balance requirement. The same year, a deficit limit of 0.5% of GDP was applied to local authorities: 0.38% for municipalities, 0.07% for provinces and 0.05% for the water boards. This is enhanced by vertical financial supervision of municipal finances by provinces, and the legal obligation of SNGs to balance their budget.

DEBT. SNGs may borrow freely, including through bonds, but only to finance capital expenditure ("Golden Rule"). The level of SNG debt is below the OECD average (24.5% of GDP and 20.7% of public debt in 2016). Outstanding debt is made up primarily of financial debt (70%), followed by other accounts payable (30%). Bonds as a percentage of total financial debt remain very limited (2.8% in 2016), loans making up the bulk of the financial debt stock (97.2%). The Municipal Bank of the Netherlands (BNG) is a funding agency established by the Dutch Association of Municipalities in 1914 in order to help municipalities access credit markets. Around 90% of its assets are loans to municipalities and other public bodies. Half of the bank's share capital is held by the State of the Netherlands and the other half by municipal authorities, provincial authorities and water boards. The *Waterschapsbank* is another Dutch bank specialised in loans to local governments.

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Socio-economic indicators: OECD // Eurostat // World Bank // UNDP // UN DESA // ILO // Statistics Netherlands.
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REPUBLIC OF NORTH MACEDONIA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: MACEDONIAN DENAR (MKD)

POPULATION AND GEOGRAPHY

Area: 25 710km²
Population: 2.083 million inhabitants (2017), an increase of 0.1% per year (2010-2015)
Density: 81 inhabitants / km²
Urban population: 57.7% of national population (2017)
Urban population growth: 0.4 % (2017 vs 2016)
Capital city: Skopje (28.0% of national population)

ECONOMIC DATA

GDP: 31.9 billion (current PPP international dollars), i.e. 15 290 dollars per inhabitant (2017)
Real GDP growth: 0.2% (2017 vs 2016)
Unemployment rate: 22.4 % (2017)
Foreign direct investment, net inflows (FDI): 381 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 21.9% of GDP (2017)
HDI: 0.757 (high), rank 80

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Republic of North Macedonia is a unitary state and a parliament democracy. The President is the Head of the State and is elected for a five-year term; the Prime Minister leads the Government. The Parliament is a unicameral assembly composed of 120 to 140 Representatives elected during general, direct and free elections and by secret ballot for a four-year term.

The Republic of North Macedonia is composed of two tiers of government – central and municipal, and the principles of local self-government and decentralisation are enshrined in the Constitution of 1991. Central authorities oversee the legality of municipal government's acts and endeavours; whereas the municipalities, on the other hand, have the right to appeal to the Constitutional Court if the State authorities encroach on their prerogatives.

In addition to the Constitution of 1991, legal provisions dealing with decentralisation and subnational government matters include the Law on Local Self-Government, the Law on Territorial Organisation and the Law on Financing of the Local Self-Government Units. The municipal governing body is comprised of the Mayor (*gradonacalnik*) and the municipal council (*sovet na opstinata*) – the former being the executive body and the latter the representative body of the citizens. The mayor is elected by direct universal suffrage for a four-year mandate according to the majority electoral model. On the other hand, municipal councillors are elected by proportional vote. The number of seats depends on the population size of the municipality. The city of Skopje is an exception to this rule, as its council consists of 45 members.

During the Yugoslav period, North Macedonia was a very decentralised country; however, several territorial organisation reforms were passed in the aftermath of the country's independence and municipal responsibilities were limited. Nevertheless, the decentralisation process began anew in 1995 when the Law on Local self-government was passed and in 1997 when the European Charter for Local Self -Government was ratified. In 2002, a new Law on Local Self-Government was adopted under the "Ohrid Framework Agreement" of 2001. It primarily aimed at transferring some administrative responsibilities to the municipalities. In 2004, a law on the territorial organisation of local self-government was adopted. The new provision reorganised local government units into 84 municipalities and further enhanced the transfer of responsibilities to local governments. Throughout 2004 and 2005, significant reforms were carried out with the objective of consolidating the local public finance system. In 2007, those municipalities that had improved their fiscal situation became responsible for financing and managing all schools, as well as a number of other cultural and social welfare institutions and received block grants to finance these new tasks. Today, decentralisation and strengthening SNG capacity are priorities that have emerged from the Accession Partnership of the Republic of Macedonia with the EU and the Framework Agreement. The government has committed to the 2015-2020 Programme on Sustainable Local Development and Decentralisation in the Republic of Macedonia, which is in the process of being revised.

TERRITORIAL ORGANISATION

2016	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	80 municipalities *(opstina)* and the city of Skopje			
	Average municipal size: 28 050 inhabitants			
	81			81

OVERALL DESCRIPTION. In 2016, there were 81 local government units in North Macedonia, including 80 municipalities (*opstina*) and the City of Skopje. This number is the result of reforms affecting municipalities. In 1996, there were 123 municipalities. The number dropped to 84 in 2004 and then to 81 in 2013 when four municipalities merged to form the new Kičevo municipality. Today, municipalities are large by international comparison: 28 050 inhabitants (vs 9 700 in the OECD and 5 900 in the EU). However, the median average is lower (14 050 inhabitants). Around 20% of municipalities have less than 5 000 inhabitants. Skopje accounted for 28% of the total population in 2017. The second largest city (Kumanovo) was home to around 110 000 inhabitants in 2017 while three other cities counted between 83 000 and 93 000 inhabitants (Gostivar, Bitola and Tetovo).

Urban and rural communities can be delimited or established within each municipality with the objective of enabling the residents to take positions or address issues particularly relevant to their municipalities. The powers of such entities are defined by the municipalities and therefore vary from one municipality to the next. The villages and neighbourhood are not political entities and can only make recommendations to the local governments or work in the interest of their communities. North Macedonia has a dense network of urban and rural settlements (around 1 780 units).

The capital city, Skopje, is recognised as having special status and consists of 10 independent municipalities (which are part of the overall number of 80 municipalities).

Eight regions are established for statistical and planning purposes only. These regions have no administrative roles; they were created partly in accordance with the EU NUTS system and correspond to NUTS level 3. Each region has a council, which is made up of the mayors of its constituent municipalities.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

According to Article 22 of the 2002 Law on Local Self-Government, municipalities have both own and delegated competences. Overall, Macedonia has a highly decentralised public sector with the municipalities undertaking responsibilities in important areas such as education, the provision of basic utilities and social welfare, economic affairs and transport, environment, health etc. According to the 1991 Constitution (Article 115) and the Local Self-Government Act (Article 23), a public administration body may also delegate the execution of specific tasks from its competence to the municipality. In these cases, the funds anticipated for the performance of these tasks shall also be transferred from the national budget. The delivery of the delegated competences may be adjusted to local conditions, in accordance with the relevant laws. Examples of shared competences include education, health, road maintenance, urban planning and building permits. The capital's independent municipalities have individual competences, some of which are shared with Skopje, and which set them apart from the country's other municipalities.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPAL LEVEL
1. General public services	Municipal administration; Oversight of all activities within the municipal competence
2. Public order and safety	Civil protection; Natural and other disasters; Fire protection
3. Economic affairs/transports	Local public transportation; Local economic development and planning; Entrepreneurial development; Construction and maintenance of local roads and other infrastructure facilities; Public parkings; Construction of markets
4. Environmental protection	Environmental protection (water, atmosphere, land, pollution); Maintenance of forests; Green areas and parks; Rivers in urban areas; Sewerage; Drainage
5. Housing and community amenities	Water supply; Waste collection and treatment; Natural gas and energy supply; Cemeteries; Public lighting; Regulation and maintenance of buildable land; Public hygiene; Management of state land (since 2011)
6. Health	Governance of the network of public health organisations and primary care buildings; Preventive health control over contagious diseases; Assistance to patients with special needs (mental health, child abuse, etc.)
7. Recreation, culture & religion	Cultural heritage preservation; Maintenance and construction of sports and recreational facilities; Cultural centres; Libraries; Museums
8. Education	Pre-schools; Primary and secondary education (in coordination with central authorities), including the payment of teachers' salaries; Transportation of pupils; Accommodation and dormitories
9. Social protection	Social welfare most notably for elderly, disabled and children, including children with special needs and persons exposed to social risk

SUBNATIONAL GOVERNMENT FINANCE

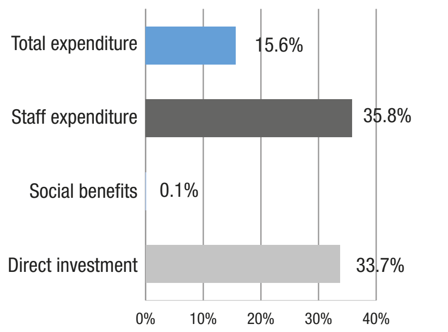
Scope of fiscal data: all municipalities including the city of Skopje	SNA 2008	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. Throughout 2004 and 2005, significant reforms were carried out with the objective of consolidating the local public finance system. The 2004 law on local government finance indicates that SNGs are financed through own-source revenues, shared revenues, grants from the budget of the republic and from the budget of the funds, and borrowing. The 2004 law abolished the previous Law on Limitation of Own Source Revenues, transferring full responsibility in administering and collecting local taxes and establishing the rights of SNGs to receive either a share of or all tax revenues collected within their respective jurisdictions by the central government. A Committee for Monitoring and Development of Local Government Finance System whose members are issued from national and local governments has been established.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**720**	**4.9%**	**100%**
Inc. current expenditure	572	3.9%	79.5%
Staff expenditure	361	2.5%	50.2%
Intermediate consumption	177	1.2%	24.5%
Social expenditure	2	0.0%	0.3%
Subsidies and current transfers	31	0.2%	4.3%
Financial charges	1	0.0%	0.2%
Others	0	0.0%	0.0%
Incl. capital expenditure	147	1.0%	20.5%
Capital transfers	3	0.0%	0.4%
Direct investment (or GFCF)	144	1.0%	20.1%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



REPUBLIC OF NORTH MACEDONIA

UNITARY COUNTRY

EXPENDITURE. In 2016, local government expenditure amounted to 4.9% of GDP and 15.6% of public expenditure, percentages which were significantly below the averages for OECD unitary countries in 2016 (9.2% of GDP and 29% public expenditure), despite large areas of responsibilities transferred to municipalities. SNG expenditure is mostly comprised of current expenditure (79.5% of their expenditure) and it is noted that half of the current SNG expenditure is related to staff compensation (50.2%). This high level of municipal staff spending is explained by the fact that municipalities are in charge of paying teachers' wages in primary and secondary education.

DIRECT INVESTMENT. Capital expenditure represented 20.5% of total SNG expenditure, a ratio that is higher than the average for OECD unitary countries, which stood at 10.5% in 2016. Local governments undertook approximately a third (33.7%) of total public investment in 2016, a significant increase compared to the ratio of 2015 (25% of total public investment). However, that ratio remains very much below the average for OECD (50.7% in 2016) and EU (46.1% in 2017) unitary countries. A large share of SNG investment is also carried by the capital city.

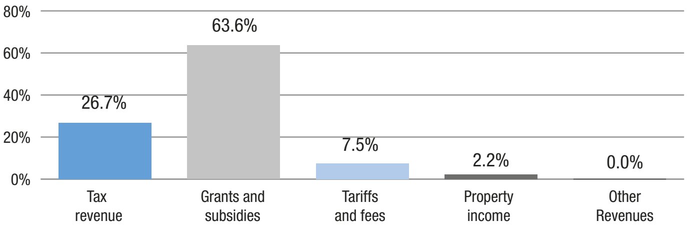
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

% GDP	% SNG EXPENDITURE

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**723**	**4.9%**	**17.1%**
Tax revenue	193	1.3%	7.2%
Grants and subsidies	460	3.1%	
Tariffs and fees	54	0.4%	
Property income	16	0.1%	
Other revenues	0	0.0%	

% SNG REVENUE



OVERALL DESCRIPTION. SNG revenue has been on the rise in the last decade, from 1.9% of GDP in 2005 to 4.9% in 2016, signalling progress in the fiscal decentralisation process. Despite this improvement, the responsibilities of Macedonian municipalities often go unfunded. Despite the 2004 law on local government, SNGs still depend largely on central government transfers, which represented almost 64% of their revenue in 2016 (vs 43.3% in the EU), while tax revenue and other sources of own revenues (tariffs, fees and property income) are still low by international standards.

TAX REVENUE. Local government tax powers are regulated in the 2004 Law on Local Government Finance, the Law on the Property Tax, the Law on Communal Taxes, and other sectoral laws that influence the local public finance system. In 2016, SNG tax revenues stood at 7.2% of public tax revenues, and only 1.3% of GDP, ratios which are well below the averages for EU unitary countries (16% of public tax revenues and 4.5% of GDP) and OECD unitary countries (19.8% of public tax revenues, 4.7% of GDP in 2016). Tax revenue comprises both shared taxes and own-source taxes.

Shared taxes are however very limited. They include 100% of the personal income tax (PIT) from the self-employed and 3% of revenues generated from the PIT of other residents in the form of wages where the employer is responsible for paying the PIT on behalf of the employee. Shared revenues from the PIT stood at 3.7% of SNG tax revenues, yet only 1% of SNG revenues in 2016.
Since the 2004 law on local government finance, SNGs have the full responsibility in administering and collecting three taxes: the property transfer tax, the inheritance and gift tax and he recurrent property tax. The base and the rate of these tax instruments are set by law, while municipal councils approve the final rates for their respective jurisdictions within these legal limits. The property transfer tax accounted for 20.2% of SNG tax revenue in 2016 and 5.4% of SNG revenue. The inheritance and gift tax is minor, accounting for 1.4% of municipal tax revenue. The recurrent property tax accounted for 14.8% of SNG tax revenues, 4% of total SNG revenue and 0.2% of GDP, a level which is very low by international standards (1.1% in the OECD on average).

The recurrent property tax is paid by legal entities and individual owners. It is levied on land (agricultural, forest, and pastures) and buildings (residential buildings, flats, business premises, administrative and recreation buildings, etc.). It is charged on the basis of the estimated market value of the property, as determined by municipal staff based on a methodology defined by the central government and approved by the association of municipal councils (ZELS).

Property tax rates are set by municipal councils. They are proportional and range from 0.10% to 0.20%, according to the type of the property. Although the collection of property tax has improved over the years, there remain significant disparities in the capacity of different municipalities to tap into the property tax base. Several municipalities are working towards improving the collection process. Some local councils also collaborate with the public revenue office to limit tax evasion by blocking the accounts of uncompliant taxpayers, while others take on a more administrative approach in updating their fiscal registers. Finally, other sources of tax revenue are utilities fees (for the use of municipal infrastructure) and administrative fees. These local taxes on specific services accounted for 40% of SNG tax revenue in 2016, i.e. 10% of their total revenues.

GRANTS AND SUBSIDIES. Intergovernmental transfers include resources from the central budget as well as from different specific funds such as the Road Fund, the Water Fund, and the Fund for Balanced Regions.

There are six different categories of transfers/grants:

1/ Block Grants. They are used to finance the major municipal services. Municipalities receive a grant for primary and secondary education (in particular for the payment of teachers' salaries) based on a formula that takes into consideration enrolment, employment, number of children entitled to free school transport, number of pupils and teachers etc. They also receive a block grant for culture and fire protection services. Municipalities are autonomous in their management of the funds received through the block grants.

2/ Earmarked Grants. They include mainly operation or maintenance costs resulting from education, social care, and firefighting. Wages and salaries in all of these sectors are not included.

3/ Revenues from VAT (Value Added Tax): SNGs receive a share of the VAT. This share has been increased from from 3% to 4.5% of total VAT collection in recent months following an amendment in the local government finance law. Shared VAT revenues are distributed in the form of an equalisation grant scheme to narrow the revenue disparities among rural and urban SNGs and 50% is distributed on a per capita basis. The Ministry of Finance determines the equalisation scheme in consultation with the Committee for Monitoring and Development of Local Government Finance System. Each municipality decides on its use depending on municipal priorities. The distribution formula includes variables such as the population size, territory, and the number of settlements.

4/ Capital Grants are used to finance capital projects. The government adopts annual plans for such projects and assigns grants accordingly.

5/ Grants for a delegated competency – grants to be used to finance a recent delegated competency from the central government, such as elderly care. The grants are determined by the contract signed between the mayor and the line ministry.

6/ Regional Development Fund. This Fund aims at promoting balanced regional development by allocating money to regions according to a formula, which is specified in the law on regional development. The Regional Development Fund is set at 1% of GDP although this share has not been approved in recent years.

Overall, current grants accounted for 91% of total grants in 2016 and capital grants for the remaining 9%.

OTHER REVENUES. Besides municipal utility fees and administrative fees, municipalities can charge fees on buildable land, on urban and spatial plans, on municipal services delivery. They are provided by utility companies, and consumers pay them directly for their services. Revenues from tariffs and fees accounted for 7.5% of SNG revenues in 2016, which is below the OECD and EU28 average (respectively 14.9% and 11.6% in 2016).
Property revenues are generated from the sales of properties, rent revenue and interest rate revenue. These revenues are determined and collected by the local authorities. In addition, SNGs also receive revenues from concessions (e.g., on water, agricultural state land) and since 2015, 10% of concessions on agricultural land, a ratio that is expected to rise to 50% as of 2018. Property income accounted for 2.2% of SNG revenue in 2016, above the OECD and EU28 average (respectively 2.0% and 1.2% in 2016).

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. According to the Budget Law, the procedure of preparation, adoption and execution of the Budget of the Republic of Macedonia and the budgets of the municipalities and the reporting on their execution is based on several principles, including that of budget balance, which means that the total revenues and inflows shall cover the appropriations. A "sound Financial Management" is requested, meaning that execution of the budget in accordance with an effective and efficient internal control as a process which is implemented on all the levels of management of funds.

DEBT. Under the 2004 law on local government finance, municipalities have the right to borrow but under strict borrowing rules. Borrowing from foreign entities needs the consent of the Ministry of Finance. Short-term borrowing can be used only for covering temporary cash deficits and it cannot exceed 20% of the overall revenues from the current-operational budget of the municipality in the preceding fiscal year. Long-term borrowing is allowed only to finance capital assets or investment projects ("Golden rule"). The limit on the total annual debt-service amount from long-term borrowing in one fiscal year is 15% of the overall revenues in the current operating budget of the municipality in the preceding fiscal year. Still, the total outstanding long-term borrowing including all guarantees shall not exceed the total amount of revenues in the current operating budget of the municipality in the preceding year. Further, commercial banks are required to report all loans to municipalities to the Ministry of Finance.

SNG borrowing remains however very limited. In order to boost SNG investment, the government has provided credit lines from international financial institutions (World Bank, EIB, KfW and EBRD), which have provided for substantial investments, especially in reconstruction and rehabilitation of local streets and bridges, improvement of public hygiene and energy efficiency, construction and reconstruction of the water supply and local spatial landscaping. The government also wishes to help municipalities to begin issuing municipal bonds as an additional instrument for improving liquidity and providing financial resources for capital and municipal projects.

SNGWOFI
World Observatory on Subnational Government Finance and Investment
Lead responsible: OECD
Last update: 02/ 2019
www.sng-wofi.org

Socio-economic indicators: World Bank // UNDP // UN Desa // ILO // Statistical office of the Republic of Macedonia (2017) Statistical Yearbook 2017
Fiscal data: IMF GFS // OECD (2018) Subnational governments in OECD countries: key data (brochure and database)
Other sources of information: Republic of Macedonia (2018) 2019-2021 Fiscal Strategy of the Republic of Macedonia // NALAS (2018) Fiscal Decentralization Indicators for South-East Europe // IMF (2018) Former Yugoslav Republic of Macedonia: Fiscal transparency evaluation // Fazliu, R. (2016) Organisation of Self-Government in Republic of Macedonia // Kraja Sejdini, M. (2016) An Overview of the Reformed Local Government in Macedonia // PWC (2016) Guide to Doing Business and Investing in Macedonia // Siljanovska-Davkova, G. (2009), Legal and Institutional Framework of Local Self-Government in the Republic of Macedonia.

NORWAY

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: NORWEGIAN KRONE (NOK)

POPULATION AND GEOGRAPHY

Area: 385 207 km²
Population: 5.277 million inhabitants (2017), an increase of 1.2% per year (2010-2015)
Density: 17 inhabitants / km²
Urban population: 81.9% of national population (2017)
Urban population growth: 1.3% (2017)
Capital city: Oslo (12.6% of national population)

ECONOMIC DATA

GDP: 324.4 billion (current PPP international dollars), i.e. 61 414 dollars per inhabitant (2017)
Real GDP growth: 2.0% (2017 vs 2016)
Unemployment rate: 4.2 % (2017)
Foreign direct investment, net inflows (FDI): 1 643 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 24.1% of GDP (2017)
HDI: 0.953 (very high), rank 1 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

According to the Political Constitution, adopted in 1814, Norway is a monarchy with a parliamentary form of government. The King acts as Head of State and the Prime Minister as Head of the Government. The Parliament (*Storting*) is composed of 169 members elected every four years. Among the 12 Parliamentary Standing Committees, there is the Standing Committee on Local Government and Public Administration, which is responsible for local government legislation (e.g. regional and rural policy; block grants to municipalities and counties; regional planning; government administration; personnel policy for state employees including pay, etc.)

The Norwegian Constitution makes no reference to local self-government. In 1837, local democracy and local self-rule was established and since then, the legal framework has been developed through several laws such as the Local Government Act of 1992 which states that the role of local democratic bodies is more administrative than legislative. According to the Local Government Act of 1992, municipalities and counties can choose between two administrative models. If a municipality chooses the traditional administrative system, the municipal council is the highest municipal body. In this case, the council elects a five-member executive board from among the members of the council. Also an executive officer is appointed to run the municipal administration under the executive board and council. The executive board is responsible for preparing economic and spatial four-year development plans, and for making proposals concerning the budget and other related financial and economic topics. The second alternative gives much more power to the executive board, which runs the municipal administration and has a large decision-making mandate. No executive officer is appointed in this case, as the members of executive board act as managers of the administration. There is also a third administrative model, formed by the City of Oslo, as the city is divided into fifteen boroughs, each of which has a borough council whose members are elected by direct universal suffrage.

In 1999, the Inter-municipal Companies Act of 1999 established the framework for inter-municipal co-operation. In 2001, the Act of 15 June, clarified local government boundaries. In 2002, the Representation of the People Act, laid down the rules governing the organisation of general and local elections. Also in 2002, the responsibility for hospitals was moved from the counties to the national government. In 2006, the Freedom of Information Act focused on matters related to access to official information both for national and local authorities. On 1 January 2010, a reform amending Norway's system of local government entered into force. The reform adressed power-sharing arrangements between the different levels of government. It transferred a number of tasks to county authorities, notably public roads, cultural activities, management of marine resources, operation of vocational schools and environmental protection. In addition, certain responsibilities on health and social services were transferred to municipalities.

Since 2014 new reforms have been discussed as the last municipal and regional reforms in Norway took place more than 50 years ago while greater responsibility has been given to counties and municipalities since then. In 2014, the Ministry of Local Government and Modernisation appointed an expert commission to propose criteria for the reform and to provide recommendations. In 2017, a new subnational structure was proposed to the Parliament, for both municipalities and counties, as well as the transfer of certain tasks to the new municipalities and regions. The reform was adopted in 2017 and, from 2020 there should be 356 municipalities and 11 regions.

The Norwegian Association of Local and Regional Authorities (KS) assembles the bulk of municipalities and counties and plays a significant communication role between the central government and subnational governments. They encourage multi-level communication by promoting regular meetings with the government in order to discuss general issues and financial matters, as well as to arrange meetings with ministries on specific matters (transport, health, occupational safety, refugees, etc.).

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	422 municipalities *(Kommuner)*		18 counties *(Fylker)*	
	Average municipal size: 12 408 inhabitants			
	422		18	440

OVERALL DESCRIPTION. Norway has a two-tier subnational government system, composed of 422 municipalities and 18 counties with no hierarchical link. The city of Oslo is both a county and a municipality.

REGIONAL LEVEL. There are currently 18 counties. In 2017 however, it was decided to abolish counties and to replace them with 11 larger regions by 2020. Some of the new regions will be unchanged and some will be merged, in some cases corresponding to the historical divisions of Amt (county) used until 1918 and Len (Swedish for county). The Oslo Region for example is unchanged, comprising the city and the former county of Oslo. The rationale behind the proposal is to strengthen the regions as functional units and to provide more coherent housing and labour market areas.

MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION. The population sizes of municipalities ranges from a few hundred inhabitants in the smallest rural communities to nearly 600 000 in the capital Oslo, while the average and median sizes amounted to around respectively 12 400 inhabitants (vs 9 700 inhabitants in the OECD on average) and 4 715 inhabitants. In 2016, 52% of municipalities had fewer than 5 000 inhabitants and 22% fewer than 2 000. The considerable differences in municipal population size and financial capacity, together with increased municipal responsibilities and demands for equity of access to services, spark, on a regular basis, debate on the need to reform the municipal structure. Despitethis, the number of municipalities has remained relatively stable during the past two or three decades. The last wave of municipal mergers took place in the 1960s when the number of municipalities was reduced from 744 (in 1957) to 454 (in 1967). As previously mentioned, the reform currently underway will reduce the number of municipalities to 356 from 2020. The objectives of the reform, which seeks to align new municipal boundaries with functional development areas are as follows: good, equal services for the citizens; comprehensive and coordinated community development; sustainable and financially robust municipalities and strengthened local democracy
Beyond the aim of increasing the technical capacity and expertise of small municipalities by encouraging mergers, the aim of the reform is also to promote inter-municipal cooperation. Nevertheless, inter-municipal cooperation has already taken place, especially for issues related to waste management, auditing, emergency clinics, emergency services, educational-psychological services, and child welfare. The three most frequent areas of cooperation where more than half of the municipalities are involved in formalised cooperation are waste management (93% of municipalities), auditing (86%) and emergency clinics (83%).

The central government has a deconcentrated administration at territorial level: the county governor (fylkesman) who acts as the representative of central government at regional and local levels. In addition to coordinating the activities of other central government bodies at the county level, the County governor supervises local government activities according to the Local Government Act article 59. In the framework of the current reform, the number of fylkesmen will be reduced from 18 to 10.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

With the exception of Oslo, which is both a county and a municipality, all Norwegian municipalities have the same resposnibilities and are required to fulfil the same functions. The municipalities and counties are free to choose the method of service delivery between own production, outsourcing or inter-municipal cooperation. While decentralisation has been the clear trend in Norway, a major centralisation reform was carried out in 2002 as the hospital services were transferred from counties to the central government. This made hospitals autonomous state health enterprises. Since then, decentralisation has however continued in other service sectors. In 2006, the government presented a white paper on the division of powers and responsibilities between the various levels of government. As a result, a reform was introduced in 2010, handing more competences to municipalities and counties. The current reform will significantly change the distribution of responsibilities across levels of government. The impact will be stronger at the regional level, whose current responsibilities will be strengthened and which will also gain significant new responsibilities. In particular, the reform strengthens the counties as “community developers”, and their responsibilities in transport, roads, business development, research and innovation, agriculture, public health, climate and environment, integration (immigrants), planning and culture.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONS (IF RELEVANT)	MUNICIPAL LEVEL
1. General public services	General administration	General administration
2. Public order and safety		Comprehensive municipal emergency planning responsibility; Fire protection; Disaster prevention and response
3. Economic affairs/transports	Public transport; Trade and industrial policy	Municipal roads
4. Environmental protection	Environmental protection	Environmental protection; Recycling waste water; Waste collection and removal
5. Housing and community amenities	Regional development (planning and business development)	Water supply; Planning (including land use planning); Housing
6. Health	Dental health	Primary health care (general practitioners, health centres and emergency rooms); Outpatient health care
7. Recreation, culture & religion	Libraries; Museums; Sports facilities	Cultural facilities; Churches' maitenance
8. Education	Upper-secondary education	Access to and facilities in primary schools; Lower secondary education
9. Social protection	Dental care	Nursing homes and home based care for the Elderly; Social assistance and child custody; Kindergarten; Prevention and care for the elderly and people with disabilities

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: counties, municipalities, as well as non-market corporations classified within local government and joint parish councils.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. The Local Government Act determines the ground rules for the organisation of the municipalities' and county authorities' work including their finance plan, annual budget, annual accounts and reporting, debts, etc. Regulations are the same for municipalities and county authorities.

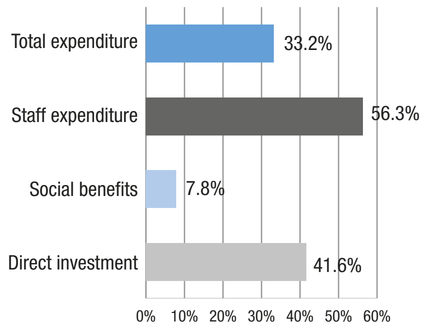
NORWAY

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**11 951**	**16.9%**	**100%**
Inc. current expenditure	10 383	14.7%	86.9%
Staff expenditure	6 113	8.6%	51.2%
Intermediate consumption	2 248	3.2%	18.8%
Social expenditure	972	1.4%	8.1%
Subsidies and current transfers	828	1.2%	6.9%
Financial charges	217	0.3%	1.8%
Others	5	0.0%	0.0%
Incl. capital expenditure	1 568	2.2%	13.1%
Capital transfers	25	0.0%	0.2%
Direct investment (or GFCF)	1 543	2.2%	12.9%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



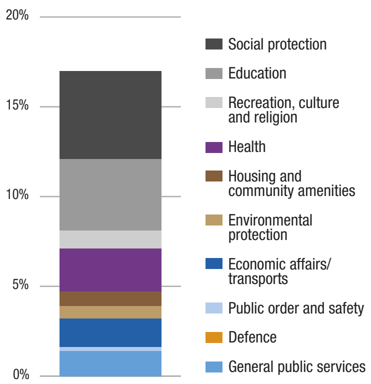
EXPENDITURE. SNGs accounted for a third of general government expenditure in 2016 (a smaller percentage relative to the OECD average in 2016, 40.4%), and for 16.9% of GDP, which is in line with the rest of OECD countries which accounted for an average of 16.2% in 2016. SNGs are also a major employer since the municipalities and counties are responsible for more than half of public staff expenditure, one of the highest shares among OECD countries (with an average of 36% of subnational expenditure in 2016), outpaced solely by Chile (52.1%), and the Slovak Republic (51,9%).

DIRECT INVESTMENT. Direct investment at the subnational government level accounts for 2.2% of the GDP (a larger percentage in comparison with the OECD average of 1.7% for 2016) and more than 40% of general government direct investment (which remains below the OECD average of 56,9%).

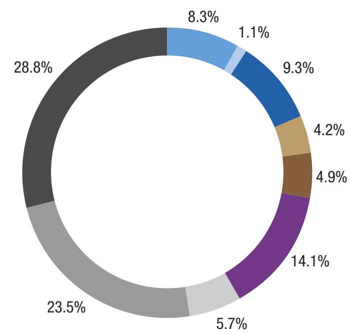
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Following the Nordic tradition, the local public sector in Norway is a major provider of welfare services, which explains why education, health and social sectors account for the bulk of SNG expenditure. The most important budget item is social protection, which accounted 4.9% of GDP (a level well above the OECD average of 2.2% of GDP) and almost 29% of SNG expenditure (also well above the OECD average of 14.0%). As far as education is concerned, Norway is in line with the OECD average both as a share of GDP where it accounted 4.0% of GDP in the OECD in 2016 and as a share of SNG spending (24.8%). Despite the fact that hospitals are under central government, health is an important subnational expenditure sector, accounting for 2.4% of GDP and 14.1% of SNG expenditure. SNGs are responsible for more than 25% of the general government expenditure in this area. Finally, SNGs are active in economic affairs and transport, especially since they hold the responsibility of local roads maintenance, however, it remains a smaller share relative to the OECD average (13.6% in 2016) and as a share of the GDP (2.2% in 2016).

% GDP



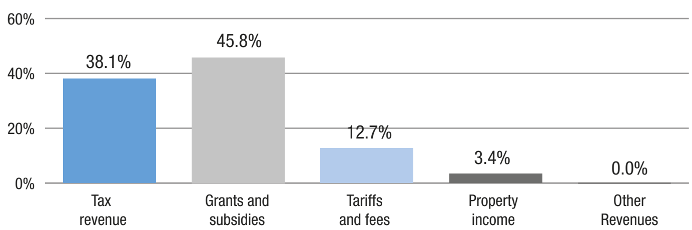
% SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**11 661**	**16.5%**	**30.0%**
Tax revenue	4 442	6.3%	22.3%
Grants and subsidies	5 341	7.5%	-
Tariffs and fees	1 483	2.1%	-
Property income	396	0.6%	-
Other revenues	0	0.0%	-

% SNG REVENUE



OVERALL DESCRIPTION. Grants and subsidies accounted for almost half of the SNG revenue, which means that they rely more on transfers from the central government than on taxes and other non-tax sources (OECD average accounted for 37.2% in 2016). The share of taxes is smaller than the OECD average, which was 44.6% in 2016.

The municipal level is more than five times as large as the county level in terms of revenue. The revenue structure differs considerably between of municipalities and counties. Counties are more dependent on central government grants, while tax revenue and user charges are more important for the municipalities. Property income is particularly important by international standards and related to SNG links with power companies.

TAX REVENUE. The primary source of tax revenue is the shared personal income tax (PIT). In 2016, it represented (87% of subnational government tax revenue, 33% of SNG revenue and 5.4% of GDP. Each year, the Parliament decides the maximum tax income rates of central, municipal and county levels. For 2019, the total maximum income tax level has been set to 22%. For municipalities, the maximum income tax rate is 11.55%, and for counties it is 2.6%. Therefore, the central government rate is 7.85%. Municipalities and counties are allowed by law to set lower than the maximum regulated rate, but in practice all municipalities and counties use the maximum rate. This is because the subnational governments do not want to give signal to central government that their transfer funding is too generous. It is interesting to note that the PIT revenue is collected by the municipalities for the central government, counties and themselves.
Other municipal taxes include a wealth tax (also shared with the central government), which accounted for 6% of the tax revenue of SNG in 2016, while counties and municipalities raise a tax on natural resources paid by companies operating in the energy sector (1% of tax revenue in 2016). The base for the tax is power production above a specified level. Additionally, there is a tax on goods and services that accounted for 1% in 2016.
Property tax is levied at the municipal level only and comprises both residential and business properties. In 2006 the Property Tax Law was changed and, since 2007 property tax can also be levied on non-urban areas. The property tax is an optional tax 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 2016, it represented 12% of SNG tax revenue and 0.8% of GDP, which is lower than the OECD average in 2016 (1.1% of GDP). As per 2018, 370 of the 422 municipalities had introduced property tax, of which 290 levied the tax on residential properties in all or part of the municipality.

GRANTS AND SUBSIDIES. The central government system of transfers comprises both block and earmarked grants. All grants that are not included in the block grant system (General Grant Scheme) are conditional grants, since they must be spent on a specific program or a specific purpose. The most important ones are related to day care, care for elderly and disabled, and for refugees and immigrants.
The General Grant Grant Scheme is an important source of revenue for SNGs (created in 1986, it replaced some 50 earmarked grants). The General Grant Scheme has both an equity dimension and a regional political dimension. This system has two main objectives; firstly, to equalize the economic opportunities across local governments given the large differences between municipalities and between counties, in both the level of income from local taxes and in the level of expenditure needed, and secondly, to promote regional policy goals, as well as the transfer resources to the local public sector. The system includes both the grants and the tax equalisation. General grants take into account both structural cost differences between municipalities (expenditure equalisation) and differences in tax bases (income equalisation). General grants are define using indicators on demographic aspects, social characteristics, population size and population density. Also the rural and urban aspects are taken into account. There is also a discretionary grant, which is used to compensate for specific local and regional circumstances, which are not adequately taken into account by the General Grant.
Since the transfer system reform of the 1980s, the degree of earmarking has steadily increased. There are currently almost 250 grant schemes, which form around 44.4 billion NOK yearly. The government has initiated some enquiries to reform the system. An expert group that delivered its report to the Ministry of Local Government and Modernization and the Ministry of Finance in the end of 2017 suggested a clear reduction in the use of earmarking to strengthen the local self-rule and to improve the efficiency and coordination of the subnational government financing system.

OTHER REVENUES. Revenues from service fees and charges represented 13% of SNG revenue in 2016 (water, sewage, garbage collection, day care, etc.), a figure that is below the OECD average of 14,9% in 2016. For the municipalities, the revenues from user charges come mainly from utilities such as water, sewage and garbage collection, but also from day care and care for the elderly. User charges cannot be applied in primary and secondary education.
Property income share, which includes interest and dividends, is higher than the OECD average in 2016 (2.0% of the SNG revenue), reflecting how important holdings of financial assets in the electricity market are for local governments.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**12 431**	**18,0%**	**42,6%**	**100%**
Financial debt*	10 767	15,6%	43,1%	87%

* Currency and deposits, loans and bonds

FISCAL RULES. The local budgets are regulated by the Local Government Act. The main requirement is operational budget balance. In the budget, current revenue must cover current expenditures, interest payments and regular installment of debt.

DEBT. The central control of local government borrowing and budgeting was relaxed in 2001. Since then, the detailed fiscal monitoring and control has applied only to local governments that have violated the balanced-budget-rule (BBR). Local governments subject to control are placed in a register (ROBEK). On September 2014, 54 municipalities out of 428 were listed on this register. Municipalities can have yearly deficits, but they must balance the budget within 2 years, or in 4 if, in understanding with the central government, the local council extends the adjustment period to 4 years. The debt-to-GDP ratio of Norwegian subnational governments is 18%, which is higher than the OECD unitary country average (14.5% in 2016). In 2016, SNG financial debt was made up of loans (70%) and bonds (30%).

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Socio-economic indicators: OECD // World Bank // UNDP // UN Desa,// ILO // Statistics Norway
Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database)
Other sources of information: Ministry of Local Government and Modernisation (2019) Meld. St. 6 (2018–2019) Notice to Stortinget Tasks for new regions // Ministry of Local Government and Modernisation (2017) Changes in the local government structure // Borge, L.-E. (2016) Local government in Norway // European Committee of Regions (2016) Division of Powers - Fiscal Powers // Government of Norway (2018). Municipalities and regions. Municipalities in the Register // Kommunal- og moderniseringsdepartementet. (2017) About the Standing Committees // NordRegio (2016) Administrative municipal and regional reforms: Overview // Council of Europe (2015) Local and regional democracy in Norway CG/2015(28)5FINAL // Hopland, B. L.-E. (2012). Fiscal adjustment and balanced-budget-rules: Evidence.

POLAND

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: ZLOTY (PLN)

POPULATION AND GEOGRAPHY

Area: 306 194 km^2
Population: 38.422 million inhabitants (2017), i.e. 0.0% per year (2010-2015)
Density: 123 inhabitants / km^2
Urban population: 60.1% of national population
Urban population growth: -0.1% (2017 vs 2016)
Capital city: Warsaw (4.6% of national population)

ECONOMIC DATA

GDP: 1 105.9 billion (current PPP international dollars), i.e. 28 784 dollars per inhabitant (2017)
Real GDP growth: 4.8% (2017 vs 2016)
Unemployment rate: 4.9% (2017)
Foreign direct investment, net inflows (FDI): 10 673 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 17.7% of GDP (2017)
HDI: 0.865 (very high), rank 33 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Republic of Poland is a unitary parliamentary democracy, with a President as Head of State elected directly by the people to serve for five years, a Prime Minister appointed by the President as Head of Government and a bicameral Parliament (Sejm). The upper house (Chambers of Envoys) has 460 members and the lower house, the Senate has 100 members, all elected by direct election for a four-year term. Neither the upper or lower house directly represent local and regional governments. However, the rules pertaining to the procedures of both assemblies oblige them to consult local and regional governments during the legislative process, in particular through the Association of Polish Counties and the Association of Polish Cities.

The principle of decentralisation is enshrined in Article 15 of the 1997 Constitution. Municipalities are considered the basic unit of local self-government and have legislative powers for areas of local interest (Art. 94). They were re-established in 1990 by the Act on Municipalities.

The decentralisation process in Poland has been growing ever since. The intermediate level represented by counties (abolished in 1975) were reintroduced in 1999 by the Local Government Organisation Act while a new regional level was created by the same act. The legal framework grants local self-government units with legal personality and property rights, and stipulates that they may associate themselves in order to fulfil tasks of common interest. In 2009, a law was passed to strengthen the responsibilities and devolve greater powers to Poland's regions. Since then, discussions are on-going regarding a reform of funding mechanisms, the introduction of financial incentives for mergers, the design of cost-cutting and efficiency programmes and the creation of metropolitan governance bodies.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	2 478 municipalities *(Gmina)*	380 counties *(Powiat)*	16 regions *(Wojeództwo)*	2 874
	Average municipal size: 15 507 inhabitants			
	2 478	**380**	**16**	**2 874**

OVERALL DESCRIPTION. Poland has a three-tier system of subnational government, enshrined in the Constitution. In 2017-2018, there were 16 regions (*voivodeships*), 380 counties (*powiats*) and 2 478 municipalities (*gminas*). Regional and local elections take place every four years (last in October 2018).

REGIONS. Regions are led by a regional council composed of members elected by direct universal suffrage, together with a regional executive board, headed by a marshal (*marszałek*). The 16 regions established in 1999 replaced the 49 former *voivodeships* that had existed from 1 July 1975 (but without functioning regional government bodies). The new units range in area from 993 000 inhabitants (Opole) to over 5.3 million inhabitants (Mazowieckie), the average being around 2.4 million inhabitants (2017). Differences between Polish regions in terms of GDP per capita have increased over the last 16 years. Lubelskie, the poorest region in the country, has a GDP per capita level equivalent to 44% of the GDP per capita in Mazowieckie, the richest region. Poland has the fifth highest regional economic disparities among 30 OECD countries with comparable data.

INTERMEDIARY LEVEL. Counties are led by a county council with members elected by direct universal suffrage, and an executive board, headed by the head of the county, elected by the members of the county council (*starosta*). The 380 counties include 314 "land counties" whose jurisdiction expands over the territory of several municipalities and 66 cities with county status. These later are the 66 largest cities (including the 16 regional capitals) and have the same responsibilities as the counties. In city counties, deliberative and executive functions are performed by the city's own council and the directly elected mayor is called prezydent. The relevance of the county tier is regularly debated, as in several other European countries having an intermediate level.

MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION. Municipalities are led by a municipal council and chaired by a mayor, which is elected by direct universal suffrage. Municipalities are divided into three categories: 302 urban municipalities (which include 66 cities with county status, out of which five have more than 500 000 inhabitants), 1 555 rural municipalities and 621 mixed municipalities (urban-rural). In 2018, the average municipal size is almost 16 000 inhabitants (vs 9 700 in the OECD and 59 00 in the EU28) and the median size is around 7 500 inhabitants. About 26% of municipalities have fewer than 5 000 inhabitants (vs 44% in the OECD) while 14% more than 20 000 inhabitants. There are five cities with more than 500 000 inhabitants in 2017:

Poznań, Wałbrzych, Łódź, Kraków and Warszawa, the capital city which counts more than 1.750 million inhabitants. Warsaw is divided into 18 districts, and has a special status, regulated in a specific act since 2002. Municipalities may create sub-municipal units with a subordinate administrative role, and may define their statutes and tasks (*osiedle* or *dzielnica* in urban municipalities and *sołectwo* in rural areas).
Poland has a number of mechanisms for inter-municipal coordination such as inter-municipal agreements and inter-municipal unions. Since 2016, local authorities can also create so-called shared service centres. The national government has also established a framework for inter-municipal collaboration through new Metropolitan Association Act in Śląskie voivodeship (2017). However, inter-municipal cooperation has been slow to catch on in Poland.
Poland also has a deconcentrated State territorial administration, based on 16 prefectures managed by a Governor, who is appointed by the Prime Minister, who is also in charge of supervising local governments. "Territorial contracts" were introduced in order to strengthen partnerships among SNGS and improve coordination among *voivodships* in areas that affect several territories at once.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The 1990 Act on Municipalities gave large responsibilities to municipalities in terms of spatial planning, infrastructure development, utilities, municipal housing, social services, education, environmental protection, basic healthcare, recreation and culture. Overall, the 1997 Constitution assigns to municipalities all government tasks that are not explicitly assigned to other government levels. Counties are responsible for local issues not ascribed to municipalities and have a more limited role and influence. Their main responsibilities include secondary education, health, social welfare, economic activity and job creation. Regions are responsible for issues of regional importance (determined by law), playing a relatively limited role in directly providing public services. Their responsibilities have been, however, progressively strengthened with the decentralisation of new tasks. Since 2007, regions are fully responsible for a big share of European cohesion funds (25%) and they received new tasks in 2009 in the areas of transport and environment.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONS	COUNTIES	MUNICIPAL LEVEL
1. General public services	Internal administration; Management of EU funds		Internal administration; Real estate management; Civil registration status
2. Public order and safety	Defence; Public order	Civil protection; Flood and fire protection	Public order and security; Emergency response
3. Economic affairs /transports	Regional economic development; Employment and labour market policy; Regional roads; Public transport including regional rail transport (since 2009); Consumer rights protection	Economic development; Job creation (employment offices); County roads (maintenance and construction)	Local roads (maintenance and construction); Local public transport; Telecommunications
4. Environmental protection	Environmental protection; Waste management (since 2009)	Environmental protection	Protection; Zoning and local environmental protection; Waste management (since 2013); Sewerage; Landfills
5. Housing and community amenities	Spatial development; Water management; Land improvement; Hydropower facilities; Modernisation of rural areas		Spatial planning; Water supply; Public areas (including cemeteries); Electricity; Gas and heat supply; Housing.
6. Health	Health promotion; Regional hospitals (specialised services, secondary referral level hospitals); Medical emergency and ambulance services	Health promotion; County hospitals (first referral level hospitals)	Health promotion; Primary healthcare services
7. Recreation, culture & religion	Regional cultural institutions	Sports and tourism; Support to cultural institutions	Marketplaces; Municipal libraries; Support to cultural institutions; Monument protection; Promotion of sports
8. Education	Some secondary schools and vocational schools; Post-secondary schools; Teacher training colleges.	Secondary education	Pre-primary and primary education
9. Social protection	Regional Social Policy Centres; Social welfare and family policy; Social exclusion; Disabled; Childcare; Elderly care	Social welfare (beyond municipal territorial boundaries); Support to the disabled through county family centres	Social services including family benefits (since 2004) through municipal social assistance centres

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: municipalities, counties and regions; associations of municipalities; schools, local institutions of culture; local health care institutions; special purpose funds (environment and water management, protection of agricultural land, etc.), road traffic centres, local public corporations and non-profit institutions.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. The main laws related to the fiscal framework of SNGs are the 1998 Act on Local Government Revenue (amended in 2004) and the 2009 Act on Public Finances. Reforms provided subnational governments with more fiscal autonomy, thanks to a decrease in the share of central transfers (and of earmarked grants), and an increase in shared tax revenues (higher proceeds from PIT and CIT). While the financial autonomy of Polish subnational authorities has been undermined in recent years as a result of the crisis and austerity measures, ongoing discussions tend towards a strengthening of their autonomy. Gaps in revenue collection between local governments across the country are filled through an equalisation system.

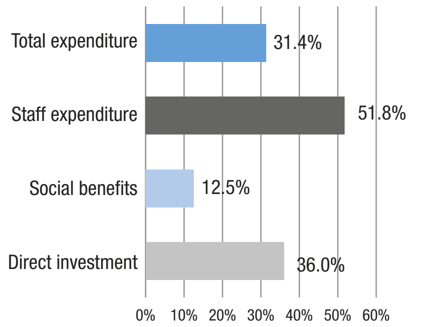
POLAND

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**3 530**	**12.9%**	**100%**
Inc. current expenditure	3 179	11.6%	90.0%
Staff expenditure	1 454	5.3%	41.2%
Intermediate consumption	931	3.4%	26.4%
Social expenditure	588	2.1%	16.7%
Subsidies and current transfers	168	0.6%	4.7%
Financial charges	26	0.1%	0.7%
Others	13	0.0%	0.4%
Incl. capital expenditure	352	1.3%	10.0%
Capital transfers	37	0.1%	1.0%
Direct investment (or GFCF)	315	1.1%	8.9%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



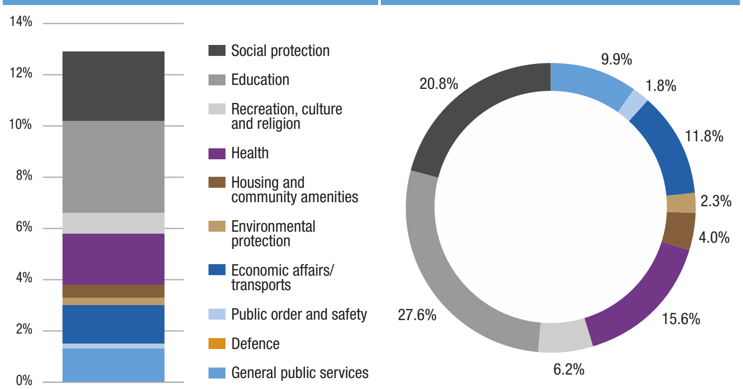
EXPENDITURE. The share of SNG expenditure in total public expenditure substantially increased with decentralisation reforms, going from 23% in 1995 to 31% in 2016 (representing an increase of 2 points as a share of GDP). Today, Polish SNGs are key economic and social actors, as well as key public employers (in particular in the education sector). Polish ratios are below the OECD average both as a share of public expenditure and GDP (respectively 40.4% and 16.2%) but above the OECD average for unitary countries (respectively 28.7% and 9.2%). Municipalities are by far the most important component (83% of SNG expenditure in 2016 i.e. 48% for the *gminas* and 35% for the cities with county status), followed by counties (11%) and then regions (6%).

INVESTMENT. Public investment accounted for 3.2% of GDP in 2016, which is slightly above the OECD average (3.0%) but has been in sharp decline since the crisis. The role of Polish SNGs as public investors has been plummeting as a result of austerity measures and borrowing restrictions. Subnational investment fell by 5% per year between 2008 and 2016 in real terms. The share of subnational investment in GDP decreased by 1.1 point while the share in public investment decreased by more than 10 points to reach 36% (i.e. 20 points below the OECD average of 57%). Within SNGs, *gminas* and cities with county status are the main investors, carrying out respectively 44% and 32% of subnational investment in 2016. Land counties and regions have an equivalent weight (respectively 12% and 13%). Investment represents a large share of regional expenditure (24%) while it amounted to 13% for counties and 11% in municipalities and cities with county status (11%).

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

The primary spending area of Polish SNGs is education, as SNGs are responsible for both capital and current expenditure including remuneration of teachers and staff. SNGs accounted for 48% of total public expenditure in the educational area. Social protection expenditure has substantially increased in recent years, becoming the second most important subnational budget item in 2016 (21% vs 13% in 2013) This was the case in 2016 especially when a social benefit was rolled out, called "The Family 500 plus", to support families bringing up children under 18 years of age. SNGs carried out 12% of total public social expenditure in 2016. Healthcare is the third most important SNG spending item accounting for 28% of total public health expenditure in 2016. Healthcare in particular is a prime responsibility for regions. In addition, SNGs are responsible for the large majority of overall public spending in the areas of housing and community amenities, recreation, culture and religion and environmental protection.

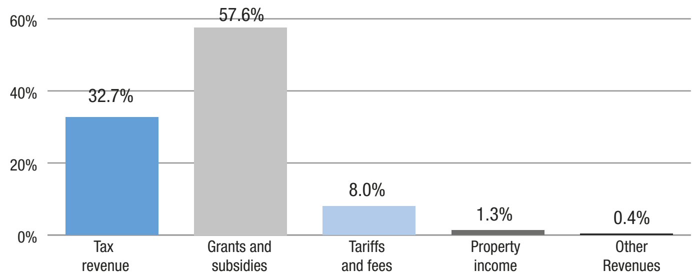
% GDP | % SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**3 598**	**13.1%**	**33.9%**
Tax revenue	1 175	4.3%	20.8%
Grants and subsidies	2 072	7.6%	
Tariffs and fees	290	1.1%	
Property income	46	0.2%	
Other revenues	15	0.1%	

% SNG REVENUE



OVERALL DESCRIPTION. The Polish Constitution comprises two main provisions related to local finances (articles 167 and 168), establishing the "matching" principle (SNGs should be assured public funds adequate for the performance of the duties assigned to them) and specifying that subnational revenues should consist of own revenues as well as general subsidies and specific grants from the state budget. Article 168 provides that SNGs shall have the right to set the level of local taxes and charges. In addition to the Constitution, there are two main acts regulating local finance: the Local Government Revenues Act and the Act on Public Finance of 27 August 2009. The 2004 reform of the Act on Local Government revenue had a profound impact on the financial relationship between the central government and SNGs, granting them more fiscal autonomy. SNG revenues remain, however, highly dependent on central government grants and subsidies. Own revenues and a general subsidy (block grant) are aimed to finance the own tasks of SNGs, while specific grants are designed to fund allocated tasks. In 2016, grants and subsidies represented 65% of county revenues, 56% of *gmina* revenues and 47% of regional revenues. Cities with county status have a more diversified structure of revenue, grants and subsidies representing only 38% of their revenues.

TAX REVENUE. The SNG tax system is based on both shared taxes (for all three levels) and own-source taxes (only for the municipal level). Municipal own-source taxes include a property tax on land and buildings, an agricultural land tax and a forest tax. These three taxes on immovable property accounted for 28.5% of SNG tax revenue in 2016 and 9.3% of their total revenue i.e. 1.2% of GDP. The property tax levied on buildings and plots of land is levied on a square metre basis, with different rates set for commercial versus residential buildings. Other municipal taxes include a tax on civil law transactions, a tax on transport vehicles, a stamp duty, an inheritance and donation tax, etc. Municipalities are free to set tax rates within upper tax limits defined by law and to allow certain exemptions. Shared tax revenue come from the share of the PIT and the CIT which are redistributed to SNGs according to a fixed percentage of the total proceeds collected in their respective area. In 2016, the share of PIT allocated to municipalities, counties and regions is respectively 39.34%, 10.25% and 1.60% and while that of CIT is respectively 6.71%, 1.40% and 14.75%. In 2016, PIT represented 51.9% of SNG tax revenues and 17.0% of total SNG revenues (and 25% of revenues of cities with county status). The CIT accounted for 9.5% of SNG tax revenues and 3.1% of total SNG revenues (but 67% of regional revenues). Therefore, there is a fiscal incentive for municipalities to increase their populations and for regional governments to foster business growth. There is no horizontal equalisation mechanism.

GRANTS AND SUBSIDIES. The system of grants includes the general purpose grant and conditional (or earmarked) grants. Current grants accounted for the vast majority of grants in 2016 (96.7%) while capital grants represented 3.3% of total grants. The general purpose grant is made up of several shares, including the education share, the equalisation share, the balancing share and the regional share. Despite these delineations, SNGs can spend the general purpose grant at their own discretion – it is not earmarked for a particular purpose. The education share is by far the largest (78% of the general grant), accounting for 17% of SNG revenues in 2016. Defined at the national level, it aims at covering educational expenses, including teacher's salaries. The equalisation share (17% of the general grant) is allocated to all SNGs with below-average tax capacities. The balancing share (3% of the general grant and only for municipalities and counties) aims at financing social expenditure; it takes into account such issues as GDP per capita, the surface area of public roads per capita and the unemployment rate. The regional share (1%) is a general grant calculated for each region based on different criteria. Some municipalities may also receive "compensating" grants, which are used to compensate municipalities for lost property tax revenues due to special economic zones. Conditional transfers include specific transfers to finance tasks that are delegated to them from the central government (88% of earmarked funds), in particular social assistance and to finance capital expenditure (12%). The latter includes grants provided under programmes financed with the participation of European funds, other non-refundable foreign funds and payments from European funds. The general grant acts as an equalisation mechanism that benefits all SNGs with below-average tax capacities (see above). A reform of the equalisation system is currently being explored: a first draft of the government bill is being discussed.

OTHER REVENUES. Administrative fees and charges include fees related to markets, visitor fees, exploitation fees, etc. while property income consists of property leasing and sales and income from municipal companies and public utilities.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**625**	**5.3%**	**7.4%**	**100%**
Financial debt*	464	4.0%	7.0%	74.3%

* Currency and deposits, loans and bonds

FISCAL RULES. SNGs are governed by tight fiscal rules regarding the use of their resources and borrowing, under the supervision of Regional Audit Chambers. The 2011 Public Finance Act established budget balance rules for SNGs (income and current expenditure must be balanced).

DEBT. From 2014 onwards, new borrowing rules came into force to further reduce SNG debt. Local governments' debt service should not exceed a three-year average sum of operating surpluses and proceeds from privatising public assets. Moreover, SNG debt must not exceed 60% of GDP. As a result, the level of SNG outstanding debt as a share of GDP and public debt has decreased over the last year. In 2016, it was moderate compared to the OECD average (24.5% of GDP and 20.7% of public debt), even when considering unitary countries only (14.5% of GDP and 11.8% of public debt). The great majority is composed of loans, bonds are limited. More than 80% of SNG debt is held by municipalities in particular by cities with county status (48% of total outstanding debt in 2016) and *gminas* (35%). Regions and *powiat* represented respectively 10% and 8% of SNG debt. In 2016, there were 48 SNGs that did not meet the individual debt-to-income ratio. In 2016, the Regional Audit Chambers called on 31 local government units to develop a remediation programme.

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Socio-economic indicators: OECD // World Bank // UNDP // UN Desa // ILO // Central Statistical Office - Area and population in the territorial profile in 2017.
Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // Eurostat // Central Statistical Office (2017) Financial economy of local government units in 2016.
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PORTUGAL

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: EURO (EUR)

POPULATION AND GEOGRAPHY

Area: 92 226 km^2
Population: 10.291 million inhabitants (2017), a decrease of 0.4% per year (2010-2015)
Density: 112 inhabitants / km^2 (2017)
Urban population: 72.9% of national population
Urban population growth: 0.6% (2017 vs 2016)
Capital city: Lisbon (27.5% of national population)

ECONOMIC DATA

GDP: 326.0 billion (current PPP international dollars), i.e. 31 673 dollars per inhabitant (2017)
Real GDP growth: 2.7% (2017 vs 2016)
Unemployment rate: 8.9% (2017)
Foreign direct investment, net inflows (FDI): 10 023 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 16.6% of GDP (2017)
HDI: 0.847 (very high), rank 41 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

According to the Constitution ratified in 1976 and amended in 1982 and 1989, Portugal is a republic ruled by a semi-presidential system. Its legislative power is composed of a unicameral Parliament (Assembleia da República) whose members are elected for a four-year term. The Government is led by the Prime Minister and the Head of State is the President of the Republic who is elected for a five-year term. Local democracy was established in the mid-1970s and it has been developing ever since. The 1976 Constitution recognises the principle of local government and decentralisation. In 1976, the islands of Azores and Madeira were granted special status as autonomous regions (*Regiões Autónomas*). In 1999, several laws were adopted to enhance the responsibilities of the municipalities and parishes. A similar attempt was made in 1998 that sought to create eight self-governing regions, submitted to a national referendum. Although the referendum was invalidated by the low participation rate (below 50%), a majority (61%) of voters voted "no".
In 2007, a reform of the Local Finance Act (Law 2/2007) changed the grant system, creating the Municipal Social Fund (FSM). It also gave municipalities a participation of the personal income tax. In 2013, a new Local Government Reform (Law 73/2013) redefined municipal responsibilities. Revised regional and local finance laws (effective in 2014) were enacted with the goal of strengthening fiscal sustainability and increasing transparency and accountability. The reform also reduced the number of parishes, which are subdivisions of municipalities.

Since 2019, a new decentralisation programme is to be gradually implemented over three years, resulting from law no. 50/2018 (framework law on decentralisation of competences to municipalities and inter-municipal communities) and law no. 51/2018 which revised the Local Finance Law. The reform aims to transfer new responsibilities to municipalities in a wide range of domains, in particular education, healthcare and transport. The intention of the reform is to increase the share of resources spent at local level, and to increase inter-municipal cooperation, including at metropolitan level. Another discussion is on-going concerning the creation of the administrative regions in mainland Portugal, whose existence is provided by the 1976 Constitution but which were never established.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	308 municipalities *(municípios)*		2 autonomous regions *(regiões autónomas)*	
	Average municipal size: 33 524 inhabitants			
	308		2	310

OVERALL DESCRIPTION. According to the Constitution, Portugal has a three-tier system of local government, consisting of regions, municipalities and parishes. In practice, however, the regional level was not implemented in mainland Portugal, so the local government level consists of 308 municipalities (*municípios*), 3 091 parishes (*freguesias*) and two overseas autonomous regions. There are 278 municipalities and 2 882 parishes in mainland Portugal while there are 19 municipalities and 155 parishes in Azores and 11 municipalities and 54 parishes in Madeira.

AUTONOMOUS REGIONS. Azores and Madeira have specific status and legislative power. They are also recognised as the outermost regions at European Union level. The Azores archipelago is located in the North Atlantic, 1 500 km from the European mainland. The archipelago comprises nine islands and several islets, São Miguel being the largest and most populated one (56% of population), followed by Terceira. The archipelago of Madeira is located 520 km from the African coast and 1 000 km from the European mainland. It is composed of four main islands (Madeira, Porto Santo, Desertas Islands and Savage Islands, the last two islands being uninhabited). The legislative assembly (*Assembleia Legislativa*) is composed of members elected by direct universal suffrage for four years. The president (*President do Governo Regional*) co-presides over the regional government for the same period.

MUNICIPALITIES. All 308 municipalities have the same status in terms of responsibilities and powers. The deliberative body is the municipal assembly (*Assembleia Municipal*), which is composed of members elected by direct universal suffrage for a four-year term but also of the presidents of the parishes located within each municipality's jurisdiction. The executive branch is the executive council (*Câmara Municipal*), which is composed of members elected by direct universal suffrage for a four-year period. Both elections used the Hondt Method. The mayor (*Presidente da Câmara Municipal*) is elected for a four-year mandate and is selected as head of the list. Municipalities are large by international comparison, amounting to 33 500 inhabitants on average (vs 9 700 inhabitants in the OECD and 5 900 inhabitants in the EU28 on average). Around 13% of municipalities have fewer than 5 000 inhabitants (vs 44% in the OECD). In Portugal, 56% of the population lives in cities of more than 50 000 inhabitants and the share of the population living in cities with more than 500 000 people is 40% compared to 55% in the OECD area.

PARISHES. The merger reform in 2012-2013 reduced the number of parishes by 30%, from 4 260 to 3 091. Freguesias have an executive body (*Junta de Freguesia*) and a deliberative body (the assembleia de freguesia, "parish assembly"), whose members are elected every four years. The presidents of the parish boards are also members of the municipal assembly.

INTER-MUNICIPAL COOPERATION. Inter-municipal cooperation has been encouraged through the laws 10 and 11 of 2003 that create inter-municipal communities (comunidades intermunicipais), which can have specific or general purposes. In 2008, a reform of the inter-municipal cooperation (Law 45/2008) was approved in order to redesign the territorial scope of inter-municipal communities. Through Law 75 of 2013, 21 compulsory inter-municipal communities were created in mainland Portugal. Currently, all municipalities are engaged in one of the inter-municipal cooperative associations in Portugal. In order to develop multi-level contracts, Partnership Agreement with the European Commission is used to promote inter-municipal cooperation at the level of the new inter-municipal communities.
In addition, the two metropolitan areas of Portugal, *Area Metropolitana de Lisboa* (AML) and *Area Metropolitana do Porto* (AMP) are covered by metropolitan area governance bodies. They were first established in 1991, through a national law, but without a definition of their competences and resources. These two metropolitan bodies were further strengthened through two laws in 2003 and 2008 laws, and more recently by law 75/2013. Metropolitan areas, although they are not local authorities, manage their own services and aim to coordinate investments as well as some municipal services of a supra-municipal nature. The government is currently contemplating improving their metropolitan governance. Today, AML encompasses 18 municipalities, i.e. 2.8 million inhabitants (with the municipality of Lisbon having 552 700 inhabitants) while AMP comprises 17 municipalities, i.e. 1.7 million inhabitants.

STATE TERRITORIAL ADMINISTRATION. Portugal is also divided into five mainland regions and 18 districts, both for administrative purposes. The districts are deconcentrated central government districts and serve as the basis for few subdivisions, namely as electoral constituencies. The practical role of districts has decreased over time but abolishing them altogether would need a constitutional amendment. In the five mainland regions, five Commissions for Regional Coordination and Development (CRCD) have been established to coordinate the different sectoral interventions of the central government in each region and manage regionalised EU funds.

SUBNATIONAL GOVERNMENT 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 in their jurisdiction (organisation, financing and supervision).

At the municipal level, the competences are established by laws 159/99 and 169/99 modified in 2002 (law 5-A/2002), 2007 (reform of the LFL), 2013 (law 75/2013), and law 69/2015 which expanded the local authorities' competencies in education, teaching and vocational training. Parishes carry out some areas of responsibility such as green areas maintenance, road cleaning, fair and markets and issuing of pet licenses. Recently, law 50/2018 defined the framework for the transfers of new responsibilities to local authorities. Since 2019 the new decentralisation programme is to be gradually implemented over three years until 2021, aiming to transfer new responsibilities to municipalities in a wide range of domains, in particular education, healthcare and transport among others. It also transfers responsibilities to inter-municipal communities and parishes. The transfer of competencies started in 2019 for the local authorities that did not declare that they were unwilling to implement them.

Municipalities can delegate tasks to inter-municipal entities and parishes and can also sign contractual arrangements with the central government to exercise shared responsibilities. As a result, there is, in practice, a relatively complex network of functions. In addition, in Portugal, most local governments use, as regulated by law 50/2012, local enterprises and "municipalised" services (*serviços municipalizados*). Municipalised services are entities with a special statute, created with the aim of increasing flexibility in the provision of public services. The number of municipal enterprises dramatically decreased after the 2008 crisis, from 337 in 2011 to 192 by the end of 2017 and 188 at year-end 2018.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONS (AUTONOMOUS REGIONS)	MUNICIPAL LEVEL
1. General public services	Organisation of regional administration and related services; Municipal affairs	Internal administration
2. Public order and safety		Civil protection (municipalities and parishes)
3. Economic affairs /transports	Agricultural and fisheries development; Commercial and industrial development; Tourism; Transport including roads, traffic and land transport and maritime and air transport between the islands	Local roads; Parks; Local ports (2021); Urban and public transports; School transport; Local tourism; Consumer protection; Local development; External cooperation
4. Environmental protection	Environment; Nature protection; Water, mineral and thermal resources and locally produced energy	Drainage and sanitation; Waste management; Forest fire fighting; Beaches; Animal health and protection (2021).
5. Housing and community amenities	Planning, accommodation; Urbanism and regional planning	Rural and urban infrastructure (municipalities and parishes); Energy; Communications; Home care for the elderly: Land use and urban planning (municipalities and parishes); Water supply
6. Health	Public health	Healthcare (construction and maintenance of primary health care centres) in 2021
7. Recreation, culture & religion	Heritage and cultural creation; Folklore and crafts; Sports	Heritage; Culture and science; Leisure and sport (municipalities and parishes)
8. Education	Primary and secondary education	Pre-schools; Non higher education; vocational education and training facilities
9. Social protection	Quality of life	Municipal social programmes (municipalities and parishes)

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: at regional level, regional governments of the Azores and Madeira, regional autonomous Services and Funds (health, education), regional hospitals, regional public corporations; at local level, municipalities, parishes, local autonomous services, local public enterprises, inter-municipal communities and associations.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

PORTUGAL

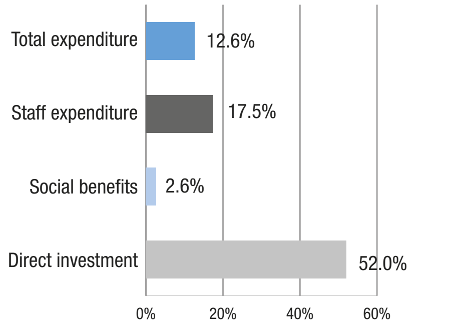
UNITARY COUNTRY

GENERAL INTRODUCTION. Fiscal provisions are set out in Article 238 of the Portuguese Constitution. Several fiscal reforms have taken place over the last 15 years. The reform of the LFL in 2007 created the Municipal Social Fund (FSM), an earmarked grant to finance specific expenditures in education, health and social policy, as well as giving municipalities a participation of up to 5% of personal income tax from their residents. The 2007 law also aimed at simplifying the intergovernmental system of transfers, introduced horizontal equalisation, tightened municipal fiscal rules and reformed the municipal accounting system. The new RFL and the LFL, adopted in 2013 and effective since 2014, were enacted with the goal of strengthening fiscal sustainability and increasing transparency and accountability. The amendments to the LFL introduced in 2018 (law 51/2018) have contributed to an even greater strengthening of fiscal sustainability, transparency and accountability.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**1 730**	**5.6%**	**100%**
Inc. current expenditure	1 450	4.7%	83.8%
Staff expenditure	602	2.0%	34.8%
Intermediate consumption	491	1.6%	28.4%
Social expenditure	154	0.5%	8.9%
Subsidies and current transfers	172	0.6%	9.9%
Financial charges	31	0.1%	1.8%
Others	0	0.0%	0.0%
Incl. capital expenditure	280	0.9%	16.2%
Capital transfers	39	0.1%	2.3%
Direct investment (or GFCF)	241	0.8%	13.9%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



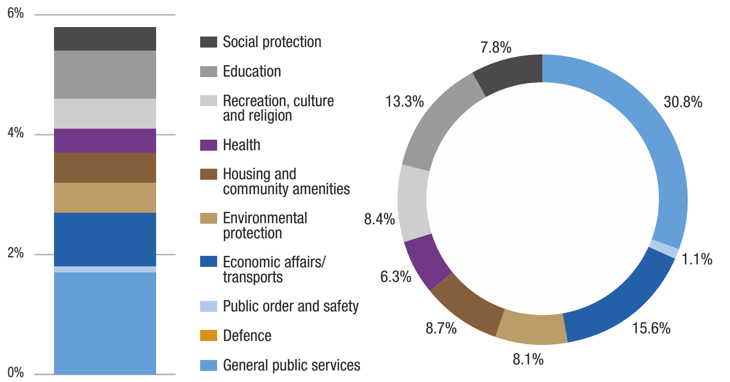
EXPENDITURE. Despite the decentralisation process, which began in 2011 and continued with the 2013 local government reform, Portugal is still a centralised country in terms of SNG spending responsibilities. The level of SNG spending in GDP and public spending are below the OECD average for unitary countries (9.2% of GDP and 28.7% of public spending) as well as below the EU28 average (15.5% of GDP and 33.4% of public expenditure. The SNGs role as a public employer is also limited relative to the OECD, even though staff spending accounts for one-third of SNG expenditure.

INVESTMENT. SNGs play a significant role in public investment, being responsible for 52% of total public investment, in line with the OECD average for unitary countries (50.7%). However, SNG investment accounted for only 0.8% of GDP, well below the OECD average for unitary countries (1.7%). SNGs have been severely hit by the crisis. Investment has been the adjustment variable. SNG investment decreased by 4.7% on yearly average in real terms between 2007 and 2017.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

General public services is the main spending area for Portuguese SNGs, a share much larger than the OECD average of 14.1% as a share of SNG expenditure. Inasmuch as SNGs are responsible for roads and transport local infrastructure and maintenance, economic affairs is another important spending area in line with the OECD average of both SNG expenditure and share of GDP (13.6% and 2.2% respectively). The third biggest item is education, although SNG expenditure in this area accounted for only 15% of total public spending in education. In addition, SNGs are responsible for the large majority of overall public spending in the areas of environmental protection and housing and community amenities, since they are responsible for public infrastructure linked with public services.

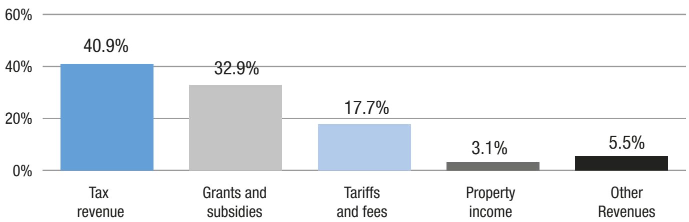
% GDP	% SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**1 875**	**6.1%**	**14.2%**
Tax revenue	766	2.5%	10.0%
Grants and subsidies	617	2.0%	
Tariffs and fees	331	1.1%	
Property income	58	0.2%	
Other revenues	103	0.3%	

% SNG REVENUE



OVERALL DESCRIPTION. The LFL modified the local tax system, the central government grants system (change in the methodology for the calculation of transfers) and introduced new fiscal rules as well as surveillance and coordination mechanisms. Although belonging to the group of OECD centralised countries where SNGs have relatively few spending responsibilities and few resources, Portugal stands out by the importance of own-source revenues. Nevertheless, inter-governmental transfers are an important revenue source, representing in 2016 more around one-third of total revenue (vs 49% in OECD unitary countries on average). The reform of municipal spending assignments starting from 2019 will increase transfers to municipalities by between EUR 1 and 1.2 billion, including, starting in 2020, a new share of VAT receipts.

TAX REVENUE. Tax revenue is an important source of revenues for regions and municipalities, accounting for 41% of their revenue in 2016, in line with the OECD average for unitary countries (38.7%). However, SNG tax revenue is limited, representing 2.5% of GDP and 10% of public tax revenue, compared to 4.1% of GDP and 19.8% of public tax revenue in the OECD unitary countries. The two autonomous regions have a certain degree of tax autonomy as they are able to retain nearly all national tax revenue generated within their territories and adjust their rates (including PIT, CIT, VAT and excise taxes) and can create new taxes. They have strong control over rates and base, which has been reduced - however - by the 2013 RFL, in particular over tax exonerations.

Municipal tax revenues include both shared taxes and own-source taxes. Since 2007, 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). Municipal own-source taxes include the real estate property tax (IMI), which is levied annually on land or buildings by the municipalities. Cadastral value of 4.9 million properties were re-evaluated to underpin the new property tax regime. Revenue from property tax accounted for 32.4% of SNG tax revenue, 13.2% of SNG total revenue and 0.8% of GDP (vs 1.1% ofGDP in the OECD). The 2013 LFL abolished the tax on property transactions, due to its disincentives with regards to urban sprawl. However, this abolition was never implemented (and the tax on property transactions was even discarded by the amendments to the 2018 LFL). As a result, this tax represented in 2016 almost 14% of municipal tax revenue and 5.6% of total SNG revenue. Municipalities also levy a vehicle tax and a municipal surtax on the corporate profit tax (*derrama*).

Overall, the regional and municipal PIT accounted for 0.4% of GDP, 17.2% of SNG tax revenue and 7% of SNG total revenue. The regional and municipal CIT accounted for 0.3% of GDP, 10.3% of SNG tax revenue and 4.2% of SNG total revenue. VAT accounted for 0.4% of GDP, 14.6% of SNG tax revenue and 6% of total SNG revenue.

GRANTS AND SUBSIDIES. The autonomous Regions of Azores and Madeira receive several types of transfers from the central government, including a lump-sum subsidy, a regional cohesion fund, national co-funding with EU funding and a fund to finance common interest projects.

Transfers from the central government to municipalities include 18.5% of the average revenue from the three major taxes (CIT, PIT and VAT), grouped into the Financial Equilibrium Fund (*Fundo de Equilibrio 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 and an 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 25.3% of all regional and municipal grants in 2016.

OTHER REVENUES. Service charges and fees (water, sewerage, waste collection and public transport) accounted for 17.7% of the total SNG which is higher than the OECD average (14.9% in 2016). Property income (rents, sales of assets), accounted for 3.1% of SNG revenue in 2016, a larger share than the OECD average of 2.0%.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**2 290**	**7.4%**	**5.1%**	**100%**
Financial debt*	1 778	5.8%	4.2%	77.7%

* Currency and deposits, loans and bonds

FISCAL RULES. The LFL and RFL introduced a multi-annual budgetary framework and tighter budget balance rules, including arrears, off-balance sheet liabilities and expenditure ceilings. Fiscal coordination mechanisms between central and SNGs have been improved with the creation of the Public Finance Council whose mandate covers all levels of government.

DEBT. The RFL and LFL laws strengthened borrowing rules for SNGs. The RFL law stipulates that the autonomous regions' liabilities should not exceed one-and-a-half times their three-year average of net current revenue. The LFL introduced similar requirements for each municipality individually. Municipal individual borrowing is limited at 150% of the average municipal total net current revenue of the previous three years. Municipalities that exceed this debt ratio threshold must reduce the excess by a minimum of 10% a year until they reach the threshold. In addition, as the debt of municipalised services and local public enterprises had been increasing, it was decided to change the definition of debt, which was extended to include local governments themselves, municipalised and inter-municipalised services, inter-municipal entities, municipal associations, local enterprises, enterprises owned partly by municipalities, etc. Failure to comply with the limit leads to the imposition of a financial restructuring plan. If the debt ratio is above 300%, the municipality is obliged to follow the so-called municipal adjustment plan, which includes financial assistance to distressed municipalities from the Municipality Resolution Fund (FAM). Overall, in 2016, SNG debt was lower than the OECD average of unitary countries (14.5% of GDP and 20.7% of public debt). It is made up of other accounts payable (22%) and financial debt or "Maastricht debt" (78%). The financial debt comprises both loans (86% of debt stock) and bonds (14%).

SNGWOFI
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Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // Eurostat
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ROMANIA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: ROMANIAN LEU (RON)

POPULATION AND GEOGRAPHY

Area: 238 391 km^2
Population: 19.644 million inhabitants (2017), a decrease of -0.6% per year (2010-15)
Density: 82 inhabitants/km^2
Urban population: 54.8% of national population
Urban population growth: -0.2% (2017 vs 2016)
Capital city: Bucharest (9.3% of national population)

ECONOMIC DATA

GDP: 522.1 billion (current PPP international dollars) i.e. 25 578 dollars per inhabitant (2017)
Real GDP growth: 7.3% (2017 vs 2016)
Unemployment rate: 4.9% (2017)
Foreign direct investment, net inflows (FDI): 5 953 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 22.6% of GDP (2017)
Human Development Index: 0.811 (very high), rank 52 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Romania is a parliamentary republic with a semi-presidential regime. Executive functions are shared between the President, Head of the State who is directly elected for a five-year mandate, and the Government, which is headed by a Prime Minister, nominated by the President after consultation with the Parliament. The bicameral Parliament is composed of the Chamber of Deputies (*Camera Deputatilor*), which includes approximately 329 deputies, and by the Senate (*Senatul*), which includes around 136 senators. All members of the Parliament are elected for four-year terms by direct universal suffrage, according to the system of proportional representation. Romania has been a member of the European Union since 2007, after joining the Council of Europe in 1993.

Romania is a unitary state with two tiers of subnational governments: counties; and a municipal level composed of communes, towns and municipalities. The decentralisation process started with the first post-independence Constitution in 1991, which laid out the principles of local autonomy and the decentralisation of public services. Law no. 215/2001 added the financial component to the local autonomy. In 2006, a new major step towards decentralisation was taken with the adoption of the new framework law on decentralisation 195/2006 which transfers new responsibilities to SNGs, along with the 273/2006 Act on local public finances and the Public Services Act (51/2006). The law 195/2006 in particular defined a set of principles, rules and steps to be followed in the process of transferring new responsibilities to SNGs.

Subnational governments have self-governing bodies, namely county councils (*Consiliul Judeţean*) and local councils (*Consiliul Local*). According to Law no. 67 for the election of local public administration authorities (2004, amended in 2008), county councillors are elected directly in local elections for four-year terms, and are responsible for electing the president of the county council. While, in principle, counties and local councils have no hierarchical link between them, counties coordinate the activities of communal, town and municipality councils. The communes, towns and municipalities each have their own local council (deliberative authority), also directly elected, and a mayor (executive authority), elected for a four-year term by members of the council. In Bucharest Municipality, there is a General Council of Bucharest Municipality as well as a General Mayor of the capital, and each sector of the city has its own local council and mayor. The latest general local election was held on June 2018.

The national government has the right to issue legal acts that are compulsory for the local authorities. A prefect is appointed by the central government in each county, as a representative of the government at the subnational level, which has the right to control the legality of acts issued by the local authorities.

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 as such by the Constitutional Court, but a new decentralisation project is being implemented based on a new General Strategy for Decentralisation. Greater decentralisation and regionalisation remain key objectives of the government in order to improve the quality of public services and to stimulate local development. In its National Reform Programme 2018, new transfers of competences, accompanied by the corresponding resources, from the central government to SNGs are planned. An action plan implementing General Strategy for Decentralisation has been developed under the monitoring of an Inter-ministerial Technical Committee for Decentralisation (CTID).

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	103 municipalities *(municipii)* 217 towns *(orase)* 2 861 communes *(comune)*		42 counties *(judete)* incl. Bucharest	
	Average municipal size: 6 990 inhabitants			
	3 181		**42**	**3 223**

OVERALL DESCRIPTION. Romania has a two-tier system of SNGs with no hierarchy in between. According to Art. 3 of the Constitution, the territory is divided into counties at the intermediary level, and towns and communes at the local administrative level, without subordinate relationship. Some towns are declared municipalities, according to the provisions of the law.

The municipal level comprises 320 towns (*orase*) and municipalities *(municipii)* and 2 861 communes (*comune*). In addition, there are 12 957 villages at the sub-municipal level. Within urban areas, municipalities differ from towns as they have major economic, social, political and cultural roles, and also administrative functions in most cases. Communes are established in rural areas and comprise one or more villages. Overall, municipalities are quite small by international comparison, although their average size is just above the EU28 average (5 900 inhabitants). The median municipal size is, however, half the average EU28 size (3 110 inhabitants) and 75% of municipalities have fewer than 5 000 inhabitants (and 22% have fewer than 2 000 inhabitants).

At the regional level, the Romanian territory is organised into 42 counties (including Bucharest Municipality). Counties (judete) represent traditional administrative-territorial units in Romania, including towns and communes, depending on geographical, economic and social-political conditions and population cultural and traditional relations. The municipality of Bucharest, which has a special dual status (municipality and county), is organised into six administrative sub-divisions called sectors. There is a plan to create a Metropolitan Area following the 2001 law, which gave cities the possibility to associate themselves on a voluntary basis.

STATE TERRITORIAL ADMINISTRATION. The central government established 41 prefectures, which oversee the deconcentrated public services of the central public administration in each county.

There are also eight development regions, created for statistical purposes, the supervision of regional development and for the management of EU funds. Their regional councils are composed of the presidents of county councils. The Regional Development in Romania Act (no. 315/2004) establishes the institutional framework for regional development policy in Romania.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The framework Law no. 195/2006 on decentralisation suggests that subnational responsibilities can be divided into three categories: exclusive, shared and delegated by the central government. The central government may decide to decentralise certain services based on geographical criteria and potential economies of scale.

Since 2010, local authorities have been devolved new responsibilities in the fields of education, healthcare (operating of 368 hospitals out of a total of 373) and local police.

As listed in Art. 21 of the Decentralisation Law, local governments are generally responsible for the financing of the provision of public services, housing and community amenities, local transports, social welfare, most of the costs related to pre-school, primary and secondary education, as well as primary and secondary healthcare in the case of counties. Increasingly, county councils are also in charge of the overall coordination of the efforts and actions of local councils.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONAL LEVEL	LOCAL LEVEL
1. General public services		Management of State domain; Population records (shared)
2. Public order and safety		Public safety (shared)
3. Economic affairs /transports	Management of local airports; County roads; Country infrastructure network (shared)	Local public passenger transport; Local roads
4. Environmental protection		Waste management; Sewerage and treatment of wastewater and pluvial waters
5. Housing and community amenities		Urban planning and urbanism; Water supply; Public lightning; Sanitation; Building of social housing (shared)
6. Health	Public health units (primary and secondary healthcare)	Local public health units
7. Recreation, culture & religion	Cultural institutions	Local cultural institutions
8. Education	Special education (shared)	Pre-school and primary education; Secondary and adult education
9. Social protection	Child and disability allowances; Social services and specialised services for victims of domestic violence; Elderly and for the disabled (shared); Medical and social assistance (shared)	Social services and specialised services for victims of domestic violence; Child protection; Elderly; Medical and social assistance (shared)

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: counties, municipalities, town councils and communes, as well as local non-market public companies, and local organisations (schools, kindergartens, canteens, hospitals and thermal baths).	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. The Governmental Ordinance (GO) no. 15/1992 and law no. 27/1994 introduced the concept of local taxes and clarified the sub-national government financing system. The new Law on Local Public Finance enacted in 2006, defined further the intergovernmental transfer system, and particularly the equalisation grants, the shared taxation system, and the municipal debt issues. It increased local governments' control over their own revenues and allowed local councils to administer their own taxes. In addition, councils receive financial investment resources from the national government and are responsible for distributing these resources to the regions, municipalities and communes.

The frameworks for ensuring stability and predictability of income sources for subnational governments, including control standards for services to be de-centralised, are being developed. The adoption of the Code for Local Public Finances could address some issues by setting a minimum level of budget revenue per inhabitant or adapting local budget mechanisms.

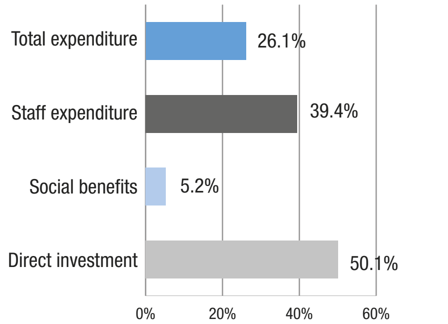
ROMANIA

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**2 081**	**9.0%**	**100%**
Inc. current expenditure	1 572	6.8%	75.5%
Staff expenditure	808	3.5%	38.9%
Intermediate consumption	498	2.2%	23.9%
Social expenditure	137	0.6%	6.6%
Subsidies and current transfers	108	0.5%	5.2%
Financial charges	17	0.1%	0.8%
Others	2	0.0%	0.1%
Incl. capital expenditure	509	2.2%	24.5%
Capital transfers	91	0.4%	4.4%
Direct investment (or GFCF)	419	1.8%	20.1%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



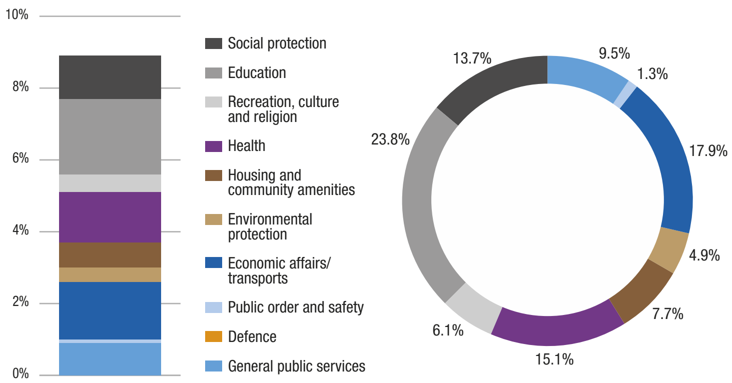
EXPENDITURE. The level of Romanian SNG spending as both a percentage of GDP and a share of general government expenditure remains below the OECD average (16.2% and 40.4% in 2016) as well as below the EU28 average (15.3% of GDP and 33.5% of public expenditure). Overall, local authorities lack the funding, the administrative capacity and the human competences to provide high-quality public services. This is especially the case in urban areas where services are very fragmented. Local authorities often act as spending agents on behalf of the central government. The share of SNG staff expenditure in total staff expenditure is high in relative terms, resulting from the fact that SNGs are in charge of paying the salaries of teachers, nurses and doctors.

DIRECT INVESTMENT. SNG investment represented half of total public investment and 1.8% of GDP, in line with the average of EU28 countries (respectively 50.9% and 1.4%). Investment is a key function of SNGs in Romania, representing 20% of their expenditure (vs. 8.7% in the EU28 in 2016), yet this share is decreasing (decrease of 4 percentage points since 2013, and further decrease in 2017). SNG investments are primarily dedicated to transport infrastructures and roads (47.3% of SNG investment in 2016), followed by housing and community amenities (18.3%). Romania has one of the highest investment ratios in the EU but the quality of investment is not improving, constrained by management deficiencies, frequently changing priorities and difficulties in absorbing EU funds. As a result, high public spending is not reflected in the country's infrastructure.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

The primary area of SNG spending is education. This includes operating and maintaining school facilities, and paying the salaries of teachers and administrative staff on behalf of the central government. SNGs have no control over staffing numbers or wage levels in the education sector. The second spending area is economic affairs, in particular local roads and infrastructure. Health and social protection sectors are also major spending sectors, especially since the decentralisation of health in 2010. SNG are also responsible for 70% of expenditure for environmental protection and 43% of spending on housing and community amenities (in particular water supply), whereas on the other hand they spend less than their EU counterparts on general public services.

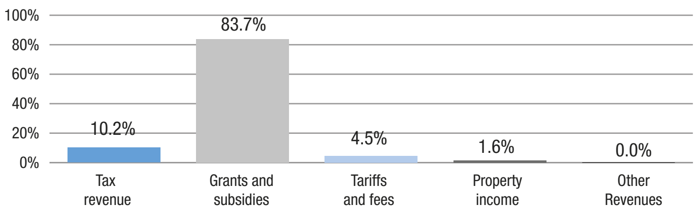
% GDP | % SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**2 117**	**9.2%**	**29.0%**
Tax revenue	216	0.9%	5.3%
Grants and subsidies	1 771	7.7%	
Tariffs and fees	95	0.4%	
Property income	33	0.1%	
Other revenues	0	0.0%	

% SNG REVENUE



OVERALL DESCRIPTION. 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. SNG finances rely heavily on central government transfers, which constitute the bulk of their revenue while own revenues, composed of taxes and fees, are still limited. Communes and municipalities have more fiscal power and autonomy than counties.

Tax collection at the local level is still incipient, representing 10.2% of SNG revenue, one of the lowest values of the EU countries and well below the EU28 average in 2016 (41% of SNG revenue). It is important to note that shared taxes (PIT, VAT), which were previously considered SNG taxes, have been reclassified to the 'transfers' category since the new 2008 SNA methodology was implemented in 2014.

TAX REVENUE. SNG tax revenues accounted for only 0.9% of GDP and 5.3% of public tax revenue in 2016. These were also among the lowest percentages of the EU countries, and well below the EU28 average in 2016 (6.4% of GDP and 24.0% of public tax revenue). Taxes are levied and collected both by the counties and municipalities.
The main local tax, providing 37% of SNG tax revenue and 3.8% of total SNG revenue, is the property tax on buildings and the tax on land, which the municipalities charge on both legal entities and individuals. The property tax on buildings is calculated depending on the location of the property, the type of building (residential or non-residential) and its value, with minimum and maximum of the gross value of the property set by the tax code. The exact value is established by county and local councils where the property is situated. The tax on land is calculated based on the surface of the land, its location and its category as established by county and local councils. Reference rates are fixed by law, but each local or county council can adopt, since 2016, a rate up to 50% higher or lower than the reference rates (instead of 20% before 2016). However, both taxes amounted only to 0.4% of GDP in 2016, well below the OECD average (1.1% of GDP).
Other local taxes are the tax on transport (8%) and various taxes on stamps, transactions and issue of certificates and licences.

GRANTS AND SUBSIDIES. The system of intergovernmental transfers in Romania comprises a system of equalisation grants (within and across counties) and a system of conditional and earmarked grants. It pursues several objectives: vertical and horizontal equalisation to compensate for poorer SNGs for their lower capacity to raise revenue; financing for delegated responsibilities; and contributions to local investment. Current grants accounted for 89% of total grants and subsidies in 2016 while capital grants accounted for 11%.

The two vertical and horizontal systems are based mainly on the sharing of the personal income tax (PIT). Vertical equalisation operates through the sharing of the PIT receipts (as defined by the decentralisation law, as amended in 2011), of which 41.75% is redistributed to municipalities and 11.25% to counties, except in the area of Bucharest where the share is higher. It represents approximately 21% of local revenue. It is complemented by a sectorial block grant from the state budget, earmarked mainly for covering expenditure in education (in particular to pay teachers and staff salaries) and social services (21% of total local revenues in 2017). This shared has increased steadily since 2015 as a result of successive pay rises awarded in the Romanian public sector. Individual allocation to local governments is determined at county level (sector block grants) and central level (subsidies), based on quantitative criteria (population, etc.). A small share of the corporate income tax is also shared with county governments. 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 (particularly from VAT revenue), split between the county council (27%) and the municipalities (73%) according to a specific formula. The government determines the amount of the annual equalisation appropriation through the budget process, and has control over the PIT rate. The gap between wealthier and poorer municipalities is expected to widen in the coming years following measures adopted in 2017 (Emergency Ordinance 79/2017), which reduced the income tax rate from 16% to 10%, without clear compensatory measures for local budgets.

In addition, Romanian SNGs have - since 2010 - received earmarked grants for delegated functions from sectorial ministries (education for the payment of teachers' salaries, support for disabled people, orphans, fuel subsidies), earmarked grants for investment in infrastructure, as well as subsidies from the European Union. Earmarked grants represent a very large share of total grants.

OTHER REVENUES. Other revenues for local governments include local charges and fees (e.g., building fees and public transportation fees, etc.). With the decentralisation of hospitals in 2010, hospital fees from the National Health Insurance House and the Ministry of Health have become an important source of own-revenue, earmarked for expenditure related to hospital care. However, user charges and fees accounted only for 4.5% of subnational revenue in 2016, well below the EU28 average (11.6%).
Revenues from assets (housing and land rentals, asset sales) represent a small percentage of SNG revenue (1.6%), slightly higher than the EU28 average (1.2%) for 2016.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**889**	**3.9%**	**8.0%**	**100%**
Financial debt*	515	2.2%	5.6%	57.9%

* Currency and deposits, loans and bonds

FISCAL RULES. The Local Public Finance Law 273 of 2006, and subsequently revised, includes provisions related to the planning, approval, execution, and reporting of the local public finances. The Fiscal Responsibility Law, approved in March 2010 to strengthen fiscal discipline introduced eight new fiscal rules applicable to the general government sector and covering the budget deficit, the primary deficit, total expenditure excluding financial assistance from the EU, and other donors and personnel expenditure. These rules complement the budget balance and debt rules which were applied to the local government level in the past. As of 2013, SNG budgets, excluding loans to finance investment and debt refinancing, must be balanced. The Fiscal responsibility Law also created a Fiscal Council as an independent authority, to support the Government and the Parliament in designing and implementing the fiscal policy and to promote the transparency and sustainability of public finances.

DEBT. Local governments are able to borrow by taking out loans or issuing bonds, subject to the approval of a committee appointed by the central government. SNG debt must not exceed 30% of the SNG average revenue of the past three years. The Ministry of Finance oversees all the borrowing activities of subnational governments through an inter-ministerial commission that must authorise every operation.
Romanian SNG debt remained low in 2016, at 3.9% of GDP. The financial debt represented 58% of local debt, split between loans (48%) and bonds (10%). The remaining 40% of SNG outstanding debt was made up of commercial debts and arrears. The local debt started increasing after 2004, in parallel with the increase of local authorities' own expenditure. The relatively flexible legal framework encouraged local authorities to borrow or guarantee local loans in order to face subnational needs. Since the 2008 financial crisis, the municipal debt has grown at a slower pace while local governments' own revenues contracted.

SNGWOFI
World Observatory on Subnational Government Finance and Investment
Lead responsible: OECD
Last update: 02/ 2019
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Socio-economic indicators: OECD // Eurostat // World Bank // UNDP // UN Desa,// ILO // Romania in figures
Fiscal data: Eurostat // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // IMF GFS // National Institute of Statistics, Romanian Ministry of Finance // OECD (2018) Key Data on Local and Regional Governments in the European Union
Other sources of information: European Commission (2018) Country Report Romania 2018 and National Reform Programme 2018 // NALAS (2018) Fiscal decentralisation indicators for South-East Europe // Kitchen, Hannah, et al. (2017) "The Romanian education system" // Ruano J.M. Profiroriu M. (2016) The Palgrave Handbook of Decentralisation is Europe // European Committee of Regions (2016) Division of Powers // Moldovan O. (2016) Local Revenue Mobilisation in Romania, European financial and accounting journal // Ralyea J. Stepanyan V. Xu T. (2015) Romania Selected Issues, International Monetary Fund.

SERBIA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: SERBIAN DINAR (RSD)

POPULATION AND GEOGRAPHY

Area: 77 474 km^2
Population: 7.022 million inhabitants (2017), a decrease of 0.4% per year (2010-2015)
Density: 91 inhabitants / km^2
Urban population: 55.9% of national population
Urban population growth: -0.3% (2017 vs 2016)
Capital city: Belgrade (19.8% of national population)

ECONOMIC DATA

GDP: 108.3 billion (current PPP international dollars), i.e. 15 429 dollars per inhabitant (2017)
Real GDP growth: 1.9% (2017 vs 2016)
Unemployment rate: 14.1% (2017)
Foreign direct investment, net inflows (FDI): 2 879 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 18.5% of GDP (2017)
HDI: 0.787 (High), rank 67

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Following the collapse of the former Yugoslavia, Serbia and Montenegro formed the Federal Republic of Yugoslavia from 1992 to 2003. In 2003, the new Republic was reconstituted as the State Union of Serbia and Montenegro until 2006 when the referendum for the independence of Montenegro put an end to the confederation and created two separate countries. The Constitution of 2006 defines Serbia (*Republika Srbija*) as a unitary and an independent republic (Article 4). The President of the Republic is the Head of State and the Government is led by a Prime Minister proposed to the Parliament (National Assembly) by the President of the Republic.

Local self-government autonomy is enshrined in the country's 2006 Constitution. According to Article 12, the "State power is restricted by the right of citizens to provincial autonomy and local self-government". Part VII of the Constitution is entirely devoted to territorial organisation (Articles 176-193).
In addition to the Constitution, Serbia adopted other legal texts with the aim or re-organising the intergovernmental system in the aftermath of the dissolution of the Federation of Serbia and Montenegro. The territorial (re-)organisation took shape with law no. 129/2007 on Territorial Organisation. The Law on Local Self-Government was also adopted in 2007, defining the responsibilities as well as rights of local authorities. The 2007 Law on Local Government Finance (amended in 2012 and 2016) includes regulatory provisions on the financing of local self-government units.

On 14 December 2009, the statute of the Autonomous Province of Vojvodina was adopted in accordance with article 182 of the Constitution. Also in 2009, the law on establishing competencies of the Autonomous Province of Vojvodina transferred competences from the State to the Province. A revision took place in 2014. According to Article 185 of the Constitution, the Autonomous province of Kosovo and Metohija is also part of the Republic of Serbia. Serbia does not formally recognise the independence of that region, which was proclaimed on 17 February 2008, and considers it an Autonomous Province.

In 2014, Serbia adopted a Public Administration Reform (PAR) Strategy which builds on previous public sector reform strategies and aimed at improving the state of public administration. The strategy includes measures to clarify the division of responsibilities between different levels of government and identifies weaknesses to be addressed such as the financing needs of local authorities. The Decentralisation Strategy within the PAR is yet to be adopted. The Law on Employees in the Autonomous Provinces and Local Self-Government Units was adopted in 2016; it aims at ensuring the professionalisation of the local and provincial civil service by regulating the rights and duties of civil servants at the lower-tier governments.

TERRITORIAL ORGANISATION

2016	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	23 cities *(grad)* and 150 municipalities *(opstina)* + the City of Belgrade		2 autonomous provinces (Pokrajine Vojvodina and Kosovo and Metohija)	
	Average municipal size: 40 358 inhabitants			
	174		2	176

OVERALL DESCRIPTION. Serbia has a one-tier government structure at subnational level. Current territorial organisation (division of the territory in cities and municipalities) was mostly set during the 1960s. According to the 2014 amended Law on Territorial Organisation of the Republic of Serbia, the territory is subdivided into municipalities, towns, the city of Belgrade as a territorial unit (special status), and two autonomous provinces of Vojvodina and Kosovo-Metohija. As of 2017, the Autonomous region of Vojvodina and the Capital city of Belgrade are the most populous regions of Serbia, with respectively 1.7 and 1.9 million inhabitants.

AUTONOMOUS PROVINCES. The competences of the autonomous provinces are regulated by the Constitution. The province of Vojvodina is further regulated by the Statute of the Autonomous Province adopted in 2014 and the Law on the Competencies of the Autonomous region. Article 4 of the latter law stipulates that the territory of Vojvodina consists of local self-government units. The city of Novi is established as the administrative centre and the seat of the authorities of the autonomous region. The law also stipulates that the provinces shall cooperate with other bodies of the Republic of Serbia and other bodies of local self-government units in the provision of public goods and services. The central government of Serbia may also delegate competences to the province, although their relationship is not hierarchical per se.

MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION. The municipal tier is composed of 150 municipalities (*opstina*), 23 cities (*grad*) and the City of Belgrade, which are themselves divided into several subordinate administrative units called city municipalities whose number was 30 in 2017-2018 (*mesna zajednica*), which are not considered units of self-government. The Autonomous Province of Vojvodina contains 7 Districts, 6 Cities and 45 Municipalities. In addition, Serbia comprises 6158 rural settlements and 193 urban settlements. Municipalities and cities are quite large by international standards: 41 000 inhabitants on average to be compared to 9 700 inhabitants in the OECD and 5 900 in the EU. Each municipality/city has its own assembly (elected every four years via local elections, the last being held in April 2016), a municipal president (mayor for cities), and a budget. Cities usually have more than 100,000 inhabitants. Despite many differences among them (in terms of size of territory, number of inhabitants, economic strength etc.), all municipalities and cities, except for the city of Belgrade, share similar competences, governing bodies and position within the political system. The additional right of establishing municipal police is granted to the cities. According to the Law on Local Self-Government, local government units can cooperate in order to achieve common goals, plans and development programs.

CAPITAL CITY OF BEGRADE. The capital City of Belgrade has a special status and is regulated by the Law on the Capital City and the Statute of the City of Belgrade. The executive body of the Capital city is directly elected by the City Assembly which is composed of 110 councillors. The city of Belgrade carries the competencies assigned to all municipalities; in addition, the capital city is also in charge of water management, state roads, fire prevention and inspection controls in relation to city planning. Belgrade is further divided into 17 city municipalities.

STATE TERRITORIAL ADMINISTRATION. Municipalities and cities are gathered into larger entities known as districts which are regional centres of the state authority. As of 2016, there were 29 administrative districts and the city of Belgrade. In addition to the districts, Serbia is subdivided in 5 regions for statistical purposes, including the two aforementioned autonomous regions (Belgrade region, Vojvodina region, Sumadija and western Serbia region, eastern and southern Serbia region and Kosovo-Metohija region).

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Part VII of the 2006 Constitution lists the competences (original powers) of the autonomous provinces and local self-government units and clarifies that additional functions may be delegated.

Autonomous provinces competencies include matters of provincial interest in the areas of economic affairs and transports, environmental protection, education, culture and recreation, health care and social welfare.

The exact competences of the municipalities are listed in the Constitution (Article 190) and in different acts, such as the Law on Local Self-Government and other sectoral laws. They cover a number of areas. Tasks are carried out with wider discretion of the local authorities provided that they fall within the legal boundaries of existing regulations. Some of these competencies, such as primary and secondary education, as well as social care, are shared with the state, although staff wages, facilities and investment costs are taken out of budgets from municipal governments. Other shared competencies also include the management of local airports and the construction and maintenance of social housing centres for the youth. Local authorities have room for manoeuvre in the implementation of delegated tasks although their actions are subject to scrutiny by central authorities.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	AUTONOMOUS PROVINCES	MUNICIPAL LEVEL
1. General public services	Internal administration; Public information at the provincial level	Municipal administration
2. Public order and safety		Protection against natural and other disasters
3. Economic affairs/transports	Agriculture, forestry, hunting and fishery; Tourism and spas; Industry and craftsmanship; Roads, river and railway transport; Trade fairs and other economic events	Construction and maintenance of local roads and other municipal facilities; Local public transport; Local tourism; Craftsmanship; Catering and commerce; Improvement and use of agricultural land
4. Environmental protection	Environmental protection	Environmental protection
5. Housing and community amenities	Urban planning and development; Water economy	Regulation of urban construction sites and business premises; Social housing for the youth (shared)
6. Health	Health resorts; Healthcare	Healthcare
7. Recreation, culture & religion	Sport and culture	Protection of municipal cultural heritage; Sport
8. Education	Primary and secondary education (shared)	Primary and secondary education (shared)
9. Social protection	Social welfare	Social welfare; Child welfare

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: municipalities, cities and the Autonomous Province Vojvodina.	Other	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. Part VII of the 2006 Constitution includes several provisions relating to the funding of autonomous provinces and municipalities. Public finance of SNGs in Serbia is further regulated by the law on local self-government finance of 2006, which was revised in 2012 and 2016. The new law aims at rationalising transfers and the revenue-sharing mechanism and providing incentives to SNGs to raise their own revenues. Consultation mechanisms on fiscal matters, in particular related to central government funding, are well developed, taking place in particular through the Intergovernmental Finance Commission.

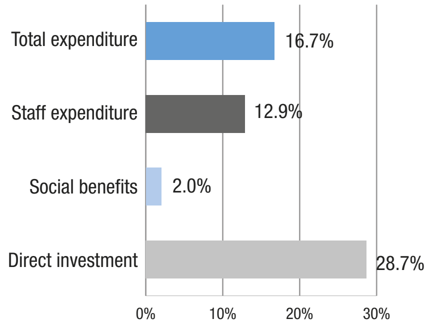
SERBIA

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**1 057**	**7.3%**	**100%**
Inc. current expenditure	921	6.3%	87.1%
Staff expenditure	184	1.3%	17.4%
Intermediate consumption	276	1.9%	26.1%
Social expenditure	50	0.3%	4.7%
Subsidies and current transfers	342	2.4%	32.3%
Financial charges	12	0.1%	1.1%
Others	0	0.4%	5.5%
Incl. capital expenditure	136	0.9%	12.9%
Capital transfers			
Direct investment (or GFCF)	136	0.9%	12.9%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)

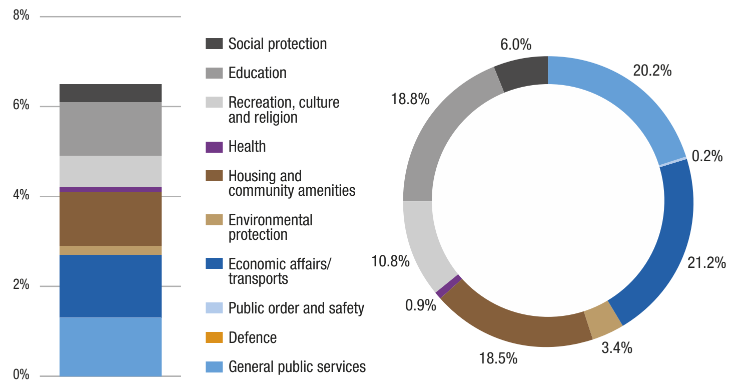


EXPENDITURE. In 2016, SNG expenditure accounted for 7.2% of GDP and 16.7% of public expenditure, below the average of OECD unitary countries (9.2% of GDP and 28.7% of public expenditure in 2016). In comparison to previous years, local government recorded a 0.9% nominal fall in the staff budget in 2016. The nominal fall in payroll expenditure was primarily due to regular indexation of individual earnings as well as the freezing of new hiring in the public sector throughout that particular year. The Law on Employees in the Autonomous Provinces and Local Self-Government Units was adopted in 2016; it aims at ensuring the professionalisation of the local and provincial civil service by regulating the rights and duties of civil servants at the lower-tier governments. The share of spending undertaken by municipalities has increased over the years, reflecting the devolution of public competencies to them. Yet, it remains that the city of Belgrade in itself accounts for close to 32% of total SNG expenditure.

DIRECT INVESTMENT. With the bulk of SNG expenditure allocated to current expenditure, there is little room for investment (13%); however, SNG investment reached 28.7% of total public investment in 2016. That ratio is very much below the average for OECD unitary countries (50.7%) and EU28 (50.9%) in 2016. Local investment spending has decreased in recent years, from 1.5% of GDP in 2011 to 0.9% in 2016.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

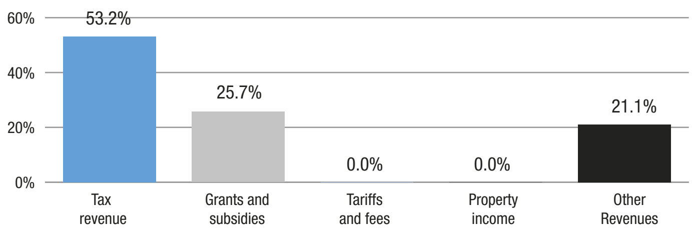
In 2012, subnational government spending primarily focused on economic affairs and transports, general public administration, education and housing and community services. These four sectors totalled approximately 80% of the subnational budget. The remaining 20% was split across recreation, culture and religion (10.8%), social protection (6%) and environmental protection (3.4%).



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**1090**	**7.5%**	**17.4%**
Tax revenue	580	4.0%	16.1%
Grants and subsidies	280	1.9%	
Tariffs and fees			
Property income			
Other revenues	231	1.6%	

% SNG REVENUE



OVERALL DESCRIPTION. According to article 188 of the constitution, local self-government units must be financed through direct revenues, the budget of the Republic of Serbia, and the budget of the Autonomous Province of Vojvodina (when the latter delegates the performance of its competencies to other local government units within the Republic and in accord with the Assembly of Vojvodina). Revenues of local self-government units (including those of the autonomous region of Vojvodina) include taxes (own-source and shared), user charges and fees, and block grants from the central government.

In 2016, SNGs received revenues equal to 7.5% of GDP and 17.4% of public revenues, ratios which are relatively low if compared to the EU average for unitary countries (12.3% of GDP and 27.2% of public revenues). Yet, in 2016, revenue from taxation accounted for 53.2% of their total revenue – a ratio that is highly significant, especially when it is compared to other countries in the region (38.7% for the OECD unitary countries in 2016, and 36.8% of the EU unitary countries in 2017). Grants came as the second most important revenue sources and stood at 25.7% of total revenues in 2016.

TAX REVENUE. Part of the financial resources of local authorities are derived from local and shared taxes. The personal income tax (PIT) is by far the most important source of tax revenue for SNGs. Its sharing is regulated by the 2007 Law on Local Government Finance (amended in 2016). The PIT is levied by the central government on, among others things, gross wages, payroll tax and on income coming from the self-employed and farmers. An agreement between Serbia and the International Monetary Fund aimed at stabilising public finances has led to changes in the law and has reduced the shares allocated to local government. As of 2016, towns receive 77% (previously 80%), municipalities 74% (also previously 80%) and the city of Belgrade 66% (previously 70%) of PIT revenue. The PIT accounted for 63% of SNG tax revenue and 33.5% of SNG revenue in 2016. The Corporate income tax (shared corporate profit) amounted 28.5% of total SNG tax revenues and 15.2% of total SNG revenues.

In addition to the share of PIT and CIT, local taxation relies on property tax, a property transfer tax and tax on inheritance and donations. Local governments can set the property tax rate, within the limits provided by the law on local self-government. These other taxes represent 8.4% of total SNG tax revenues, and 4.5% of SNG total revenues in 2016.

In 2018, the Government amended the Law on Tax Procedures and Tax Administrations to enable the networking of more state databases to improve the efficiency of property tax collection, through the development of a Central Information System of data for Local Tax Administrations (LTAs). Another important change to the legal framework relates to the introduction of electronic applications on tax for both categories of taxpayers.

GRANTS AND SUBSIDIES. Grants and subsidies to local governments are regulated by the law on local government finance. They consist of both non-categorical and categorical (or earmarked/blocked) transfers. Categorical or earmarked grants are funds for specific tasks and expenditure lines from local government budgets.

Non-categorical transfers include an equalisation grant to compensate for the disparities between the local governments (1.7% of annual GDP), a compensation transfer, an unconditional grant and a solidarity transfer. The equalisation grant is allocated to local government units in which the population's average income per capita is below the national per capita income as calculated by the relevant authorities. The equalisation grant is equal to a percentage of the difference between local governments' per capita revenue from shared taxes and a percentage of the national average multiplied by their population. The unconditional grant to individual local government is based on a formula including metrics related to the population size, territory, number of elementary and secondary school buildings, number of children attending preschool and number of preschool buildings. Due to these metrics, the unconditional transfer also contributes to horizontal equalisation, in addition to the equalisation grant itself. In addition, the least developed local authorities receive a larger share of the general transfer, thereby enhancing the financial equalisation and correcting for regional disparities. In 2011, the amendments to the local public finance system introduce the so-called solidarity transfer to all municipalities except the city of Belgrade. The solidarity transfer is equal to 10% of the wage taxes of the City of Belgrade given that approximately 32% of total SNG revenues are collected in Belgrade. The allocation is based on a coefficient for development that divides municipalities into four groups. Detractors, however, have deplored the allocation system's lack of transparency. Also in 2011, the share of the wage personal income tax transferred to the municipality increased from 40% to 80% for all municipalities except Belgrade.

The Autonomous Province of Vojvodina receives almost two-thirds of its revenue due to the constitutional provision stating that the province should receive at least 7% of the state budget (Article 84). The exact method of calculating is subject to interpretation by the Constitutional Court given the differences in interpretation made by the provincial and state governments. A settlement between the Province and the Government seems to be underway, and is to be codified in a Law on Financing the Autonomous Province of Vojvodina. The Constitution also states that three-sevenths of the budget of the Autonomous Province of Vojvodina shall be used for financing capital expenditure.

OTHER REVENUES. Municipalities receive proceeds from charges and fees on urban land use, business licenses and land development fees, especially in the capital City of Belgrade. In 2016, other revenues, which include the tariffs and fees, represented 21.1% of total SNG revenues and 1.6% of GDP.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**258**	**1.8%**	**2.4%**	**100%**
Financial debt*	258	1.8%	2.4%	100%

* Currency and deposits, loans and bonds

FISCAL RULES. According to article 27.h of the amended Budget Law (2009), local government deficits may only occur as a result of public investments and is a constituent part of the consolidated general state deficit. The local government deficit cannot exceed 10% of the local government revenue in a given fiscal year. Local executives may submit a request to the Ministry for the approval of said percentage only if the fiscal deficit is a result of public investment. If the local government exceeds the deficit limit in a given year without the approval of the Ministry, the Minister can legally block the transfer of funds from the public budget to the local government budget, including the transfer of grants, the relative share of personal income and corporate income tax.

DEBT. Under the Public Debt Law, local government bodies are allowed to borrow if they obtain the approval of central government authorities. Loans and bonds can be contracted both in the domestic and foreign markets. While local governments can borrow to finance liquidity resulting from a fiscal imbalance, liquidity borrowing should not exceed 5% of actual recurring revenues from the previous year; moreover, the total borrowed amount must be repaid before the end of the budget year and it cannot be refinanced or renewed at the end of the budget year. Local government cannot borrow long term, except for the financing or refinancing of capital investments that are included in an approved local government budget. Outstanding long-term borrowing for capital investment expenditure cannot be higher than 50% of the revenues that were government actually collected in the previous year. The amount of principal and interest on all outstanding long-term debt due in a future fiscal year cannot exceed 15% of revenues actually generated by local governments in the previous year. In 2016, local government debt amounted to 1.8% of GDP and 2.4% of public debt. In addition, close to 58% of total local government debt was issued in foreign markets.

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Socio-economic indicators: OECD statistics // Eurostat // World Bank // UNDP // UN Desa // ILO // The Statistical Office of the Republic of Serbia.
Fiscal data: IMF GFS // Republic of Serbia, Ministry of Finance: Public Finance Bulletin (Number 148, December 2016) // OECD (2018) Subnational governments in OECD countries: key data.
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SLOVAK REPUBLIC

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: EURO (EUR)

POPULATION AND GEOGRAPHY

Area: 49 036 km^2
Population: 5.438 million inhabitants (2017), an increase of 0.1% per year (2010-2015)
Density: 111 inhabitants / km^2
Urban population: 53.8% of national population
Urban population growth: 0.1% (2017)
Capital city: Bratislava (7.9% of national population)

ECONOMIC DATA

GDP: 172.0 billion (current PPP international dollars), i.e. 31 625 dollars per inhabitant (2017)
Real GDP growth: 3.4% (2017 vs 2016)
Unemployment rate: 8.1% (2017)
Foreign direct investment, net inflows (FDI): 5 922 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 21.2% of GDP (2017)
HDI: 0.855 (very high), rank 38 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Slovak Republic is a parliamentary republic, headed by a President elected by direct democracy every five years. It has a unicameral Parliament (National Council of the Slovak Republic) composed of 150 members, directly elected for a four-year period. The country became an independent state on 1 January 1993 after the dissolution of Czechoslovakia.

The Slovak Republic is a unitary country with two subnational tiers of governments, regions and municipalities, which are self-governing bodies. The 1991 Slovak Constitution sets the basis for the "territorial self-administration" (Art. 64 to 71). Municipalities were introduced as autonomous authorities in 1991, while regional governments (also referred to as Higher Territorial Units) were established in 2001 via the Act on Self-governing Regions.

Article 64 of the Constitution states that municipalities, namely an "independent territorial and administrative unit", are the basic unit of local democracy. In that sense, they are considered to be a full, legal person that "under conditions set out in a law, independently manages its own property and financial resources" (article 65). Elections are held every four years to elect the mayor and the members of the municipal council, and, in some cities, the mayor of borough (city district) and members of borough councils (Act 346/1990, on elections to municipal bodies). The mayor is called *starosta* in municipalities and city districts and *primátor* in cities.

At the regional level, the region's legislative and decision-making body is the regional council. It is composed of members elected by direct universal suffrage for a four-year term. The President (*predseda*) is also elected by direct universal suffrage for a four-year mandate and is the self-governing region's representative and statutory body, and chairs regional council meetings.

In 2001, municipalities were given substantial competencies (social assistance, urban planning, housing, environment, primary schools, recreation, etc.) as part of a major decentralisation process, which also, in 2002, created regions that are now in charge of education, social welfare, regional roads and transport and regional economic development and territorial planning. The Project of Further Decentralisation of Public Government for the years 2003-06 confirms the decentralisation process. In 2005, the Act on Local Financing deeply modified the subnational financial system by raising both shared taxes and own-source taxes, and reduced central government transfers to subnational governments. In 2014, the ESO Programme (efficient, reliable and open state administration) restructured the territorial administration of the central government in order to simplify it and make it more cost efficient. This included better multi-level governance at the local level and improving public service delivery to citizens.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	2 930 municipalities *(Obci)*		8 regions *(Samosprávne Kraje)*	
	Average municipal size: 1 856 inhabitants			
	2 930		8	2 938

OVERALL DESCRIPTION. The Slovak Republic has a two-tier system of subnational government, made up of eight self-governing regions and 2 930 municipalities.

MUNICIPALITIES AND INTER-MUNICIPAL CO-OPERATION. The municipal level includes 140 cities (*mesto*), 39 city districts (boroughs or *mestská čast'*) in Bratislava (17) and Košice (22), rural municipalities as well as three military districts. The special status of "city" is granted by the Parliament to municipalities that are considered administrative, economic and cultural centres. They are in charge of providing public services to neighbouring municipalities. City districts in the cities of Bratislava and Košice also have "municipality" status (even they are contained within a municipality) and are responsible for issues of local significance such as urban planning, local road maintenance, budget, local ordinances, park maintenance and public safety.

Municipal fragmentation in Slovak Republic is one of the highest in the OECD. The average size of municipalities is around 1 900 inhabitants (vs 9 700 in the OECD and 5 900 in the EU28) and the median size is 655 inhabitants. Around 92% of municipalities have fewer than 2 000 inhabitants and 39%, fewer than 500. To tackle this problem, the government promoted inter-municipal co-operation in the framework of voluntary "joint municipal offices" (233 as of May 2014), which are multi-purpose and implementing co-ordination arrangements covering 21 different domains. The ESO Programme also reinforced the role of joint municipal offices for the purposes of managing functions delegated from the state.

At the end of 2015, a project was launched by the Ministry of Finance to develop a single information system via cloud services for all local municipalities (Datacenter of cities and villages project-DCOM).

REGIONAL LEVEL. Population ranges between 562 400 inhabitants in Trnava region to 823 800 inhabitants in the region of Presov, while the regional average size is around 680 390 inhabitants in 2017. Density varies however from 69 inhabitants per km2 in Banská Bystrica region to 317 in the region of Bratislava. The regional level is marked by strong disparities, with the eastern part of the country, which lags behind the west, and in particular Bratislava. The regional gap in GDP per capita increased in the Slovak Republic over the last 16 years. GDP per capita in Bratislava is now almost 3.5 times higher than in East Slovakia. In 2016, the Slovak Republic had the fourth highest regional economic disparities among 30 OECD countries with comparable data.

STATE TERRITORIAL ADMINISTRATION. Slovakia territorial state administration was restructured in 2013-2014 as part of the ESO reform. In 2013, 72 new district offices were created to replace numerous state territorial entities. One-stop shops are being established in the district offices to provide a wide variety of public services. As of 2017, 50 customer centres have been opened, out of the 79 planned.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Decentralisation reforms introduced in 2001-2002 and through 2005 increased the competences and resources of subnational governments. In the framework of a multi-annual programme of decentralisation, more than 400 tasks and responsibilities were transferred to the municipal and regional levels.

Despite their small size, municipalities have significant responsibilities and competencies in the fields of urban planning and local public services such as social assistance, housing, environment, primary schools, recreation, etc. Their responsibilities are divided between own competences and transferred competences devolved by the central government. Following Slovak legislation, every competence that is not recognised as a transferred municipal competence is considered a own competence.

Regions have wide-ranging responsibilities on education, health, regional roads and transport, social welfare and regional economic development and territorial planning. They may perform certain duties in the name of the state, mainly regarding education, healthcare and transport.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONS	MUNICIPAL LEVEL
1. General public services	Internal administration; International and trans-regional co-operation	Internal administration; Management of movable property and real estate owned by the municipality, or transferred temporarily by the State; Building permits; Registry offices
2. Public order and safety	Civil defence (in co-operation with State bodies)	Municipal police; Public order; Fire-fighting
3. Economic affairs/transports	Transport (roads, railways); Regional economic development	Supervision of economic activities; Consumer protection; Local roads; Local public transport; Tourism
4. Environmental protection		Protection of the environment; Sewage; Heating; Refuse collection and disposal
5. Housing and community amenities		Housing and town planning; Cemeteries; Public lightning; Water supply; Parks and open spaces; Urban regeneration; Social housing
6. Health	Secondary hospitals; Management of non-State healthcare as psychiatric hospitals and dental services	First aid stations and primary medical centres
7. Recreation, culture & religion	Regional theatres; Libraries; Museums; Galleries; Cultural centres	Sports facilities; Cultural facilities
8. Education	Secondary, professional, art and vocational schools; Construction and maintenance of buildings; Payment of teacher on behalf of the State	Pre-school and primary schools; Kindergarten and nurseries
9. Social protection	Homes for children	Social aid for elderly and children

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: regions, municipalities and other units.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. The legislative framework of fiscal decentralisation comprises a series of legal acts established in 2004 regarding the budgets of regions and municipalities. Despite major fiscal decentralisation reforms that took place in 2005, the Slovak Republic remains one of the most centralised OECD countries in terms of subnational expenditure and tax revenue. Municipalities' revenue-raising power and spending efficiency are limited by the small size of many municipalities and the lack of action taken to develop joint public-service delivery. Due to regions' lack of fiscal autonomy, SNGs rely primarily on intergovernmental transfers.

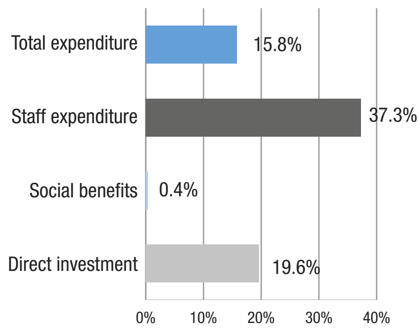
SLOVAK REPUBLIC

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**1 996**	**6.6%**	**100%**
Inc. current expenditure	1 786	5.9%	89.5%
Staff expenditure	1 036	3.4%	51.9%
Intermediate consumption	562	1.8%	28.2%
Social expenditure	24	0.1%	1.2%
Subsidies and current transfers	147	0.5%	7.4%
Financial charges	10	0.0%	0.5%
Others	6	0.0%	0.3%
Incl. capital expenditure	210	0.7%	10.5%
Capital transfers	4	0.0%	0.2%
Direct investment (or GFCF)	206	0.7%	10.3%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. Despite the strong decentralisation process initiated in 2002, Slovakia remains a centralised country from the local government spending perspective. The level of SNG spending in GDP and public spending is much lower than the OECD average of unitary countries (9.2% of GDP and 28.7% of public expenditure) as well as the EU28 average (15.3% of GDP and 33.5% of public expenditure). However, SNGs play a key role as public employers, as they are responsible for paying teachers' salaries on behalf of the central government. As a result, staff spending accounted for more than half of SNG spending in 2016 and 37% of public staff spending. On average, due to the high fragmentation at the municipal level, municipalities with less than 250 inhabitants spend more than half of their budget on administration costs.

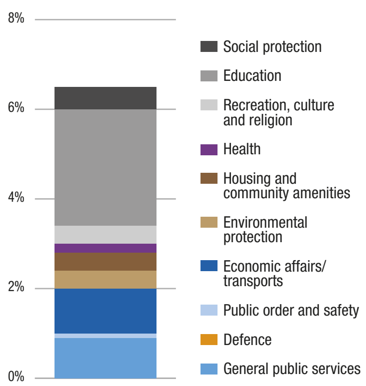
DIRECT INVESTMENT. Public investment in the Slovak Republic is largely top-down, and SNGs play a weak role in investment planning and financing, well below the OECD average for unitary countries (50.7% of public investment and 1.7% of GDP in 2016). The country is heavily dependent on EU Structural and Investment Funds (ESI) for the financing for public investment. From 2015 to 2016, SNG public investment dropped by 35%. Municipalities, in particular cities, are by far the biggest SNG public investors compared to the regional governments, carrying out around 80% of SNG investment. Capital expenditure for housing and community amenities is the primary sub-national government spending item, followed by transport, education infrastructure, environmental protection and recreation and culture. Municipalities are by far the biggest sub-national public investors compared to regions.
In 2016, a public expenditure review was launched on a four-year cycle with the support of several international organisations in order to develop a methodological toolbox and internal analytical capacity that improves the quality of Slovak public investment. Closer connections between regions are needed to promote balanced growth and attract investment at the country-level, in particular in the sector of transport, where the deficit in infrastructure is especially large.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

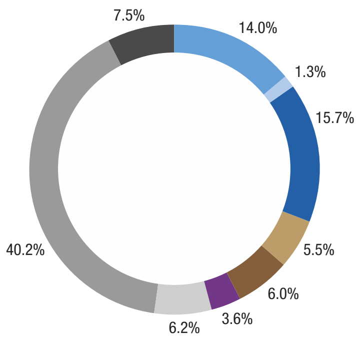
The primary area of SNG spending is by far education, resulting from the fact that regions and municipalities are responsible not only for the construction and maintenance of educational infrastructures but also for school-related services and the payment of teachers and staff. Other significant areas of SNG spending are general public services and economic affairs/transports. On the other hand, they play a minor role in social protection.

SNGs are responsible for more than half of public expenditure in the area of environmental protection and housing, community and amenities, especially since their tasks include infrastructure related to water supply, sewage, heating, parks and open spaces and public lightning. Recreation, culture and religion is also and relevant spending area.

% GDP



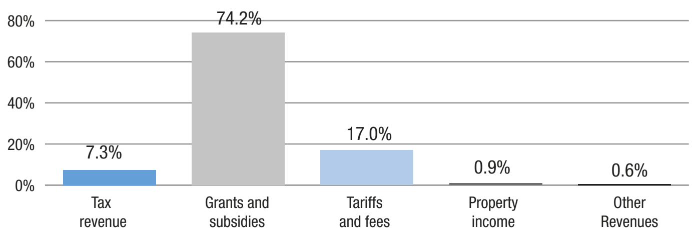
% SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**2 168**	**7.1%**	**18.1%**
Tax revenue	157	0.5%	2.9%
Grants and subsidies	1 609	5.3%	
Tariffs and fees	368	1.2%	
Property income	21	0.1%	
Other revenues	14	0.0%	

% SNG REVENUE



OVERALL DESCRIPTION. SNG revenue accounts for a relatively small share of GDP, well below the OECD average. They come from three main sources: taxes, non-tax revenues (tariffs and fees and property income) and transfers from the central government and the EU. The latter represents the bulk of subnational revenue, well above the OECD average for unitary countries where grants accounted for 49% of SNG revenue in 2016. The share of grants and subsidies in SNG revenue is one of the highest of the OECD countries. By contrast, the share of tax revenue is particularly low compared to the OECD average for unitary countries (38.7%) as well as that of the EU28 (41%).
Fiscal decentralisation was deepened in 2005 with the Act on Local Financing and with the Act on the support on regional development of 2008. The aim of the system is for municipalities' exclusive competencies to be financed through own-source revenue (tax and non-tax revenue) while the tasks delegated by the State are to be financed through transfers from the central government. Since 2014, and the implementation of the SNA 2008 accountability system, Personal Income Tax proceeds redistributed by the central government to SNGs are no longer considered tax revenue in the form of a shared tax but considered transfers, hence the drop in ratios related to tax revenue since 2013.

TAX REVENUE. Tax revenues only represent a small share of the financial resources of municipalities and regions, below the OECD and EU averages (see above). They account for a mere 0.5% of GDP and 2.9% of public tax revenue, which is well below the OECD average for unitary countries (4.7% of GDP and 19.8% of public tax revenue) and the EU28 average (6.4% of GDP and 24% of public tax revenue). Municipalities are the only subnational level to receive own-source taxes. In the past, regions were able to levy one tax, the motor vehicle tax, imposed on vehicles used for commercial purposes only, but this was amended in 2015.

The main municipal tax is the recurrent tax on immovable property, levied on land, buildings and flats. The general rate of the land tax is 0.25% of the value while that of the building tax and the apartment tax is EUR 0.033 per m2. The municipalities may increase or decrease these rates in accordance with the local conditions. The property tax amounted to 83% of municipal tax revenue in 2016 (an increase of 3.8% since 2015) and 6% of total SNG revenue. Yet it only represents 0.4% of GDP, well below the OECD average (1.1% of GDP in 2016), partly because the tax base does not reflect property values on the current market. A reform of this local tax is being prepared; but, it may take several years for it to be implemented. Municipalities must also collect a tax on municipal waste and minor construction waste, according to the special Act No. 582/2004. Among the other local taxes are a tax on motor vehicles that enter and stay in historical parts of towns, the accommodation tax, and the tax on vending machines. 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).
Until 2015, regions were entitled to levy the motor vehicle tax. The competence to collect the motor vehicle tax has been under state control since January 2016 (Act No. 361/2014 Coll. on Motor Vehicle Tax).

GRANTS AND SUBSIDIES. Grants are divided between earmarked and non-earmarked transfers. The main non-earmarked transfer to SNGs is the share of Personal Income Tax (PIT), re-distributed from the central government to regional governments and municipalities. In 2016, the allocation formula was amended, so that regions receive 30% of total PIT receipts and municipalities receive 70% (compared to 21.9% and 66% in 2014). 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, covering in particular payment of teachers' salaries, allocated according to the number of pupils. Other transfers include grants for delivering general public services (e.g. for keeping population registries, etc.), for the building and transport sectors and grants for regional development and tourism. In 2016, current grants accounted for 93% of total grants and subsidies.

OTHER REVENUES. Other subnational revenues represent a significant source of revenue, particularly user charges and fees (17% of SNG revenue in 2016 above the OECD average for unitary countries (10%).
Other revenues include operating surpluses of public enterprises controlled by SNGs; revenue from business/commercial activities; ownership of property (sale of movable and immovable property); donations received; interest on deposits or other financial products; collection of traffic fines; and other administrative offences. Taken together they account for less than 1% of the SNG revenue. A development fee has been established in 2015 on land in the territory of the municipality, for which a valid building permit has been issued. The payer is a natural person or a legal entity (e.g. property developer) for whom a building permit has been issued.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**439**	**2.8%**	**4.6%**	**100%**
Financial debt*	345	2.2%	4.1%	78.7%

* Currency and deposits, loans and bonds

FISCAL RULES. Since 2005, SNGs must follow a balanced budget rule. The Fiscal Responsibility Constitutional Act of 2011 and the Law on Budgetary Responsibility of 1 March 2013, which came into effect in 2015, strengthened the fiscal rules applying to SNGs. It also reinforced the role of the National Accounting Office (NAO, which controls local and regional accounting, budgeting and public expenditures. Since 2009, under the impact of the economic crisis, the central government stepped in with occasional bail-outs to regional and city authorities to prevent the closure of public centres, in particular care centres.

DEBT. SNGs are free to borrow in the form or loans or bonds to finance capital expenditure (golden rule), within limits set by the central government (debt service and cap on outstanding debt). Total SNG debt must not exceed 60% of total SNG current revenues. The payment of interest and principal on loans should not exceed 25% of current revenues for the previous year. 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. SNG outstanding debt is well below the OECD average for unitary countries of 14.5% of GDP and 11.8% of public debt as well as below the EU28 average (14.3% of GDP and 14.4% of public debt). It is made up of financial debt (78.7%) and other accounts payable (21.3%). Within the financial debt, loans account for almost all debt stock (99.5%).

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Socio-economic indicators: OECD // Eurostat // World Bank // UNDP // UN Desa // ILO // Institute for economic and social reforms of the Slovak Republic // Regional Statistical Yearbook of Slovakia.
Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database).
Other sources of information: OECD (2019, 2017) OECD Economic Surveys: Slovak Republic // Ministry of Finance of the Slovak Republic (2018) National Reform Programme of the Slovak Republic 2018 // Ministry of Finance (2018) Slovakia Stability Programme for 2018 to 2021 // OECD (2016) Making the Most of Public Investment in the Eastern Slovak Republic // Council of Europe (2016) Local and regional democracy in the Slovak Republic CG30(2016)09-final // CEMR (2016) Local and Regional Governments in Europe Structures and Competences // European Committee of the Regions (2014) Division of Powers // OECD (2015) The State of Public Finances 2015: Strategies for Budgetary Consolidation and Reform in OECD Countries // Capkova S. and Roncakova L. (2014) Fiscal Equalization and Regional Growth.

SLOVENIA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: EURO (EUR)

POPULATION AND GEOGRAPHY

Area: 20 145 km^2
Population: 2.066 million inhabitants (2017), an increase of 0.3% per year (2010-2015)
Density: 103 inhabitants / km^2
Urban population: 54.3% of national population
Urban population growth: 0.5% (2017)
Capital city: Ljubljana (13.9% of national population)

ECONOMIC DATA

GDP: 72.1 billion (current PPP international dollars), i.e. 34 886 dollars per inhabitant (2017)
Real GDP growth: 5.0% (2017 vs 2016)
Unemployment rate: 6.6% (2017)
Foreign direct investment, net inflows (FDI): 1 082 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 18.5% of GDP (2017)
HDI: 0.896 (very high), rank 25 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Republic of Slovenia is a parliamentary republic, with a President as Head of State, and a Prime Minister as Head of Government. The President is elected for a maximum of two, five-year terms by direct elections. The country declared its independence from Yugoslavia in 1991, and the present constitution was adopted on 23 December 1991. Slovenia has a bicameral Parliament which comprises the National Assembly (*Državni zbor*), composed of 90 deputies with legislative and electoral powers, and the National Council (*Državni svet*), which plays an advisory role (40 members who represent local interest groups).

The country has a unitary system with a single-tier of subnational government, composed of municipalities and urban municipalities. The local self-government principle is enshrined in the 1991 Political Constitution (Art. 9 and Art. 138 to 144). In 1993, the Local Self-Government Act was adopted providing a new territorial organisation, based on self-governing municipalities, accompanied by the Local Elections Act and Local Finance Act. Each municipality has a mayor and a municipal council, normally elected by proportional representation for a four-year mandate.

Slovenia has been a member of the European Union since 2004. With the adoption of the Local Self-Government Development Strategy 2020, the Republic of Slovenia has committed further to abiding by the principles of financial autonomy for local communities. In September 2016, the government adopted a new "Development Strategy for Local Self-Government in the Republic of Slovenia until 2020". The basic objective of this strategy is to strengthen local government and improve the quality of life of citizens through increased efficiency and enhanced citizen engagement at the local level. It addresses the issues of regionalisation and inter-municipal cooperation.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	212 municipalities *(Občine)* including 11 urban municipalities *(Mestne občine)*			
	Average municipal size: 9 744 inhabitants			
	212			212

OVERALL DESCRIPTION. Slovenia has a single tier of local government consisting of 212 municipalities (*Občine*). Among municipalities, 11 municipalities have the special status of urban municipality (*Mestne občine*). They have more than 20 000 inhabitants, and are characterised as economic, cultural and administrative centres. They have a number of special features, such as vocational and secondary schools, a hospital, a local radio and television, local press, etc.

MUNICIPAL LEVEL. While the municipal average size is close to the OECD average (9 700 inhabitants in the OECD) and the median average size is 4 730 inhabitants, half of Slovenian municipalities have fewer than 5 000 inhabitants and 12% less than 2 000 inhabitants.
According to the Capital City of the Republic of Slovenia Act, the City of Ljubljana has special status with specificities regarding its public finances and has 17 sub-municipal units (neighbourhoods) with neighbourhood councils as the main bodies.

In contrast to the pattern observed in many OECD countries, the number of municipalities in Slovenia has increased progressively from 147 in 1994 to 212 in 2015 over the last 25 years, and has remained stable since. In June 2010, an amendment to the Local Self-Government Act limited the fragmentation of municipalities by setting a threshold of 5 000 inhabitants. In 2013, the Ministry of the Interior proposed a territorial reform that would have reduced the number of municipalities from 212 to 122 but the reform faced strong opposition and the proposal was abandoned. Instead, the government is preparing a more strategic approach to territorial reform that is expected to be completed by 2018-2019.

Slovenia also has a structured sub-municipal level of 6 035 settlements (districts, villages and urban communities) that can be established within municipalities. They can have elected councils and specific responsibilities and funding delegated by the municipality. There were almost 1 200 sub-municipal units in 212 municipalities (out of 212, 138 municipalities have implemented them in 2013), with population ranging from 9 inhabitants to around 34 000.

In 2005 and 2018, amendments to the Financing of Municipalities Act provided financial incentives for voluntary joint municipal administration (internal audit, spatial planning, inspection, etc.), through reimbursing 30-55% of the joint management bodies' staff costs (if at least three municipalities join). The number of joint bodies grew from five in 2005 to 52 in 2017 (concerning all municipalities but 10). New legislation adopted in October 2017 envisages regional spatial plans to improve the coordination between the municipalities and improve the use of resources.

Regionalisation reforms have been discussed for a long time as the Constitution provides for the establishment of self-governing regions by law (Art. 143). Several attempts and bills were prepared throughout the 1990s and 2000s. In particular, a draft bill creating 13 regions was rejected by referendum in 2008; however, voter turnout was low (10.9%). In 2009, the Prime Minister appointed a "Strategic Council for Regionalisation and Decentralisation". In response to the council's proposals, a new bill creating six regions was prepared but the project was abandoned in 2011 due to disagreements about the number, size, competences and financing of the regions. Establishing a second tier of local self-government with a bottom-up scenario is not currently on the political agenda. The current trend is more to encourage inter-municipal cooperation as a mechanism for more effective and efficient local service system and as an intermediate step towards regionalisation.

Finally, the country is divided into 58 administrative districts representing the State at territorial level in charge of supervising municipalities. Slovenia does not have a national urban policy, but the development of the country's urban system is an important feature of the Spatial Development Strategy of Slovenia (SDSS), adopted in 2004 by the National Parliament.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The 1993 Local Self-Government Act, which has been amended more than 30 times since, determines the principles of municipal regulation. Municipalities can have three types of tasks: local issues or issues of local importance; local issues delegated to municipalities by the central government via laws; transferred tasks of state administration, carried out by municipalities under State supervision and financed by State resources (Art. 140).

Urban municipalities have more competences than other municipalities, mainly in the fields of urban development (as per constitutional provisions, art. 141), responsibility for urban transport and housing. In practice, urban municipalities provide a range of services of wider regional importance (sports, parks and recreation, libraries, cultural institutions and services, etc.).

The Capital City of the Republic of Slovenia Act, amended in 2010, sets a framework for cooperation between the central government and the city of Ljubljana, and for implementing common tasks and special "Capital City" tasks related to spatial planning and development.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPAL LEVEL
1. General public services	Internal administration; Managing the municipality's property
2. Public order and safety	Firefighting; Local police; Local public order
3. Economic affairs/transports	Local roads; Local public transport; Local economic development; Tourism; Promotion of agriculture; Urban transport (urban municipalities); Trade and industry
4. Environmental protection	Sewerage; Waste management; Protection of natural resources; Protection of the environment
5. Housing and community amenities	Social housing; Urban and spatial planning; Utilities (water and power supply); Cemeteries; Urban development (for urban municipalities)
6. Health	Primary health care and pharmacies
7. Recreation, culture & religion	Libraries and sports facilities; Preservation of cultural heritage
8. Education	Pre-school and primary school buildings and facilities; Grammar schools; Secondary, vocational and higher schools (urban municipalities); Secondary-level public health services (for urban municipalities)
9. Social protection	Elderly care, Rest homes; Social welfare for children and family, and for disabled people

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: 211 municipalities and around 1 010 other local government institutions.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. The Financing of Municipalities Act (2007), which was a substitute for the Act on Financing Municipalities (1998), sets the municipal financial framework. It introduced a general legal framework and a financial system in which financial resources of local authorities must be proportional to the "eligible expenditure" of a municipality. Costs that are taken into account when determining a municipality's eligible expenditure include spending that is directly related to carrying out the tasks that municipalities are required to perform according to the Constitution and relevant acts. Article 142 of the Slovenia Constitution states that municipalities must raise their own revenue, and the Act on Local Self Government stipulates that local matters of public interest are to be financed by the municipality's own resources, state budget and loans.

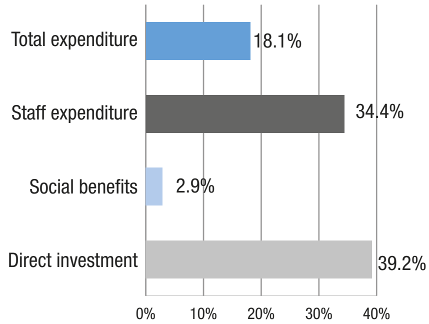
SLOVENIA

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**2 681**	**8.2%**	**100%**
Inc. current expenditure	2 257	6.9%	84.2%
Staff expenditure	1 277	3.9%	47.6%
Intermediate consumption	621	1.9%	23.2%
Social expenditure	168	0.5%	6.3%
Subsidies and current transfers	173	0.5%	6.4%
Financial charges	15	0.0%	0.5%
Others	3	0.0%	0.1%
Incl. capital expenditure	425	1.3%	15.8%
Capital transfers	10	0.0%	0.4%
Direct investment (or GFCF)	414	1.3%	15.4%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)

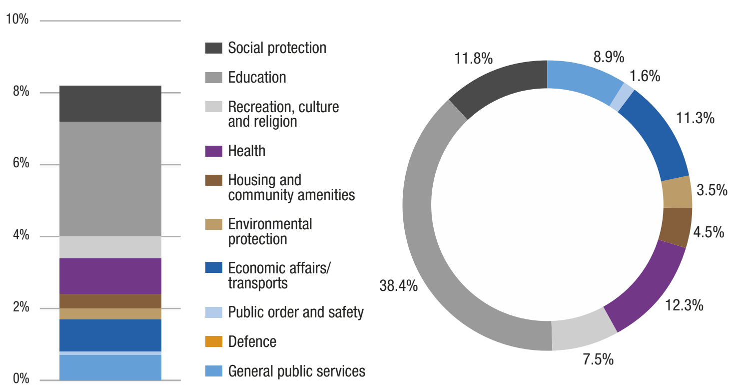


EXPENDITURE. Slovenia ranks below the OECD average for unitary countries in terms of SNG share in GDP and total public spending (9.2% of GDP and 28.7% of total public spending in 2016). These ratios are also below the EU28 average (15.3% of GDP and 33.5 of public expenditure), including for EU unitary countries only (12.4% of GDP and 26.5% of public expenditure). This reflects the relatively low level of decentralisation in Slovenia where municipalities carry out few responsibilities. However, the share of municipalities in public staff spending and SNG expenditure is significant, given their level of decentralisation.

DIRECT INVESTMENT. The municipal share in public investment in Slovenia is below the averages of OECD unitary countries (50.7% of public investment in 2016) as well as the EU28 average (51.6%). In this country as in Poland, Czech Republic and the Slovak Republic, subnational investment dropped by 35% between 2015 and 2016, partly due to the country's heavy dependency on EU Structural and Investment Funds (ESIF). In Slovenia, most subnational investments are dedicated to environmental protection, housing/community amenities and economic affairs. SNG investments comprise construction of housing, waste and sewage, acquisition of land, potable water supply, and infrastructure for community development. Other major categories of investment spending include education and recreation/culture/religion. In contrast, SNGs invest very little in healthcare or social protection.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

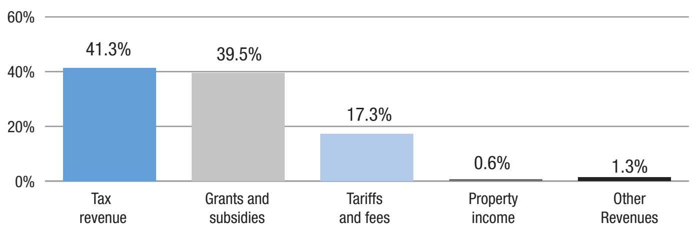
The largest SNG expenditure category is by far education, municipalities mainly provide resources for operational expenditure, student transport, infrastructure and facilities. SNGs also play a major role in community development and are responsible for more than 90% of total public expenditure in housing and community amenities. In fact, they are in charge of housing, urban and spatial planning and water infrastructure. Social protection, heath and economic affairs/transport are other important spending items, with a similar weight in municipal expenditure, whereas the sector of economic affairs and transport is under-represented in SNG expenditure compared to other OECD countries.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**2 742**	**8.4%**	**19.3%**
Tax revenue	1 134	3.5%	15.7%
Grants and subsidies	1 082	3.3%	
Tariffs and fees	473	1.4%	
Property income	17	0.1%	
Other revenues	35	0.1%	

% SNG REVENUE



OVERALL DESCRIPTION. The 2007 Financing of Municipalities Act introduced additional resources for municipalities in order to enlarge their financial autonomy and consolidate the system of vertical equalisation. SNG revenue remained below the OECD average for unitary countries in 2016 as a share of GDP (12.3%) and as a percentage of total public revenue (48.6%). To finance its eligible expenditure, a municipality is entitled to 70% of the revenues deriving from the PIT share paid in the year before last (i.e. two years ago). Income from the remaining 30% of municipal revenues deriving from the PIT share are funds used for solidarity equalisation of municipal revenues that derive from income tax. Overall, urban municipalities rely more on their own resources than other municipalities, which are more dependent on transfers and in particular EU funds.

The Capital City Act was passed in 2004 and is a special agreement between central government and the capital city that defines additional responsibilities for Ljubljana and additional resources with which it can carry out those tasks.

TAX REVENUE. Municipal taxes comprise both shared taxation and own-source taxes. The most important source of municipal financing comes from the sharing of the Personal Income Tax (PIT), which represented 75.3% of local tax revenue in 2016, 31.1% of total municipal revenue and 2.6% of GDP. Until it was reformed in 2007, the PIT share corresponded to 35% of the total PIT revenue. The reform strengthened vertical tax equalisation and in 2016, around 50% of total PIT revenues were allocated to municipalities. The new system is based on current expenditure needs (without investment), in the form of a per capita amount required to finance municipalities' statutory functions. It is implemented over a five-year transitional period. The per capita amount is negotiated annually between the central government and the municipalities. In addition, with the amendment of the Capital City Act in 2009, it was decided that 0.73% of the PIT would go to the budget of the capital city to finance its specific functions.

Municipal own taxes include a property tax, a tax on inheritance and gifts (1% of tax revenue), compensation for the use of building land (4%), a local tourist tax, a tax on gambling, etc. The property tax amounted to 15% of local tax revenue, 6.2% of total local revenue and 0.5% of GDP in 2016, well below the OECD average (1.1% of GDP). The attempts to introduce a market value-based real estate tax, were held to be unconstitutional in 2014. A new reform was however introduced through the Property Tax Act in 2017 in order to improve its efficiency and to provide for greater fiscal autonomy. The reform broadened the tax base through a new system of valuation of properties. The Act on mass property valuation, entered into force in January 2019, will be effective in 2020. The property tax has two components: 1/ a duty called "the charge for the use of building land" levied on vacant and constructed building land owned by legal persons and individuals. The charge is set by municipalities based on the area. 2/ A property tax on buildings owned by individuals. The tax is levied at different progressive rates depending on the type and value of the premises. They ranges from 0.10% to 1%. Rates for properties used for business or recreational purposes are higher, at up to 1.5% of value.

GRANTS AND SUBSIDIES. Municipal financing is based on the principles of "adequate spending" and "adequate funding" that aims at equalising financial resources with the level of spending. In addition to a share of the PIT and to their own taxes, fiscal equalisation was developed in 2015 in the form of general grants to the municipalities. Municipalities can receive additional funds from central authorities in the form of equalisation transfers, and from EU cohesion funds. Transfers from EU cohesion funds have enabled Slovenian municipalities to carry out infrastructure projects that contributed to improving the economic conditions at the country levels in 2014 and 2015 and to a much lesser extent in 2016. EU resources account for approximately 17% of local resources of urban municipalities, against around 27% for municipalities with fewer than 5 000 inhabitants. Overall, current grants made up 93% of total grants while capital grants accounted for 7%.

OTHER REVENUES. User charges and fees accounted for 17.3% of the local revenue in 2016, above the OECD average for unitary countries (10.1%). Municipalities may levy various fees as provided by law, including fees for the use of public spaces such as organising exhibitions and entertainment events, advertising in public places, parking on public land, use of public space for camping and other matters as may be provided for by law. A limited share of local revenue (less than 1%) comes from property income(i.e., deposits, rents for apartments and business premises, sale of assets, etc.).

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**623**	**3.0%**	**3.1%**	**100%**
Financial debt*	400	1.9%	2.1%	64.3%

* Currency and deposits, loans and bonds

FISCAL RULES. The Parliament approved in 2013 a balanced budget amendment to the constitution applying to municipalities that came into force in 2015. In 2012, the Fiscal Balance Act introduced several measures to reduce the general governments' debt and deficit. In particular, limits were set in order to limit labour-related costs for public employees including at the local level.

DEBT. 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. However, they must obtain prior consent from the Ministry of Finance. Amendments introduced in 2008 strengthened existing restrictions on debt service and outstanding debt. SNG indebtedness leves may not exceed 8% of the revenue generated by the municipality in the year prior to the year of borrowing. Municipalities incur debt mainly to finance schools and electricity-related projects. Until 2018, there were no special laws or guidance in the event of a municipality's insolvency.
Municipal borrowing reached 3% of GDP in 2016, against 1.5% in 2010. This remains low compared to the OECD average of OECD unitary countries (14.5% of GDP and 11.8% of public debt in 2016) and EU28 average (11.9% of GDP and 14.6% of public debt). Outstanding debt includes financial debt for 64.3% (exclusively composed of loans) and other accounts payable for 36%. At the end of 2017, all municipalities except 16 (among the smallest ones) were indebted. Even though Ljubljana had the highest debt at the end of the year 2017, it is one of the least indebted in terms of debt per capita.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

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Socio-economic indicators: OECD // Eurostat // World Bank // UNDP // UN Desa // ILO // Statistical Office of the Republic of Slovenia.
Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // Eurostat // Statistical Office of the Republic of Slovenia
Other sources of information: OECD (2018) Regulatory Policy in Slovenia: Oversight Matters, OECD Reviews of Regulatory Reform // OECD (2018) OECD Regions and Cities at a Glance 2018 // Republic of Slovenia Ministry of Public Administration (2018) Local self-government in Slovenia // European Commission (2018) Country Report Slovenia 2017 // Irena Bacl ija-Brajnik (2018) Inter-municipal Cooperation in Slovenia: An Intermediate Step Towards Regionalisation // Irena Ba lija Brajnik and Roman Lavtar (2018) Sub-Municipal Units in Slovenia: Experiences from the Past and Policy Advice for the Future In book: Sub-Municipal Governance in Europe // Centre of Expertise for Local Government Reform of the Council of Europe (2017) Development Strategy for Local Self-Government in the Republic of Slovenia until 2020 Peer Review Report // Brezovšek, B. (2016) Fiscal decentralisation in Slovenia // NALAs, Fiscal Decentralisation Indicators Report (2006-2015) // OECD (2015) The State of Public Finances 2015: Strategies for Budgetary Consolidation and Reform in OECD Countries // OECD (2011) Territorial review of Slovenia.

SPAIN

QUASI-FEDERAL COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: EURO (EUR)

POPULATION AND GEOGRAPHY

Area: 505 940 km^2
Population: 46.534 million inhabitants (2017), a decrease of -0.2% per year (2010-2015)
Density: 92 inhabitants / km^2
Urban population: 80.1% of national population
Urban population growth: 0.5% (2017 vs 2016)
Capital city: Madrid (14.0% of national population)

ECONOMIC DATA

GDP: 1 769.6 billion (current PPP international dollars), i.e. 37 998 dollars per inhabitant (2017)
Real GDP growth: 3.1% (2017 vs 2016)
Unemployment rate: 17.2% (2017)
Foreign direct investment, net inflows (FDI): 6 204 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 20.6% of GDP (2017)
HDI: 0.891 (very high), rank 26 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Constitution of Spain, enacted in 1978, established Spain as a unitary parliamentary monarchy. In reality, Spain, also referred to as "the State of Autonomies", is a quasi-federation, with a three-tier system of SNGs whose autonomy is constitutionally recognised (article 137) that includes autonomous communities, provinces and municipalities. The right to self-government is enshrined in the Constitution (Article 2). The 17 autonomous communities (ACs) have a large autonomy, including the exclusive ability to decide on the organisation of municipalities and provinces within their territory. However, municipal and provincial functions and finances are determined within the framework of the national law and not by regional constitution or law, unlike federations.

At federal level, the Government is led by a Prime Minister and the Head of State is the Monarch. Spain's bicameral parliament comprises the Congress of Deputies (*Congreso de los Diputados*) and the Senate (*Senado*). 208 out of the 266 members of the Senate are directly elected by the population, while the remaining 58 senators are appointed by the regional assemblies (each AC appoints one senator, and an additional senator for every million inhabitants in their respective territories). The lower house can overrule the upper house (in the budget process notably).

At regional level, the deliberative bodies of the ACs are regional assemblies (*asamblea regional*). The assemblies have devolved legislative powers, and their members are elected by direct universal suffrage for a four-year term. Each assembly elects a President (*presidente*) from among its members who chairs the regional government council for a four-year term.

At the local level, local governments are governed jointly by the central government and the regions. The provinces' deliberative body is the provincial deputation (*diputación provincial*), which is composed of members elected by and from the municipal councillors of the province, following municipal elections. The deputation elects a president (*president de la provincia*) from among its members. The Balearic and Canary Islands are organised as "island councils". The municipal deliberative body is the local council (pleno), whose members are elected every four years by direct universal suffrage. The council is chaired by a mayor (*alcalde*), appointed from amongst the local council member, who is the head of the executive body. The Constitution enshrines local autonomy, but the allocation of local powers is regulated by law. The 1985 Law setting the framework of the local government system (*Ley reguladora de las bases del régimen local* -LBRL) gives an indication of their powers. However, the devolution of powers to municipalities may differ substantially from one Autonomous Community to the next.

The first decentralisation process in Spain took place during the 1st Federal Republic in 1873, but the process was delayed and paralysed many times due to several periods of dictatorship and the civil war. The 1978 constitution that followed the end of the dictatorship finally paved the way for the development of ACs, which subsequently were created through complex procedures ("fast-track" or "low-track") from 1979 to 1983.

A major decentralisation process took place in the 2000s with the transfer of education (2000) and healthcare (2002) to autonomous communities. During the same period, reforms of autonomous communities' status were carried out on a case-by-case. In 2009, the Law 22/2009 on the financing of autonomous communities (in effect since 2011), which amended the Organic Law 8/1980, had a major impact on regional finance. Following the global crisis, which severely affected Spanish SNGs, several laws were adopted to introduce stricter fiscal rules for SNGs (Organic Law 2/2012) and improve the multi-level governance framework (Law 27/2013 on the Rationalisation and Sustainability of Local Administration - LRSAL). Recently, federalism in Spain is being tested by independence claims in several autonomous communities (Catalonia in 2016).

Vertical coordination between the central government and the ACs is made, on a voluntary basis, through the Conference of Presidents (*Conferencia de Presidentes*), created in 2004. Chaired by the Prime Minister, it includes the presidents of the 17 regional governments and the two autonomous cities and the central government. Since its creation, the Conference of President held six meetings, the last one in January 2017. Vertical coordination also takes place through sectoral conferences such as the Council of Fiscal and Financial Policy (*Consejo de politica fiscal y financiera*, CPFF) in economic, fiscal and financial matters. Vertical coordination between the central government and local governments takes place with the National Commission for local Administration (*Comisiòn Nacional de Administracion Local*), which was created in 1985. Autonomous communities have their own fora for coordinating with local governments under their jurisdiction.

Horizontal cooperation is facilitated through the Conference of the Governments of the Autonomous Communities, which facilitates identifying shared positions of ACs in negotiations with the central government as well as through the Federation of Spanish Municipalities and Provinces at local level.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	8 124 municipalities *(municipios)* + 2 Autonomous Cities	50 provinces *(provincias)*	17 autonomous communities *(comunidades autónomas)*	
	Average municipal size: 5 728 inhabitants			
	8 124	**50**	**17**	**8 191**

OVERALL DESCRIPTION. Spain has a three-tier subnational government system characterised by an asymmetric organisation. It is composed of 17 Autonomous Communities (*Comunidades Autonomas*, CCAA) at the regional level, and 50 Provinces (*Provincias*), 8 124 Municipalities (*Municipios*) and two Autonomous Cities (Ceuta and Mellila) at the local level. The structure of municipalities and provinces differs from one region to another. The two autonomous cities of Ceuta and Melilla located in North Africa have fewer powers than ACs, but more than municipalities. The Canary Islands have the Outermost Region status under the Treaty of the European Union.

REGIONAL LEVEL. Autonomous Communities each have their specific statute, allowing for some distinctive features, especially since the 2000s when several statutes were reformed on a case-by-case basis (Catalonia and Valencia in 2006, Andalusia, Aragon and Balearic Islands in 2007, etc.). The two "foral" autonomous communities of Basque Country and Navarra, in particular, retain more fiscal autonomy than the rest of the regions. ACs are quite diverse in terms of area, population size and socio-economic situation. While the average demographic size is around 2.5 million inhabitants, the least-populated region has 331 000 inhabitants (La Rioja) and the most populated 8.4 million (Andalusia). The AC of Castille & Leon encompasses 2 248 municipalities, whereas the region of Murcia only 45. The region with the highest GDP per capita (Madrid) is twice as wealthy as the region with the lowest GDP per capita (Extremadura). However, over the last 16 years, differences between regions of Spain in terms of GDP per capita have remained stable at relatively low levels compared to OECD countries.

PROVINCIAL LEVEL. Provinces exist since 1833. At that time, the division was made on a set of "rational" criteria including the area (based on the model for French *départements*), population (a province should include between 100 000 and 400 000 inhabitants) and geographical coherence. Since 1833, the provinces have undergone only minor changes, remaining almost the same until today. Today, provincial size is around 920 000 inhabitants on average, but it ranges from 19 000 inhabitants in Zamora to 6.5 million inhabitants in the province of Madrid. Provinces have been contested for a long time and suffer from a lack of democratic legitimacy. However, the 27/2013 law strengthened their role by recentralising some responsibilities of certain small municipalities (under 20 000 inhabitants) at the provincial level.

MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION. The municipal level is quite fragmented. While the average size is 5 720 inhabitants (close to the EU average of 5 900 inhabitants but below the OECD average of 9 700 inhabitants), the median size of municipalities is among the lowest in OECD countries (565 inhabitants). Around 84% of municipalities have fewer than 5 000 inhabitants, and 72% less than 2 000 inhabitants. Spain also has a structured level of 3 719 sub-municipal entities smaller than municipalities, which are deconcentrated municipal entities of the municipalities without their own legal personality.

To reduce municipal fragmentation, law 27/2013 introduced incentives to promote municipal mergers on a voluntary basis; however, this initiative has had little impact thus far. Nevertheless, inter-municipal cooperation has contributed to reducing the impact of municipal fragmentation in Spain. *Mancomunidades* and *comarcas* create entities, on a voluntary basis, called 'associations of municipalities', which carry out joint projects or provide common services. They may be used by municipalities to better reflect their historic borders and common identities (Tierra de Campos, Manchuela) or for economic purposes. There were around 1 000 inter-municipal cooperation entities in 2016. The law 27/2013 also promotes the integration or coordination of municipal services (e.g. education, social services, healthcare) through financial incentives. Municipalities that use cooperation to cut costs are granted more transfers from the central authorities.

The municipalities of Madrid and Barcelona have a specific organisation due to their population size (law 1/2006 regulating the special organisation of the municipality of Barcelona, and law 22/2006 on Capital Status and Special Regime of Madrid).

Overall, 41% of the Spanish population lives in a metropolitan area with more than 500 000 inhabitants, compared to 55% in the OECD area. Barcelona is the country's richest metropolitan area, and the metropolitan area of Madrid generated one-fourth of the country's GDP growth over the period 2000-2016. To improve metropolitan governance, both central and regional governments have developed initiatives. For example, the Spanish central government created a Metropolitan Corporation of Barcelona in 1975, which became a metropolitan authority in 2011 by law 31/2010 passed by the Parliament of Catalonia. The *Àrea Metropolitana de Barcelona* (AMB) brings together 36 municipalities to work on planning, transport, water, waste treatment, social cohesion and economic development issues.

The central government has a state territorial administration. General Delegates represent deconcentrated central government administration at the regional level. The provincial level also comprises a central government territorial administration composed of sub-delegates.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The responsibilities of ACs are defined in their autonomous statute but, as a general rule, 23 areas are listed in the Constitution as responsibilities not expressly attributed to the central state and therefore devolved to ACs. In addition, there are also shared competencies between the central state and the regions, such as general regulation of education, social services, universities, municipal and provincial supervision. Conflicts on the overlap of competences between the central and regional governments are settled by the Constitutional Court.

Provinces are responsible for ensuring the provision of municipal public services as well as investment projects of a supra-municipal character. They are in charge of the overall coordination of local government with the AC and the State, and guaranteeing compliance with solidarity and budget-balance principles among the municipalities they are comprised of. They must provide technical, legal, and economic assistance to small municipalities (fewer than 5 000 inhabitants). The law 27/2013 aimed at clarifying competences between municipalities and provinces and preventing duplications, strengthened their role in 2013 by recentralising (to provinces) some of the responsibilities of municipalities with fewer than 20 000 inhabitants.

Municipal responsibilities vary between mandatory "core competencies" and optional tasks (clarified by the law LRSAL), according to their population size. All municipalities are responsible for local services including local public utilities, public lighting, road maintenance and municipal police. Larger municipalities (more than 20 000 inhabitants) have additional responsibilities such as social service allowances, civil protection, public transport and environmental protection.

The commission on the Reform of the Spanish Public Administration (CORA) was established in 2012, to improve public-sector efficiency at all levels. Together with the LRSAL, it led to a large-scale drive to clarify the allocation of responsibilities across levels of government, reduce duplication and overlap across jurisdictions and limit the creation of new public entities or agencies at local level. It also reduced the number of agencies (*Entidades Dependientes del Sector Público*) in the regional administration by 34% between 2012 and 2016. The Spanish Urban Agenda, to be approved in 2019, shall provide an assessment of urban and rural conditions in Spain as well as associated priority objectives.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	AUTONOMOUS COMMUNITIES	PROVINCES	LOCAL GOVERNMENTS (DEPENDING ON THE SIZE OF THE MUNICIPALITIES)
1. General public services	Municipal and provincial supervision (shared with the central government)	Internal administration; Coordination of local government with the AC and the State; Technical assistance to municipalities	Internal administration
2. Public order and safety	Public order		Public safety; Municipal police; Civil protection and firefighting (larger municipalities)
3. Economic affairs /transports	Regional and rural development; Fisheries, hunting, aquaculture, agriculture and forestry; Regional tourism; Regional railway and road networks; Regional transport; Ports and airports not engaged in commercial activities	Cooperation in the promotion of economic and social development and in planning of the provincial territory	Traffic management; Road maintenance; Tourism; Public transport (municipalities above 50 000 inhabitants); markets
4. Environmental protection	Environmental protection		Environmental protection (municipalities above 50 000 inhabitants); Waste management; Waste water; Parks and gardens
5. Housing and community amenities	Urban planning; Housing		Urban policies; Water supply; Public lighting; Cemeteries and funeral services
6. Health	Health		Participation in the management of first healthcare
7. Recreation, culture & religion	Museums; Libraries; Music conservatories of regional interest; Cultural heritage; Promotion of culture and of the regional language (when relevant)		Cultural facilities; Sport facilities (larger municipalities)
8. Education	Education (shared); Universities (shared)		Participation in the design of education programmes and facilities
9. Social protection	Social welfare; Social services (shared)		Social services allowances (larger municipalities); Promotion of social reinsertion

SUBNATIONAL, STATE AND LOCAL GOVERNMENT FINANCE

Scope of fiscal data: at regional level, autonomous communities, regional administrative agencies, regional universities, regional corporations which are non-market producers; at local level, local authorities (municipal, provincial and island), associations and groupings of municipalities, autonomous cities (Ceuta and Melilla) and bodies reporting to them (e.g. public organisations, corporations and foundations).	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. Provisions on fiscal issues on subnational governments are detailed in Article 135 of the Constitution, in law 22/2009 on the financing of ACs and the Basic Law on Local Government 7/1985, revised in 2013, as well as in Budgetary Stability Acts (2001, 2006, 2009 and 2012). However, most fiscal powers are concentrated in the ACs, to the detriment of local governments.

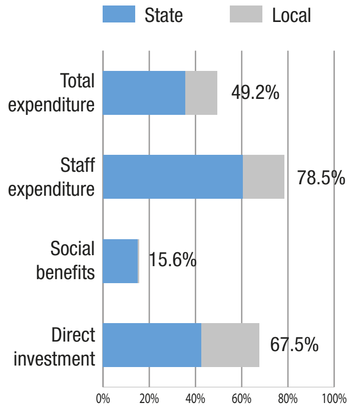
At regional level, fiscal decentralisation is asymmetric, with two distinct regimes: the common regime (which concerns 15 of the Autonomous Communities) and the "foral" regime (for Basque Country and Navarra) which is characterised by an almost complete spending and revenue autonomy. Besides, within the common regime, the Canary Islands has a specific economic and tax system due to historical and geographic reasons and its status as an EU "outermost region". The two autonomous cities are included in the autonomous financing framework. The particularities of the "foral" territories and of the Canary Islands are mentioned in the Articles 156 to 158 of the Spanish Constitution, which refers to the Funding System of the Autonomous Communities.

Despite the profound changes to AC financing brought about by reform 22/2009, which has been in effect since 2011, a new regional financing reform is currently under discussion. It would cut intergovernmental transfer funds and reduce regional revenue distribution.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.			% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT EXPENDITURE		
	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total expenditure	**7 548**	5 452	2 096	**20.8%**	15.0%	5.8%	**100%**	100%	100%
Inc. current expenditure	**6 910**	5 028	1 882	**19.0%**	13.8%	5.2%	**91.6%**	92.2%	89.8%
Staff expenditure	**3 093**	2 382	711	**8.5%**	6.6%	2.0%	**41.0%**	43.7%	33.9%
Intermediate consumption	**1 540**	889	651	**4.2%**	2.4%	1.8%	**20.4%**	16.3%	31.1%
Social expenditure	**1 028**	987	40	**2.8%**	2.7%	0.1%	**13.6%**	18.1%	1.9%
Subsidies and current transfers	**1 072**	616	456	**3.0%**	1.7%	1.3%	**14.2%**	11.3%	21.7%
Financial charges	**167**	145	22	**0.5%**	0.4%	0.1%	**2.2%**	2.7%	1.1%
Others	**11**	9	2	**0.0%**	0.0%	0.0%	**0.1%**	0.2%	0.1%
Incl. capital expenditure	**637**	423	214	**1.8%**	1.2%	0.6%	**8.4%**	7.8%	10.2%
Capital transfers	**148**	115	33	**0.4%**	0.3%	0.1%	**2.0%**	2.1%	1.6%
Direct investment (or GFCF)	**489**	308	181	**1.3%**	0.8%	0.5%	**6.5%**	5.6%	8.6%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. Spain has undergone thorough decentralisation in recent decades, shifting from a highly-centralised system before 1978 to a highly-decentralised one. This is reflected in the change in the share of SNG expenditure in GDP and public expenditure, which increased by respectiveley 5 and 13 percentage points between 1995 and 2016. Today, Spain is one of the most decentralised countries of the OECD, with SNGs being responsible for almost half of total public spending in 2016, above the OECD average (16.2% of GDP and 40.4% of public expenditure), and in line with the average for OECD federal countries (19.2% of GDP and 50.0% of public expenditure). ACs represented 72%, hence almost three-quarters of total SNG expenditure in 2016, while provinces and municipalities accounted for the remaining 28%. Staff expenditure represents on average 41% of SNG expenditure (compared to 38% on average among OECD federal countries) and 78.5% of all public staff expenditure. ACs are key public employers, due to their high degree of involvement in key sectors (education, healthcare), accounting for 60% of total public staff expenditure while local authorities accounted for only 18% of total public staff expenditure.

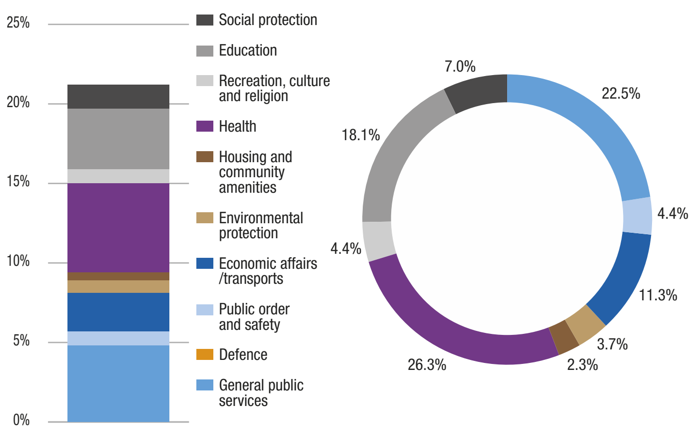
DIRECT INVESTMENT. Spanish SNGs, and particularly ACs play a crucial role in infrastructure investment, research and development, and development policies. SNG direct investment represented 67.5% of total public investment in 2016, above the OECD average (56.9%), including the OECD average for federal countries (62.3%). As a share of GDP, SNG investment is, however, below the OECD average for federal countries (1.8%) and investment accounted for only 6.5% of expenditure, which is quite low by international comparison. In addition, SNG investment has declined subtantially following consolidation measures taken after the golbal crisis. SNG investment decreased by 7.8% per year in real terms between 2007 and 2017. Within SNG investment, ACs accounted for 63% and local government for 37%.

ACs are primarily responsible for regional development, and most SNG investment is dedicated to economic affairs, in particular public work and infrastructure of local/regional interest, followed by general public services, housing and community amenities and healthcare. Regional governments are supported by the central government for investment through the Inter-territorial Compensation Fund and the Regional Incentives Programme, which are measures to finance development projects in less developed regions. The 2030 Industrial Strategy and the 2017-27 Internationalisation Strategy of the Spanish Economy 2017-27 provide the framework for the long-term economic development strategies for regions. For instance, future investment priorities are progressively shifting away from infrastructure and towards climate change and innovation.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

2016	% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT		
	SNG	State	Local	SNG	State	Local
Total expenditure	**21.1%**	15.3%	5.8%	**100%**	100%	100%
1. General public services	**4.8%**	2.7%	2.1%	**22.5%**	17.5%	35.6%
2. Defence	**0.0%**	0.0%	0.0%	**0.0%**	0.0%	0.0%
3. Security and public order	**0.9%**	0.5%	0.5%	**4.4%**	3.1%	7.8%
4. Economic affairs / transports	**2.4%**	1.5%	0.9%	**11.3%**	9.7%	15.4%
5. Environmental protection	**0.8%**	0.2%	0.6%	**3.7%**	1.2%	10.0%
6. Housing and community amenities	**0.5%**	0.2%	0.3%	**2.3%**	1.0%	5.7%
7. Health	**5.6%**	5.5%	0.1%	**26.3%**	35.9%	1.3%
8. Recreation, culture and religion	**0.9%**	0.3%	0.7%	**4.4%**	1.8%	11.4%
9. Education	**3.8%**	3.6%	0.2%	**18.1%**	23.6%	3.5%
10. Social protection	**1.5%**	0.9%	0.5%	**7.0%**	6.1%	9.3%

SNG EXPENDITURE AS A % GDP | % OF TOTAL SNG EXPENDITURE



SPAIN

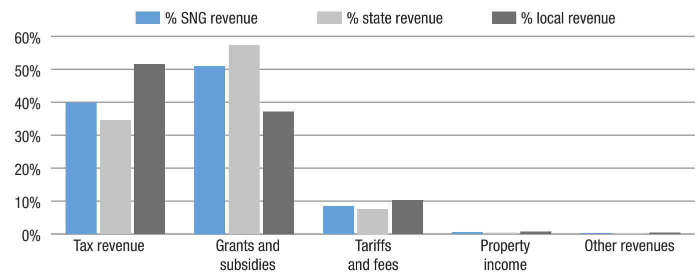
QUASI-FEDERAL COUNTRY

In health, education, environmental protection and housing and community amenities, Spanish SNGs are responsible for almost all public spending at the national level. Health and education are prime regional competences, with almost no contributions from municipalities, whereas for environmental protection and housing and community amenities, funding responsibilities are shared between regional and local governments, with the latter being responsible for the larger share, respectively 70.3% and 66.5% of SNG total spending in each category. The primary area of regional spending is by far health (35.9% of regional spending, accounting for 5.6% of GDP against 2.9% on average in the OECD), followed by education (23.6% of regional spending accounting for 3.6% of GDP), general public services (17.5%) and economic affairs and transport (9.7%). Municipal and provincial main category of spending is general public services (35.6%), followed by economic affairs and transports (15.4%), recreation, culture and religion (11.4%), social protection (9.3%) and security and public order (7.8%) and housing and community amenities (5.7%).

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	% GDP			% GENERAL GOVERNMENT (SAME REVENUE CATEGORY)		
	SNG	State	Local	SNG	State	Local
Total revenue	20.6%	14.2%	6.4%	54.5%	37.6%	16.9%
Tax revenue	8.2%	4.9%	3.3%	37.2%	22.2%	14.9%
Grants and subsidies	10.5%	8.1%	2.4%			
Tariffs and fees	1.7%	1.1%	0.6%			
Property income	0.1%	0.1%	0.0%			
Other revenues	0.1%	0.0%	0.0%			

% SUBNATIONAL, STATE AND LOCAL GOVERNMENT REVENUE



OVERALL DESCRIPTION. Recent fiscal decentralisation reforms modified the SNG financing structure, resulting in a significant increase in tax revenue as a percentage of total SNG revenue. In particular, law 22/2009 on the financing of the CCAA has introduced major changes including an increase in the share and discretion of ACs in shared tax, a reform of the equalisation system and a change in intergovernmental transfers. The revision of the law on funding municipalities and provinces was adopted in December 2013. In 2016, tax revenue accounted for almost 40% of SNG revenue, slighly below the OECD average (44.6%) but well below the OECD average for federal countries (47.5%). Consequently, the share of grants and subdisies in SNG revenue remain quite high compared to other OECD federations (51% vs 31.5% in OECD federal countries). Taken together, tariffs and fees, property income and other revenues acounted for less than 10% of SNG revenues in 2016.
Despite the high degree of revenue decentralisation, the share of tax revenue in AC revenue is much lower than the share of grants (34.6% vs 57.3%) while this is the reverse at local government level (51.6% vs 37.2%). In addition, ACs have limited participation in tax collection, which undermines their ability to fight tax evasion and generate tax revenue.

TAX REVENUE. All three levels of SNGs in Spain have tax revenue (own-source and shared for ACs and municipalities, and only shared-taxes for provinces). The Superior Council of Tax Coordination, established by the state tax authority and regional governments, coordinates tax management under the common regime, together with Territorial Councils for Tax Coordination and Management that operate within each autonomous community's territory. Overall, SNG tax revenue amounted to 8.2% of GDP and 37.2% of public tax revenue, slightly below the OECD average for federal countries (8.8% of GDP and 42.4% of public tax).
All ACs except Basque Country and Navarra benefit from tax revenues shared with the central government on which they have some leeway (ceilings, tax exonerations and exemptions, etc.). Law 22/2009 increased their share of shared-taxes, and gave regions increased fiscal autonomy. In 2016, they received 50% of the PIT receipts (instead of 33% previously), 50% of VAT receipts, 58% of excise taxes on tobacco, alcohol and petrol and 100% of revenues from tax on electricity and certain means of transport. The rest of tax receipts directly go to the Guarantee of Basic Public Services Fund. ACs are able to increase or decrease tax exemptions on the regional share (max. of 10% greater/less than the State's level) and have discretion regarding the number of tax brackets, although they must have a progressive rate scale. Moreover, they have autonomy over the wealth tax, inheritance and gift tax, tax on capital transfers, gambling tax, vehicle excise tax and the Hydrocarbon Retail Sales Tax. Basque Country and Navarra, under special foral regime, enjoy a higher degree of fiscal autonomy than other ACs. They benefit from all taxes, except import duties, payroll taxes, VAT and excise duties, under the condition that the overall effective tax burden does not fall below that of the rest of Spain.

Overall, in 2016, PIT represented 69% of AC tax revenue while the tax on capital transactions represented 13.4%, plus excise taxes and VAT receipts (each accounting for 3.5% of regional revenue). However, despite the creation of the Territorial Councils of Tax Coordination and Management, autonomous communities are still only marginally involved in tax collection.

Municipalities generate a significant portion of their tax revenue from own-source taxes, and larger municipalities (more than 75 000 inhabitants) have a special status, derived from their extended scope of responsibility, and benefit from additional shared taxes (PIT, VAT and excise taxes). 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. Municipalities can also levy environmental taxes, but this is rarely used. Recurrent immovable property taxes represented 37% of municipal tax revenue in 2016, i.e. 1.2% of GDP (compared to 1.1% on average in OECD countries in 2016). Provinces 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, revenues from VAT and PIT represented respectively 8.5% and 6.8% of municipal and provincial tax revenue in 2016 and the local business tax, 10%.

GRANTS AND SUBSIDIES. Spain has a highly-developed system of transfers from the central government to ACs and local governments, which primarily consist of current, non-earmarked grants that are dedicated to equalisation purposes.
ACs under the ordinary regime receive general unconditional equalisation grants and conditional grants. Law 22/2009 substantially modified the grants and equalisation system, in order to reinforce interregional solidarity. There are two main funds: 1) The Guarantee of Basic Public Services Fund (*Fondo de Garantía de Servicios Públicos Fundamentales*), non-earmarked, is the main fund intended to ensure equal funding for basic public services (in the sectors of health care, education and social services). All ACs contribute up to 75% of their tax revenue to this fund, in addition to an extra contribution by the central government. It is redistributed to each AC according to an "adjusted population criterion", and is adjusted yearly. 2) The Global Sufficiency Fund (*Fondo de Suficiencia Global*) is based on the assessment of the fiscal gap between expenditure needs and fiscal capacity of each AC. In addition, regions receive conditional grants aimed at fostering regional development, such as the convergence fund (*Fondos de Convergencia*). These conditional grants include a Competitiveness Fund, for regions whose per capita funding/fiscal capacity is less than the national average, and a Cooperation Fund to help less dynamic regions. Basque Country and Navarra do not receive transfers from the central government; they do, however, transfer funds to the central government and thus participate in the country's general expenses. Grants and subsidies represented more than half of regional government revenue in 2016.

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. In 2016, intergovernmental transfers represented 37.2% of provincial and municipal revenue.

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, such as the sanitation charge received by regional governments, which was transferred from municipalities to regions in the 1980s. Tariffs and fees represented, in 2016, 7.6% of regional revenues and 10.2% for local governments. In addition, SNGs received a very small share of income from property assets (rents, sales), and the latest fiscal reforms did very little to change the situation.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.			% GDP			% GENERAL GOVERNMENT DEBT			% SNG DEBT		
	SNG	State	Local	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total outstanding debt	8 065	6 922	1 142	31.8%	27.3%	4.5%	27.3%	23.4%	3.9%	100%	100%	100%
Financial debt*	7 154	6 419	735	28.2%	25.3%	2.9%	25.2%	22.6%	2.6%	88.7%	92.7%	64.3%

* Currency and deposits, loans and bonds

FISCAL RULES. A constitutional reform adopted in 2011 underpinned the fiscal consolidation targets for all Spanish administrations from 2020 onward. Targets from 2020 include structural deficits of central and regional governments restricted to the limits set by the EU and balanced budgets for local governments. Moreover, the Organic Law on Budgetary Stability and Financial Sustainability 2/2012 introduced strict fiscal rules for subnational governments, including a structural balanced budget rule and debt ceilings for all levels of governments, as well as expenditure rules for SNGs (increases in expenditures may not exceed medium-term GDP growth, calculated over ten years). An independent authority for Fiscal Responsibility was set up in November 2013 by an Organic Law, and is operational since July 2014, to monitor and report on compliance of all levels of government. The *Autoridad Independiente de Responsabilidad Fiscal* (AIREF) is composed of central and regional finance and treasury ministers.

DEBT. The Organic Law 2/2012 established that regional and local governments may apply to the State for access to extraordinary liquidity support measures. As such, several arrangements were set up with the aim to provide liquidity to regional and local governments, such as the Fund for Financing of Payments to Suppliers (FFPP), the Regional Government Liquidity Fund (FLA), as well as extraordinary support measures for municipalities encountering financial difficulties. Those were replaced in 2014 by the creation of the Regional Government Financing Fund by The Royal Decree-Law 17/2014. It is divided into three facilities: the Financing Facility, in which regional governments that meet budgetary stability targets may voluntarily participate; the new Regional Government Liquidity Fund, for regional governments that have not met such targets (replaces the former FLA); and the Social Fund, to pay regional government outstanding debts with local governments order to ensure compliance with agreements on social spending. Besides, Law 2/2012 set a debt ceiling of 13% of regional GDP for each region, and new supervisory mechanisms were introduced, including the possibility of sanctions and automatic adjustment of regional expenditure in case of non-compliance.

Spanish SNG debt has significantly increased after the 2008 global financial crisis, in particular the regional debt, to levels significantly above the OECD average. This situation led to profound reforms regarding fiscal rules, and to large efforts to reduce public deficit since 2012. This continued until regional debt levels stabilised starting in 2016. ACs hold 86% of SNG debt in 2016, against 14% for provincial and municipal governments. Regional debt, which accounted for 27.3% of GDP in 2016, is composed primarily of loans (75.5%) and bonds (17.2%), and the rest is made up of other accounts payable (7.3%, a decrease in the past years). Overall, 97.6% of bonds were issued by regional governments, and most of the regional debt was held by the central government (53.6% in 2016). Debt ratios vary greatly across regions. As of 2017, debt levels as a percentage of regional GDP ranged from 14% (Basque Country) to 42% (Valencia), and the Navarre and Basque Country regional governments have not received funds in the form of loans from the central government.
Local debt, on the other hand, accounted for 4.5% of GDP as of 2016, as local governments reduced their debt level for the fifth consecutive year. Local debt includes financial debt (64.3%) and other accounts payable (35.7%). Local financial debt is primarily made up of loans (96%).

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: OECD
Last update: 02/ 2019
www.sng-wofi.org

Socio-economic indicators: OECD // Eurostat // World Bank // UNDP // UN DESA // ILO // National Statistics Institute (INE).
Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // Eurostat // Banco de Espana.
Other sources of information: Banco de Espana (2018) Developments in public debt in Spain in 2017, Economic Bulletin 2/2018 // OECD (2018) Regions and Cities at Glance // OECD (2018) Economic Surveys: Spain 2018 // Ministerio de Hacienda (2017) Informes sobre la financiación provisional de las Comunidades Autónomas a través del sistema de financiación, Informe 2016 // Carreras Y. I. (2016) Fiscal decentralisation and inequality: the case of Spain // Ministry of Finance and Public Administrations (2016), Financing mechanisms of subnational governments // 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.

SWEDEN

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: SWEDISH KRONA (SEK)

POPULATION AND GEOGRAPHY

Area: 447 420 km^2
Population: 10.058 million inhabitants (2017), an increase of 0.8% per year (2010-2015)
Density: 22 inhabitants / km^2
Urban population: 87.1% of national population
Urban population growth: 1.8% (2017)
Capital city: Stockholm (15.7% of national population)

ECONOMIC DATA

GDP: 505.5 billion (current PPP international dollars), i.e. 50 208 dollars per inhabitant (2017)
Real GDP growth: 2.3% (2017 vs 2016)
Unemployment rate: 6.7% (2017)
Foreign direct investment, net inflows (FDI): 31 531 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 24.9% of GDP (2017)
HDI: 0.933 (very high), rank 7 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

As a constitutional monarchy with a parliamentary democracy, Sweden has a unicameral Parliament (*Riksdag*), the members of which are elected for a four-year term. The Government is led by a Prime Minister and the Head of State is the Monarch. According to the legal framework, it is a unitary and decentralised State and the Constitution recognises local self-government and guarantees SNG autonomy, stipulating that subnational authorities manage their own affairs.

The foundation for the current subnational government in Sweden was laid out in 1862 through a set of local government ordinances on municipalities and counties. In 1960s and 1970s the municipalities and counties were assigned important tasks and they were granted strong financial autonomy. This has continued in recent decades. As a result, Sweden is now among the most decentralised countries in the world. In the 1950s and 1970s, some radical merger reforms were carried out, which reduced the number of municipalities to the current level.

The legal framework revolves around the Local and Regional Authorities Act (LRA) which was then modified by the Local Government Act in 1991. The Local Government Act defines the framework for running the municipalities and it also sets rules for inter-municipal cooperation. Municipalities are led by municipal councils, which are elected every four years (last in September 2018) in general elections held at the same time as Parliament elections. The municipal council can decide the size of the council within the guidelines set in the Local Government Act. Municipal councils elect members of the executive committee and other committees. The executive committee directs and coordinates the municipal administration and finances and supervises the work of the other committees. Until the regional reform, effective since 2019, Sweden's regional governance structure had been asymmetric.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	290 municipalities *(Kommuner)*		21 counties *(Landsting)*	
	Average municipal size: 34 217 inhabitants			
	290		21	311

OVERALL DESCRIPTION. Sweden has a two-tier system of subnational government, composed of 21 counties and 290 municipalities. The Swedish multi-level governance system has been described as an "hourglass", meaning that the middle tier of government, i.e. the regional/county level, is less influential and of less importance compared to the highest tier (the central government) and the lowest tier (the municipalities). However, this situation is currently evolving, as the result of a trend to rebalance the system and reinforce the role of regions in recent decades. This has been achieved, notably, by transferring more decision-making power to regions from the central government, especially in regional development issues.

COUNTIES. There has been a gradual and experimental regionalisation process in Sweden since 1996, when two counties (Skåne and Västra-Götaland) were allowed to take more tasks from central government, especially concerning regional development. Since 2011 and until 2018 this arrangement has been extended to 11 more counties. In the rest of the country, the responsibility for regional development has been organised by six indirectly-elected County Cooperation Bodies, one municipality (Gotland Island) and one County Administrative Board. Sweden has thus an asymmetric regional governance structure. In 2017, a government inquiry on Sweden's regional structure led to a new proposal to extend the responsibility of regional development to counties in all parts of the country. The bill was accepted in 2018 and the reform took effect at the beginning of 2019. In 2017, there was a failed attempt to reduce the number of counties from 21 to six, which ultimately failed. In fact, counties differ a great deal in their characteristics: land area varies from 2 947 km2 to 98 249 km2, and population from 57 391 to 2.2 million inhabitants.

MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION. Municipal mergers started on a voluntary basis but was made compulsory in order to accelerate the process. In 1974, the number was cut from 464 to 278. This number nudged higher to its current 290 when several municipalities broke off to form separate entities. Today, the municipal average size is around 34 000 inhabitants (to be compared to 9 700 inhabitants in the OECD on average) and the median size, 15 500 inhabitants. 53% of municipalities had between 5 000 to 20 000 inhabitants in 2016 and 42% more than 20 000 inhabitants. However, Swedish municipalities vary significantly in land area and population size as well as tax base and age structure. For example, in terms of land area, the smallest municipality is only 9 km2, whereas the largest municipality has an area of 19 155 km2. Municipal populations vary between 2 450 inhabitants and 923 520 inhabitants.

Municipal mergers have not been on Sweden's policy agenda since the major boundary reforms of the 1960s and 1970s; instead, inter-municipal cooperation has always been important in Sweden. Voluntary inter-municipal cooperation provides an alternative with which to organise public services, in particular for the smallest and poorest municipalities. Municipalities can, for example, cooperate through contracts, they can establish a "common committee" to run joint services in health care or education, or establish a "municipal federation" (*kommunalförbund*), which is the most common form of cooperation. In fact, there are around 90 entities active in rescue services, schools, water supply and sewage. These inter-municipal cooperative organisations are legal entities, whose tasks and obligations are formally agreed upon by their members. The cooperative organisations are usually run by boards, whose members are nominated by the member municipalities. Over the years, inter-municipal collaboration among Swedish municipalities has increased steadily.

STATE TERRITORIAL ADMINISTRATION. The central government has its own administration at the county level, the County Administrative Boards (CABs), which are led by County Governors appointed by the central government. The CABs are responsible for coordinating central government activities in the counties, including the 240 central government agencies that operate more or less independently (within the limits of their mandate). In addition to a coordinating function, the CABs have service responsibilities, which include tasks such as managing EU funding and the monitoring (e.g. compliance with laws and regulations in specific sectors) of county councils and municipalities.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The responsibilities of subnational governments are laid down in the 1991 Local Government Act, which was amended in 2004.

Subnational government tasks can be divided into compulsory services that they must provide by law, and voluntary services that they themselves decide to provide. The provision of compulsory services is often quite tightly regulated by law, whereas SNGs are relatively free to decide upon the voluntary services provided. In most cases, SNGs are also free to decide how services are provided – either through own production or by outsourcing (inter-municipal cooperation or purchasing the service from a private company).

Municipalities are responsible for social protection, education and vocational training, planning and building issues, health care (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. As mentioned previously, since 2019 county councils are responsible for regional development.

Swedish local governments are also part or majority owners of about 1 800 limited companies. These local public enterprises are usually established in order to provide housing services, transport, property management, energy, and communication services. From a legal standpoint, these companies are treated as any other private company, with the difference being that the shares are owned by local governments.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONS	MUNICIPAL LEVEL
1. General public services	General administration	General administration
2. Public order and safety		Emergency and rescue services
3. Economic affairs /transports	Public transport (via a regional public transport authority) Regional development; Tourism (optional)	Public transport (shared with regional public transport authority); Economic development. Road maintenance. Employment (optional); Industrial and commercial services (optional)
4. Environmental protection		Evironmental protection; Refuse and waste management; Sewerage
5. Housing and community amenities		Planning and building issues; Housing (optional); Energy (optional); Water supply
6. Health	Healthcare and medical services; Primary care; Hospitals; Ambulatory care; Dental care	Preventive health care
7. Recreation, culture & religion	Cultural institutions	Leisure; Culture (optional)
8. Education		Pre-school; Primary and secondary education; Vocational training
9. Social protection		Care for the family; Child; Elderly; Disabled

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: municipalities, municipal associations, county councils, and local government owned and controlled market corporations.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. In Sweden, as in most other countries, the central government has the ultimate responsibility for ensuring that municipalities and counties have adequate resources for local service provision. Sweden's method to accomplish this is the "financing principle": if the central government decides to delegate a new task to subnational government, the central government must increase grants or provide other revenues to the subnational governments in question in order to finance the new service. If, however, an existing subnational task is centralised or abandoned, the subnational grants may be reduced. The financing principle is applied only to those central government decisions that affect subnational service costs directly. Indirect effects, such as an increase in input prices (e.g. wages, rents), that may be decided or affected by the central government, are not automatically compensated. The financing principle is an important factor for the functioning of Swedish subnational government, and has been in use since 1993. While the principle is not legally binding, it is agreed upon by all political parties and routinely used by the government. The principle is applied only to new tasks, since grants only currently account for about 30% of subnational revenues.

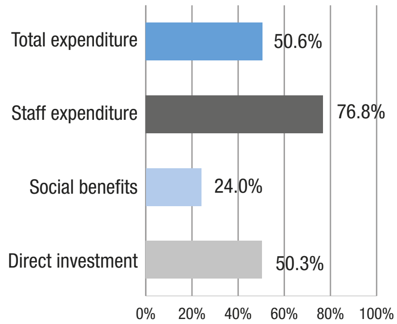
SWEDEN

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**12 238**	**25.0%**	**100%**
Inc. current expenditure	11 091	22.7%	90.6%
Staff expenditure	4 703	9.6%	38.4%
Intermediate consumption	2 729	5.6%	22.3%
Social expenditure	1 996	4.1%	16.3%
Subsidies and current transfers	538	1.1%	4.4%
Financial charges	53	0.1%	0.4%
Others	1 072	2.2%	8.8%
Incl. capital expenditure	1 147	2.3%	9.4%
Capital transfers	104	0.2%	0.8%
Direct investment (or GFCF)	1 044	2.1%	8.5%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)

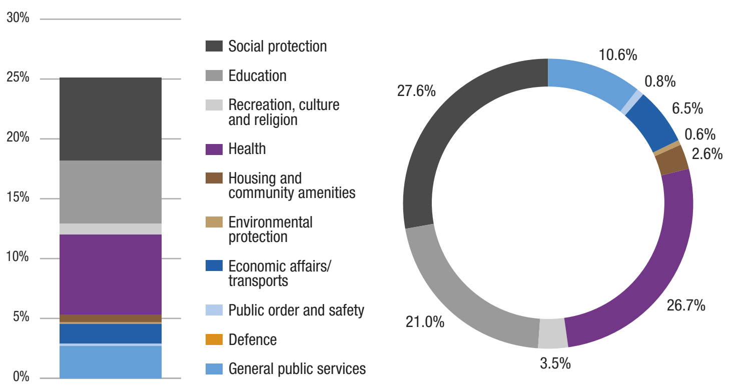


EXPENDITURE. Subnational governments are responsible for a large range of public services and benefits in key areas, making Sweden one of the most decentralised unitary countries in the OECD. In Sweden, SNGs account for about 50% of the general government expenditure and 25% of GDP (the OECD averages are 40.4% of public expenditure and 16.2% of GDP), which demonstrates their fiscal importance. SNGs employ more than three-quarters of public staff, since they are responsible for wages of teachers, social and health employees (versus the OECD average: 62.9% of public expenditure and 36% of subnational expenditure). Following the Nordic tradition of a strong welfare system, the social expenditure is also greater than the OECD unitary countries' average. Since the municipalities are responsible for a wider selection of tasks, they manage roughly twice the budget of counties.

INVESTMENT. Public investment levels are high in Sweden. It spent roughly 4.2% of GDP on public investment projects in 2016, and investment levels between 2000 and 2016 were consistently above the OECD average. Much of this growth has been generated by an expansion of SNG activity. And yet, the share of Swedish subnational investment in public investment is lower than OECD average – 50% compared to 57% in the OECD in 2016 – due in part to the fact that, traditionally, most of the investment is carried out by the central level, and SNG investment occurs in a few large cities and counties. As a share of total expenditure, investment accounted for 8.5% while the OECD average was 10.7%. As a share of GDP, SNG investment amounted however to 2.1%, which is higher than in the OECD on average (1.7%). Municipalities (and municipal owned companies) represent around 80% of total SNG investment. SNG investment levels are expected to grow due to the pressures arising from an increasing demand for welfare or social services generated by population growth, demographic ageing, migration and the need to renovate and/or replace aged residential and public properties that were mostly built 40-50 years ago. In addition, with the new Public Procurement Strategy, public investment might get a boost. Additionally, the Infrastructure Bill for 2018-2029 plans to increase infrastructure investment by 20%.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

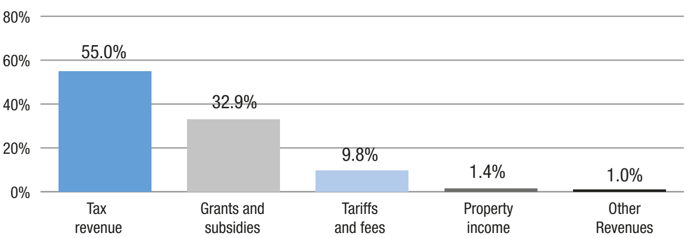
Social protection and health care form the largest subnational government spending categories. Together these accounted for almost 55% of sub-national expenditure, followed by education and general public services. For the county councils, the main category of spending is health care (around 90%). For the municipalities, social protection and education are the main services. Compared with counties, municipalities are responsible for much wider range of services and municipalities handle a budget of about twice the budget of counties. Municipalities are for example responsible for housing and community amenities and recreation and culture as well as economic affairs and transports (jointly with the transport companies organised by counties).



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**11 988**	**24.5%**	**48.4%**
Tax revenue	6 588	13.5%	32.7%
Grants and subsidies	3 938	8.1%	
Tariffs and fees	1 171	2.4%	
Property income	165	0.3%	
Other revenues	125	0.3%	

% SNG REVENUE



OVERALL DESCRIPTION. Sweden's SNGs have among the largest shares of public revenue across the OECD countries, measured both as share of GDP and as percentage of public revenue (24.5% and 48.4%). Only Denmark has higher subnational government revenue shares (35.2% of GDP and 66.1% of public revenue). Own source revenues such as taxes, tariffs and fees and property income account for 67% of the Swedish subnational government revenue. More than half of SNG revenues come from tax revenues, compared with the OECD average of 44.6% in 2016. Grants and subsidies account for one-third of SNG revenue. Local taxes represent 13.5% of the GDP and 32.7% of general government revenues. Municipalities and counties have very similar revenue structure.

TAX REVENUE. In Sweden, subnational government tax revenue is almost entirely formed by the local income tax (PIT). Income tax is levied on salaries, wages, pensions, and payments from health insurance and unemployment benefits, and it represented 97.3% of SNG tax revenue in 2016, 53.5% of SNG revenue and 13.1% of GDP. Municipalities and counties are free to set the income tax rates but central government controls the tax base.
The real estate fee (it is not called a property tax but a real estate fee) is a central government tax as the central government sets the fee and defines the base. Subnational governments get a share of the real estate fee revenue, these revenues represented 2.7% of SNG tax revenue, 1.5% of SNG revenue and 0.4% of GDP in 2016, among the lowest in the OECD where recurrent taxes on property amounted to 1.1% of GDP in 2016.

GRANTS AND SUBSIDIES. The Swedish welfare state is built on the promise that citizens have equal access to public services regardless of their place of residence. This is a considerable challenge for the SNGs because the conditions for service provision and the revenue bases vary considerably between municipalities and between counties. In order to ensure reasonable service levels in all parts of the country, a strong fiscal equalisation system has been implemented. An important grant reform was implemented in the early 1990s, which replaced the matching grant system with general grants. In addition to the general grant system, the central government also uses earmarked grants for specific purposes. Another reform took place in 2014.

The general grant system for municipalities and counties in Sweden consists of three main parts: income equalisation grants (85% of the general grant), cost equalisation grants (9%), and structural grants (3%). In addition, there is a "transition grant" to ensure that the impact of the 2014 grant reform takes effect only over several years. There is also a grant to even out the residual between estimated municipal and county costs and the general and specific grants they receive.

The fiscal equalisation system, both horizontal and vertical, takes both differences between tax bases and service costs into account. Transfers from the central government include compensation 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.

In international comparison, Sweden's subnational governments stand out as relatively self-reliant (as was mentioned above, own revenues form almost 70% of revenues). This relatively low share of grant revenue as part of total subnational revenue implies that the vertical fiscal imbalance (i.e. asymmetry between subnational revenues and spending responsibilities) in Sweden is low. Also, the horizontal fiscal gap in the Swedish case seems relatively modest: in 2015 only three municipalities had a general grant share that was larger than 30% of all municipal revenues. Nevertheless, the Swedish equalisation system certainly levels the playing field: after equalisation most differences in calculated service costs and tax bases are evened out.

OTHER REVENUES. Other Swedish subnational government revenues consist mainly of charges and fees (9.8% of SNG revenues, 6% of municipal revenues and 3% of counties' revenues) for local services provided such as child, elderly and health care. Municipalities and counties are allowed to set fees but ceilings on maximum charges have been introduced on some services. The role of user fees as subnational government revenues remains below the OECD average of 14.9%. Revenues from assets represented 1.4% of SNG revenues in 2016 (versus 2% OECD average). Since 2013, local governments are also able to build rainy day funds in order to reduce the cyclicality of their revenues.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**8 019**	**16.4%**	**27.3%**	**100%**
Financial debt*	5 229	10.7%	23.6%	65%

* Currency and deposits, loans and bonds

FISCAL RULES. To strengthen the budget process at local level, a balanced budget requirement for the local government sector has been in place since 2000. This requirement means that every municipality and county council must plan their budget to achieve balance. The balance requirement specifies the lowest acceptable level of net surplus or deficit. Since 1992, local governments have been required to exercise good financial management in their activities. They are to adopt guidelines for good financial management. This rule is part of a wider fiscal policy framework, which was reinforced in June 2016 following a cross-party agreement to ensure the long-term sustainability and transparency of fiscal policy.

DEBT. SNGs have the legal right to make autonomous decisions on their borrowing, without scrutiny or approval by the central government. Borrowing is nevertheless indirectly limited because all costs associated with the debt must be included in the balanced budget. There is no direct volume limit restricting SNG borrowing. In Sweden, SNG outstanding debt as a percentage of GDP is lower than the OECD average (16.4% vs 24.5%) but the share in total public debt is higher (27.3% vs 20.7%). It is made up of financial debt (65%), other accounts payable (20%) and insurance pensions. Financial debt comprises both loans (66% of outstanding financial debt) and bonds (34%).
Kommuninvest i Sverige AB, a not-for-profit credit association owned by county councils and municipalities, is the main lender (market share of about 50% in 2016). It was founded in 1992 because many municipalities had difficulty obtaining financing for their investments and had to pay high interest rates for their loans. Today, approximately 90% of Sweden's municipalities and County Councils/regions are members of Kommuninvest.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: OECD
Last update: 02/ 2019

www.sng-wofi.org

Socio-economic indicators: OECD // Eurostat // World Bank // UNDP // UN Desa // ILO // Statistics Sweden.
Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // Eurostat // Statistics Sweden.
Other sources of information: SALAR (2018) Municipalities, county councils and regions // SALAR (2018) The Economy Report: On Swedish municipal and county council finances // European Commission (2018) Country Report Sweden 2018 // OECD (2017) OECD Territorial Reviews: Sweden 2017: Monitoring Progress in Multi-level Governance and Rural Policy // Regeringens skrivelse (2017) Government communication on the fiscal policy framework // European Committee of the Regions (2016) Division of Powers - Fiscal Powers // Council of Europe (2014) Local and regional democracy in Sweden.

SWITZERLAND

FEDERAL COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: SWISS FRANC (CHU)

POPULATION AND GEOGRAPHY

Area: 41 290 km²
Population: 8.452 million inhabitants (2017), an increase of 1.2% per year (2010-2015)
Density: 205 inhabitants / km²
Urban population: 73.8% of national population
Urban population growth: 1.1% (2017 vs 2016)
Capital city: Bern (5.0% of national population)

ECONOMIC DATA

GDP: 547.9 billion (current PPP international dollars), i.e. 64 712 dollars per inhabitant (2017)
Real GDP growth: 1.1% (2017 vs 2016)
Unemployment rate: 4.8% (2017)
Foreign direct investment, net inflows (FDI): 37 864 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 24.5% of GDP (2017)
HDI: 0.944 (very high), rank 2

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Swiss Confederation is a parliamentary federal state composed of 26 cantons. Swiss federalism is a bottom-up system where cantons enjoy far-reaching autonomy to the extent that their sovereignty is limited by the Federal Constitution. Both cantons and municipalities have a large degree of political, administrative and fiscal autonomy.

The 1848 and 1999 Swiss Constitutions also define a system of direct democracy, also called half-direct or representative direct democracy. Therefore, Switzerland has a particularly developed direct democracy system beyond direct election voting, whose main components are the submission of laws by way of popular initiatives, and optional and mandatory referendums.

At the federal level, legislative power is vested in a bicameral parliament made up of the National Council (lower house) and the Council of States (upper house). Members of both houses, directly elected for four-year terms, represent the cantons: the 200 seats in the National Council are distributed in proportion to each canton's population, whereas each canton has a determined number of seats, between one and two, in the Council of States (46 seats in total). The executive power is vested in the Federal Council, composed of seven members, elected by Swiss citizens for four-year terms, and headed by the President of the Federal Council, elected yearly by the Federal Assembly. Art. 175 of the Constitution specifies that the composition of the Federal Council shall reflect the regional and linguistic diversity of the country as Switzerland is composed of four linguistic regions (German, French, Italian and Romansh).

At subnational level, the Constitution defines the federation and establishes the autonomy and sovereignty of the cantons (Art. 1 and 3) and grants them both organisational and financial autonomy (art. 47) in the determination of their tasks based on the subsidiarity principle (art. 5). Municipal autonomy is also enshrined in the Constitution (art. 50).

At the regional level, the 26 cantons are subdivided into 20 cantons and six half-cantons but this subdivision is historical and has less significance today. The 26 cantons each have their own constitution, parliament, government and courts. Cantonal governments comprise five to seven members, directly elected by the people. Cantonal parliaments (the great council), named under various appellations depending on the canton, have a single chamber comprising between 50 to 180 members directly elected by the canton's population, whose mandate varies from one canton to another. They are presided by a president usually for one year but it can be for the entire legislative period (Vaud and Geneva). The executive body is the state council and is composed of members elected by the great council or by citizens. Its mandate differs from one canton to another.

The democratic functioning of the two cantons of Appenzell Rhôdes-Intérieures and Glaris is unique: once a year, the citizens of the canton as a whole gather in the cantonal capital and collectively elect, by a show of hands, the canton's executive authorities, and discuss cantonal laws.

At the local level, the municipalities (communes) are governed by two types of deliberative bodies according to their size, called municipal parliaments: the municipal assembly and the municipal/general/local council. The first type is more common (80% of cases) and consists of a system of direct democracy as it is composed of citizens who have the right to vote; the second, the municipal council, is a parliament composed of representatives elected by the citizens by direct universal suffrage for a mandate that varies depending on the canton. Below 1 000 inhabitants, the choice between the two formulas is open but over 1 000 inhabitants it must be a municipal council. The executive power is called an administrative, municipal or local council and is composed of members either elected by direct universal suffrage or by the municipal council for a mandate varying from four to five years, depending on the canton. It is presided by a mayor, syndic or president, also depending on the canton. Most communes hold an annual assembly where citizens can vote on issues put before them.

An important federalism reform, adopted in 2004 and entered into force in 2008, improved the fiscal equalisation system and clarified the assignment of responsibilities between the federal government and the cantons. It also provided incentives and the mechanism for the formalisation of inter-cantonal cooperation agreements, in order to avoid fragmentation and unproductive "beggar-thy-neighbour" scenarios. The reform reaffirmed the principles of subsidiarity and fiscal equivalence. Since 2008, Switzerland has further clarified federal and cantonal roles in specific policy areas. However, the process of improving tasks and cost-sharing between the Confederation and the cantons is still on the agenda. Recently, the federal parliament has also asked the Federal Council to undertake an assessment of the tasks shared between the Confederation and the cantons and note for each whether it should remain a joint task or whether it should be transferred in full to the federal or the state level.

There is no institutionalised vertical coordination (such as through a council or forum) between the Confederation and the Cantons. However, the federation may cooperate and participate in some inter-cantonal agreements and conferences. In addition, since 2001, the Tripartite Conference on Agglomerations (TCA) has served as a political forum to increase cooperation between the Confederation, cantons, towns and municipalities on the implementation of a joint policy for the Swiss agglomerations. In 2017 the TCA became the "Tripartite Conference" and its scope was extended to rural areas and mountainous regions, becoming a collaboration forum between the Confederation, the cantons and the municipalities focusing on different political issues. The cantons institutionalised horizontal collaboration in various policy areas through so-called "cantonal conferences" and, since the 2004 fiscal federal reform, through the "house of the cantons".

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	2 222 municipalities *(commune, gemeinden, comuni)*		26 states *(canton, kanton, cantone)*	
	Average municipal size: 3 804 inhabitants			
	2 222		**26**	**2 248**

OVERALL DESCRIPTION. The Swiss Confederation has two tiers system of SNGs composed of 26 cantons and 2 222 municipalities in 2017 (2 212 as of January 1, 2019).

REGIONAL LEVEL. Cantons play an important role in Switzerland's decentralised government, as they define former states that gathered in 1848 to create the Confederation, devolving part of their sovereignty. The canton of Jura is the only exception as it was created in 1979 after its secession from the Berne canton. Their organisation varies across jurisdictions. The most populous canton as of 2017 is Zurich (1.4 million inhabitants), while the least populous is Appenzell Rhôdes-Intérieures (15 500 inhabitants), the cantonal average size being around 326 000 inhabitants in 2017.

Regional economic disparities in Switzerland are among the lowest within the OECD. Regional disparities in terms of GDP per capita have slightly decreased in Switzerland over the last 16 years, with Eastern Switzerland having a GDP per capita equivalent to 72% of Zurich's GDP per capita in 2015.

MUNICIPAL LEVEL. Municipalities are governed by the constitution and legislation of the cantons they belong to. As a result, municipal organisation differs from one canton to the next. Swiss municipalities are small on average, compared to the OECD average municipal size of 9 700 inhabitants. The median size is even much smaller (1 370 inhabitants). 84% of municipalities have fewer than 5 000 inhabitants and even 61% fewer than 2 000 inhabitants while only 5% have more than 20 000 inhabitants. In 10 cantons, the average size of municipalities is fewer than 3 000 inhabitants. However, 49% of the population lives in cities of more than 50 000 inhabitants and 30% in cities with more than 500 000 people (vs 55% in the OECD area).

To reduce municipal fragmentation, several cantons (Thurgovie, Fribourg, Vaud, Tessin, Grisons, etc.) have encouraged mergers through financial and political incentives. The number of municipalities has progressively decreased, resulting in a reduction of 30% of the number of municipalities between 2000 and 2017. In 2019, the number of municipalities has again decreased to 2 212. Inter-municipal cooperation is another way of reducing fragmentation that has been chosen by certain cantons. In fact, inter-municipal arrangements are becoming increasingly popular and have many different legal structures.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

According to the principle of subsidiarity, which is enshrined in the Constitution, competences are vested at the cantonal level and can only be transferred to the Confederation when the lower level is no longer able to provide a service "efficiently" (art. 5). Only very few policy areas fall exclusively under the competences of the Confederation (foreign affairs, monetary policy and armed forces). As specified in Article 3, all tasks not assigned to the Confederation remain with the cantons (security and police, education including universities, healthcare, welfare, utilities, etc.). The Constitution also provides for shared competences between both the Confederation and the cantons. Therefore, the Confederation and cantons assume joint responsibility in some areas (regional traffic, regional development, environmental protection, flood protection, etc.). Finally, the cantons are responsible for the administrative implementation of the federal law, but they are free to adopt different approaches in its implementation.

There are however some overlaps, coordination challenges as well as significant differences among cantons in the provision of services. The last federalism reform 2004-2008 reassigned several policy areas to either the federal or cantonal level in order to clarify the division of tasks between the Confederation and cantons in areas such as schools and higher education, culture, waste management, wastewater treatment and urban transport. It also set up several coordination mechanisms between the Confederation and regional governments, hence the existence of many coordinating bodies and partnership agreements in several sectors (e.g. Swiss Conference of Federal Ministers of Education - EDK, etc.). Of the 53 tasks that used to be jointly financed by the Confederation and the cantons, in the end only 21 were split off and clearly reassigned following the reform and tasks have not been always been divided optimally between the Confederation and the cantons.

Municipalities have extremely varied competences and autonomy, depending on the canton's legislation. Municipalities' autonomous and non-autonomous tasks are assigned by their respective cantons. They typically relate to education, social services, water and electricity, and traffic, local roads, land use planning, natural resource management, recreation and culture and municipal police. In principle, municipal competences are full and exclusive, but some have been transferred and shared in a context of inter-municipal cooperation, in particular in sectors such as firefighting, medical care and schools.

SWITZERLAND

FEDERAL COUNTRY

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	CANTONS	COMMUNES
1. General public services	Internal administration; Justice	Internal administration; Citizenship
2. Public order and safety	Civil defence; Security and police; Emergency and rescue services	Local police (fire department, traffic police, regulation of trade and commerce); Civil protection
3. Economic affairs/transports	Regional development (shared); Regional traffic (shared)	Electricity supply; Traffic; Public transport; Local roads and streets
4. Environmental protection	Environmental protection (shared); Flood protection (shared)	Environmental protection; Waste water; Waste collection and treatment; Natural resource management; Conservation of landscape
5. Housing and community amenities	Spatial planning; Public works; Building regulations	Local development and land-use planning; Building regulations and permits; Water supply
6. Health	Hospitals; Nursing homes; Prevention and promotion of health	Prevention and promotion of health
7. Recreation, culture & religion	Culture	Sport facilities; Cultural facilities; Heritage
8. Education	Pre-school, primary, lower and upper secondary education; Higher education and universities	Pre-school, primary and secondary school (schools operation)
9. Social protection	Social policy; Family benefits; Maternity; Unemployment assistance	Social assistance; Home care services; Care for the elderly; Responsibilities linked to the social insurance system

SUBNATIONAL, STATE AND LOCAL GOVERNMENT FINANCE

Scope of fiscal data: at regional level, cantons; at local level, municipalities and nonfinancial special purpose entities.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. Art. 3 of the Constitution states that Swiss cantons have discretion over their revenues and taxes, provided they are not assigned to the Confederation. Cantonal laws enact the financial autonomy and competences of municipalities. Fiscal equalisation is enshrined in the Constitution and the federal government has the authority to equalise fiscal disparities. A significant constitutional reform enacted in 2008, which was one of the most comprehensive reforms of federalism since the creation of the Swiss federation in 1848, aimed at modifying the allocation of responsibilities between the Confederation and the cantons and improving the system of financial equalisation. This reform had five components: improving the horizontal and vertical financial equalisation scheme; equalise charges; disentangle the tasks of the Confederation from those of the cantons and their financing; and improve vertical cooperation for joint tasks between the Cantons and the Confederation. A new reform of the equalisation system is on-going.

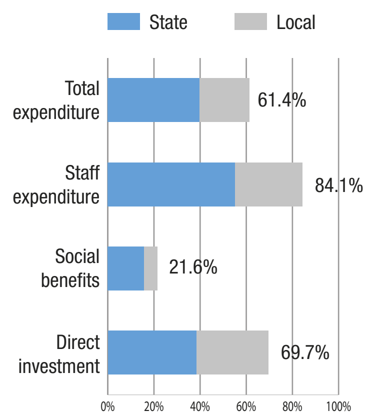
The Conference of the Cantonal Directors of Finance aims at coordinating the cantons in fiscal and public finance matters. It is in charge of finding a joint position among the cantons and negotiating with the federal government.

Switzerland's fiscal framework is also characterised by the active participation of citizens regarding fiscal matters. Any constitutional amendment, including provisions on the distribution of fiscal power, must be adopted by a double majority of the cantons and the people, while any legislative amendment must be subject to a compulsory or optional referendum.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.			% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT EXPENDITURE		
	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total expenditure	13 467	8 722	4 745	21.1%	13.7%	7.4%	100%	100%	100%
Inc. current expenditure	11 684	7 671	4 013	18.3%	12.0%	6.3%	86.8%	88.0%	84.6%
Staff expenditure	4 069	2 663	1 406	6.4%	4.2%	2.2%	30.2%	30.5%	29.6%
Intermediate consumption	2 389	991	1 398	3.7%	1.6%	2.2%	17.7%	11.4%	29.5%
Social expenditure	1 596	1 154	442	2.5%	1.8%	0.7%	11.8%	13.2%	9.3%
Subsidies and current transfers	3 484	2 791	693	5.5%	4.4%	1.1%	25.9%	32.0%	14.6%
Financial charges	146	72	74	0.2%	0.1%	0.1%	1.1%	0.8%	1.6%
Others	0	0	0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Incl. capital expenditure	1 783	1 051	733	2.8%	1.6%	1.1%	13.2%	12.0%	15.4%
Capital transfers	395	287	108	0.6%	0.4%	0.2%	2.9%	3.3%	2.3%
Direct investment (or GFCF)	1 388	764	625	2.2%	1.2%	1.0%	10.3%	8.8%	13.2%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



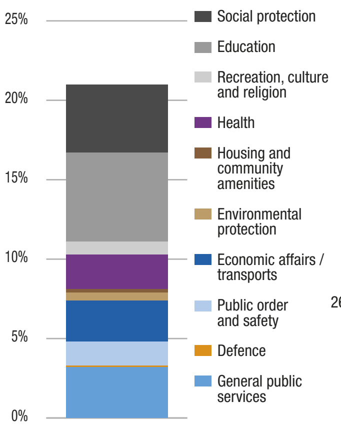
EXPENDITURE. The SNG share in GDP and public spending is among the highest of the OECD, well above the OECD average (16.2% of GDP and 40.4% of public spending in 2016) and even the OECD average for federal countries (19.2% and 50.0% respectively). Cantons at the regional level account for the majority of public spending in Switzerland (40%), whereas the federal government accounts for a slightly lower share, and municipalities for approximately 21.6%. Within the subnational sector, cantons account for 65% of subnational expenditure and municipalities 35%.
SNGs are key public employers (SNG share in public staff spending is 21 percentage points above the OECD average of 62.9% and 7 points above the average for federal countries of 76.5%), especially at cantonal level. Cantonal staff expenditure accounted for 55.1% of total public staff spending vs 29.1% for the municipalities.

DIRECT INVESTMENT. SNGs are also key public investors, with a share of SNG investment in public investment and GDP higher than the OECD average for federal countries, which amounted to 62.3% and 1.8% of GDP in 2016. In Switzerland, public investment is a shared responsibility across levels of government. Switzerland's 26 cantons accounted for the bulk of subnational investment (55% of SNG investments in 2016) and for 38.3% of total public investment. They have significant independence to shape investment policies and set incentives to attract investment, and over the last ten years, 16 cantons have financed their investments integrally through their own resources. In addition, a significant share of transfers from the central government are allocated to inter-cantonal investment projects. Contractual arrangements between the Confederation and cantons are implemented through eight-year multi-annual programmes. If the targets are not achieved, cantons may be required to return funds. In addition, inter-cantonal agreements focus on collaboration in specific fields (fishing, health-care services, road and police networks). Swiss municipalities also play a direct role in investment, as they were responsible for 45% of SNG investment in 2016. On average over the last ten years, only eight cities have financed their investment by relying essentially on their own resources.
In 2016, the main areas of SNG investment were general public services (35% of SNG investment), economic affairs/transport (24%) and education (21%). At local level, the primary area of investment was education (30% of municipal investment), economic affairs/transport (29%), general public services (11%) and environment (10%).

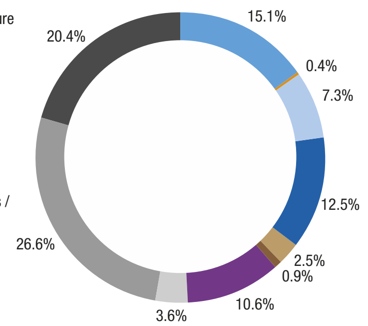
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

2016	% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT		
	SNG	State	Local	SNG	State	Local
Total expenditure	21.1%	13.7%	7.4%	100%	100%	100%
1. General public services	3.2%	2.1%	1.1%	15.1%	15.4%	14.6%
2. Defence	0.1%	0.0%	0.0%	0.4%	0.3%	0.5%
3. Security and public order	1.5%	1.1%	0.5%	7.3%	7.8%	6.3%
4. Economic affairs / transports	2.6%	1.7%	1.0%	12.5%	12.3%	12.9%
5. Environmental protection	0.5%	0.1%	0.4%	2.5%	0.9%	5.6%
6. Housing and community amenities	0.2%	0.0%	0.2%	0.9%	0.2%	2.2%
7. Health	2.2%	1.9%	0.3%	10.6%	14.2%	3.9%
8. Recreation, culture and religion	0.8%	0.3%	0.5%	3.6%	2.0%	6.6%
9. Education	5.6%	3.5%	2.1%	26.6%	25.9%	28.1%
10. Social protection	4.3%	2.9%	1.4%	20.4%	21.0%	19.3%

SNG EXPENDITURE AS A % GDP



% OF TOTAL SNG EXPENDITURE

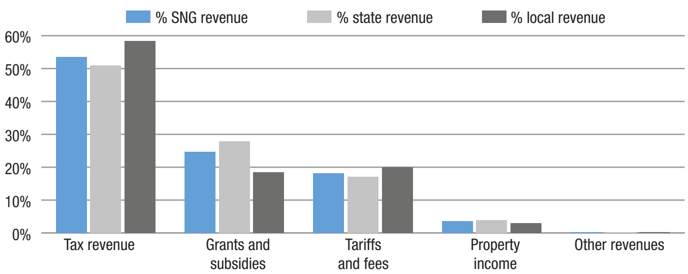


Overall, education is the primary area of SNG spending, for both state and local governments, representing more than one-quarter (26.6%) of subnational expenditure, and 91% of total public spending on education at the country level. It is followed by social protection (20.4% of SNG expenditure), general public services and economic affairs/transport. The recent increase in expenditures in social protection mostly resulted from increasing costs for unemployment, migration and ageing-related protection, which are shared with the federal government, as SNGs are responsible for one-quarter of total public spending in this sector.
Overall, the Swiss cantons are responsible for the bulk of the financing and implementation of public services, in particular in the fields of education (25.9%), social protection (21.0%), security and public order spending (15.4%) and healthcare (14.2%). Expenditure on health is primarily the responsibility of the cantons, which are responsible for nearly all public spending in this category. Health expenditure increased in 2016 in particular due to the weight of health protection and financing of hospitals on cantonal budgets.
Municipal spending is mainly targeted at education (28.1%), social protection (19.3%) and general public services. Municipalities are responsible for a large share of total public spending on housing and community amenities (they are responsible for 83% of total public spending in this sector), environmental protection (62% of total public spending) and recreation and culture (58% of total public spending).

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	% GDP			% GENERAL GOVERNMENT (SAME REVENUE CATEGORY)		
	SNG	State	Local	SNG	State	Local
Total revenue	21.2%	13.8%	7.4%	61.0%	39.7%	21.3%
Tax revenue	11.3%	7.0%	4.3%	53.6%	33.2%	20.4%
Grants and subsidies	5.2%	3.8%	1.4%			
Tariffs and fees	3.8%	2.4%	1.5%			
Property income	0.7%	0.5%	0.2%			
Other revenues	0.0%	0.0%	0.0%			

% SUBNATIONAL, STATE AND LOCAL GOVERNMENT REVENUE



SWITZERLAND

FEDERAL COUNTRY

GENERAL DESCRIPTION. According to the Constitution, the cantons may determine their own revenue and taxes. While indirect taxation is part of the Confederation's responsibility, direct taxation is a shared competence of the municipal, state and Confederation levels. As a result, Switzerland is one of the most OECD decentralised countries in fiscal terms. The share of SNG tax revenue in total SNG revenue is one of the highest, well above the average for OECD federal countries (53.5% in 2016) while the dependence on transfers (from federal or state governments) is one of the lowest in the OECD, compared to the OECD average for federal countries of 31.5%. In addition, SNGs have a high degree of taxing power (rates and bases). Intergovernmental transfers comprise equalisation components to balance the discrepancies resulting from such autonomy. Yet, there are strong fiscal disparities, in particular between municipalities, and many small municipalities are heavily dependent on cantonal grants.

TAX REVENUE. In addition to representing a large share of SNG revenue, tax revenue accounted for 11.3% of GDP and 53.6% of public tax revenue, above the OECD average (7.1% of GDP and 31.9% of public tax revenue) and above the average of the OECD federations (8.8% of GDP and 42.4% of public tax revenue. In 2016, states represented 59.3% of SNG tax revenue and municipalities, 40.7%.

The 1993 Federal Law on Tax Harmonisation instituted a set of principles to be upheld by all cantons with regard to liability, purpose, tax calculation periods, procedure and criminal law on fiscal matters. Likewise, cantons and municipalities are free to set tax ranges, rates and tax exemptions.

Overall, at subnational level, the primary source of tax revenue was the personal income tax (63% of SNG tax revenue), followed by the property tax and the corporate income tax (both around 14-15% of SNG tax revenue).

At regional level, cantons can levy any kind of tax that is not exclusively attributed to the Confederation (the federal constitution only prohibits double taxation). These include in particular taxes on personal income (60% of cantonal revenue in 2016), on corporate income (14.5%), revenue from the property tax (13.5%), 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, taxes on motor vehicles, etc. Cantonal tax authorities are in charge of the income tax administration and collection. This incurs a high degree of fiscal competition in some cantons with a strong revenue potential related to both the corporate and individual income tax. Traditionally, Swiss tax regimes are characterised by lower tax rates for corporations mainly active abroad. In 2016, the "corporate tax reform III" reform package was designed to address this imbalance compared to other OECD and EU countries, but the reform was rejected by Swiss voters in a referendum in February 2017. The revised reform "tax proposal 17" has been released for consultation at the end of 2017 (Federal Act on Tax Reform and OASI Funding), and if approved in May 2019, will become effective in 2021. It comprises, among others, measures abolishing special cantonal tax regimes. In addition, cantons are expected to lower their corporate income taxes in the coming year in order to remain competitive.

Municipalities can levy taxes to the extent they are authorised to do so 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 (*centimes additionnels*). In 2016, tax revenue from the PIT was the largest source of municipal tax revenue (67%), supplemented by revenue from the property tax (15%) and from the CIT (12%).

The recurrent tax on immovable properties, at both cantonal and communal levels, provided few tax revenues. It accounted for 1.7% of SNG tax revenue and 0.9% of SNG revenue, i.e. 0.2% of GDP, well below the OECD average of 1.1% of GDP in 2016. It is levied on land and buildings and paid by individuals and legal entities who are recorded in the land register as the owners or users (usufructuaries) of a property. The tax is calculated on the full taxable value of the property. Several cantons have decided not to levy this tax while the remaining cantons apply a variety of systems.

GRANTS AND SUBSIDIES. Intergovernmental transfers from the Confederation make up for 24.6% of SNG revenue, but almost 28% of state revenue and 18.5% of municipal revenue. In 2016, federal transfers to cantons were mainly composed of earmarked grants (65% in areas such as agriculture, health, social protection, elderly, road traffic management, research and higher education, etc.), non-earmarked funds (20% of transfers in 2016) and equalisation funds (15%). Overall, capital expenditure grants accounted for around 7% of total grants in 2016 and current grants, for the remaining 93%.

Transfers from the Confederation to the cantons include a large system of equalisation established in 1958 and further reformed in 2008. The system is both vertical and horizontal and is mainly based on three building blocks, based on revenue equalisation, cost equalisation and a transitional "neutrality" fund.

The revenue equalisation fund that aims to reduce fiscal disparities across cantons by ensuring each canton has a level of resources per inhabitant equivalent to at least 85% of the Swiss average. This fund accounted in 2016 for approximately 70% of total grants. Through both vertical and horizontal equalisation schemes, the fund is co-financed by both the Confederation (between 56% and 60%) and by cantons with high revenue potential (accounting for between 40% and 44% of the fund). According to the monitoring report submitted by the Federal Council on the efficiency of the national equalisation system, all Swiss cantons exceeded the threshold of 85% of their revenue potential in 2016. A new on-going reform of the equalisation system would make significant changes to the equalisation scheme. According to this reform, the amounts to be allocated to the poorest cantons will be set annually by the Federal Council, to reach an increased threshold of 85.5% of their revenue potential. Besides, the new reform also sets a fixed contribution for each rich canton contributing to the Fund, amounting to two-thirds of the Confederation share. The reform is expected to save approximately EUR 280 million yearly, half of which will be reallocated to the cost equalisation fund, and the other half to the neutralisation fund.

The cantonal equalisation system also comprises a cost equalisation fund that compensates for the excessive charges that some cantons incur because of their topography and socio-demographic characteristics, and that may increase the costs for the delivery of public services, especially in mountain areas. This Fund financed by the federal government, represents approximately 22% of total grants.

Finally, a temporary "neutralisation" fund was implemented to compensate, over a limited period of time, for the duration of the implementation of the new equalisation system. It is financed for two-thirds by the Confederation, and for one-third by the cantons depending on their population. Determined every four years by the Federal Parliament since 2007, the fund allocation for the 2016-2020 period will decrease by 5% each year. In 2016, this Fund benefitted seven cantons (Berne, Lucerne, Obwald, Glaris, Fribourg, Neuchâtel and Jura).

In addition, each canton also has its own grants and equalisation system for its municipalities, for which transfers make up less than 20% of their revenue. With the 2008 reform, the share of non-earmarked transfers to municipalities increased from 24% to 40%, while the specific earmarking of certain transfers was stopped. In 2016, most transfers to municipalities were used to fund local expenditure for social welfare (social assistance, asylum rights).

OTHER REVENUES. The share of other revenue, comprising tariffs and fees and revenue from properties, is significant for both Swiss cantons and municipalities compared to other OECD countries, amounting to more than 20% of total SNG revenue.
User charges and fees are particularly significant (18.1% of revenues compared to 14.9% in the OECD) while revenue from property (including assets sales, rents) accounted for 3.5% of total SNG revenue, also above the OECD average of 2.0% in 2016. At local level, tariffs and fees in particular represented 20% of the revenue of municipalities alone, and property income 3.0%. Interestingly, the net property assets of cantons and municipalities have been increasing in recent years, partly due to favourable market conditions.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.			% GDP			% GENERAL GOVERNMENT DEBT			% SNG DEBT		
	SNG	State	Local	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total outstanding debt	17 516	9 701	7 816	22.6%	12.5%	10.1%	52.5%	29.1%	23.4%	100%	100%	100%
Financial debt*	12 417	6 919	5 498	16.0%	8.9%	7.1%	48.2%	26.9%	21.4%	70.9%	71.3%	70.3%

* Currency and deposits, loans and bonds

FISCAL RULES. Federal and cantonal level set their fiscal rules independently, the federal level has no power over the cantons, and there is no formal fiscal policy coordination between the federal and cantonal level. Most Swiss cantons introduced self-imposed balanced budget rules and fiscal rules, including debt brake, spending brake and sanctions in case of non-compliance. In 2003, the Federal government introduced a federal fiscal rule ("debt brake") through popular vote, imposing budget-balance requirements over the budget cycle, with surpluses used to pay down debt, as structural deficits shall be offset in future budgets. Although a few cantons have no budget rules at all, fiscal rules vary greatly across cantons. While in some cantons fiscal rules impose strict budget discipline with balanced payment of accounts and sanctions mechanisms, other cantons enable debt increases in case of recession. Similarly, fiscal rules set by cantons for the communes vary substantially across jurisdictions (mostly the "golden rule"). By the way of the fiscal referendum implemented at the cantonal level, expenditure which exceeds a certain limit is subject to a popular referendum.

DEBT. Cantons' borrowing is not restricted, but fiscal rules include debt brakes. Municipalities also have the right to borrow but with some constraints which vary across cantons, depending on each canton constitution and fiscal law. Overall, SNG debt as a percentage of GDP is in line with the OECD average (24.5% of GDP) and below the OECD average for federal countries (31.3%). Swiss SNG debt is, however, significantly higher when considering the share in total public debt compared to the OECD (20.7%) and the OECD federations (27.1%). This share has been increasing for both municipalities and cantons since the last decade. 55% of SNG outstanding debt is held by the cantons and 45% by the municipalities. Therefore, cantons and municipalities have relatively close levels of debt, with outstanding debt amounting to respectively 12.5% and 10.1% of GDP in 2016.

SNG outstanding debt is made up of financial debt (71%), other accounts payable (27%) and pension liabilities (2%). In 2016, the financial debt was composed of loans for 57% of debt stock and bonds for the remaining part (43%). Cantons rely primarily on bond issuance (which makes up for 53% of their financial debt, against 47% for loans), whereas for municipalities, loans are the primary source of borrowing (70% of local debt, and 30% for bonds). Significant disparities exist regarding SNG debt across Swiss regions, with a higher SNG debt level in cantons in southern regions compared to lower level in the northern regions.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: OECD
Last update: 02/ 2019

www.sng-wofi.org

Socio-economic indicators: OECD // World Bank // UNDP // UN DESA // ILO // Federal Statistical Office.
Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // Federal Statistical Office // Répertoire officiel des communes de Suisse.
Other sources of information: OECD (2018) OECD Regions and Cities at a Glance // OECD (2017) OECD Economic Surveys: Switzerland 2017 // Council of Europe (2017) Local and regional democracy in Switzerland, Congress of local and regional authorities // Soguel N., Munier E. (2017) Comparative study of cantonal and communal finances in 2016, IDHEAP Lausanne // CEMR (2016) Local and Regional Governments in Europe Structures and Competences // Federal Department of Finance (2015) Federal, Cantonal and Communal Taxes // Nicol S. (2014) Fiscal Devolution – Some Comparative Examples // 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

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: POUND STERLING (GBP)

POPULATION AND GEOGRAPHY

Area: 243 610 km^2
Population: 66.040 million inhabitants (2017), an increase of 0.7% per year (2010-2015)
Density: 271 inhabitants / km^2
Urban population: 83.1% of national population
Urban population growth: 1.0% (2017 vs 2016)
Capital city: London (13.7% of national population)

ECONOMIC DATA

GDP: 2 856.7 billion (current PPP international dollars), i.e. 43 269 dollars per inhabitant (2017)
Real GDP growth: 1.8% (2017 vs 2016)
Unemployment rate: 4.3% (2017)
Foreign direct investment, net inflows (FDI): 64 685 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 16.9% of GDP (2017)
HDI: 0.922 (very high), rank 14 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The United Kingdom is a parliamentary constitutional monarchy, and a unitary state with an asymmetrical decentralisation system, composed of four constituent countries: England, Northern Ireland, Scotland and Wales. At the central level of government, the legislative power is vested in the bicameral parliament composed of a lower house, the House of Commons, and an upper house, the House of Lords. Members of the Commons, known as Members of Parliament (MPs), are elected by direct universal suffrage to represent constituencies and they hold their seats until Parliament is dissolved. However, following the Fixed-term Parliaments Act 2011, Parliamentary terms are now fixed at five years, except in exceptional cases (vote of no confidence, passing of an "early election" motion). Membership of the House of Lords, also known as the House of Peers, is granted by appointment or else by heredity or official function. The Government is led by the Prime Minister and the Head of State is the Queen.

The UK has no written constitution, and therefore no constitutional provision for local governments, which rely instead on Acts and Bills passed by the Houses of Parliament. Wales was incorporated into the governance structure of England through the so-called Act of Unions of 1536 and 1543, and the Acts of Union of 1706-1707 brought Scotland together with England and Wales to form Great Britain. Finally, the 1800 Acts of Union brought Great Britain and Ireland together as the United Kingdom. During their incorporations within the United Kingdom, Scotland and Ireland preserved their own separate legal systems, whereas Wales was merged into England's legal system, resulting in three legal systems today within the UK: the laws of England and Wales, Northern Irish laws, and Scottish laws. Administrative devolution took place in 1999, when Wales, Scotland and Northern Ireland had their own elected assembly and government. The powers and responsibilities of the three devolved bodies vary in nature and scope, as each devolution Act was arranged independently. The devolved institutions in Wales and Scotland have subsequently evolved and taken on greater powers, whereas the process has been more precarious in Northern Ireland, with devolution suspended several times over the course of the 20th century.

Scotland has a Parliament, as deliberative body whose members are elected by direct universal suffrage for a four-year term and an executive government, led by a First Minister nominated by the Parliament and appointed by the Queen. Scotland has full legislative powers over a wide range of matters, i.e. all issues except those reserved to the UK Parliament. A further transfer of mainly tax and borrowing powers to the Scottish Parliament was enacted via the Scotland Act 2012. A referendum was held in 2014 regarding the independence of Scotland, which was rejected with 55.3% voting against. Following the referendum, the Scotland Act 2016 was passed by Parliament, which set out amendments to the Scotland Act 1998 and devolved further powers to Scotland, including taxing and new borrowing prerogatives.

In Wales, the deliberative body is the National Assembly of Wales, whose members are elected via direct universal suffrage for a four-year term while the executive branch of government is led by the First Minister, nominated by the Assembly and appointed by the Queen. The National Assembly for Wales has a more limited range of legislative powers than the Scottish Parliament, i.e. mainly on secondary legislation. However, a referendum held in March 2010 enhanced its primary law-making powers. The National Assembly can now legislate without having to consult the UK parliament in devolved areas. The Wales Act 2014 and Wales Act 2017 devolved taxation and borrowing powers to the Welsh Government and the National Assembly for Wales.

In Northern Ireland, devolution was restored in 2007. The Northern Ireland Assembly is also the deliberative body with members are elected direct universal suffrage for a four-year term. The Assembly appoints the Northern Ireland Executive, led by a First Minister and deputy First Minister.

England, which outweighs other constituent countries in terms of political and economic power, remains the only nation without its own devolution settlement. The project of devolution of limited political powers to four elected regional assemblies in North East England, North West England, Yorkshire and the Humber was debated in the early 2000s. The Regional Assemblies (Preparations) Act 2003 also entrusted these new assemblies with some political powers. However, the proposal was suspended indefinitely. It was rejected during the first referendum (three other planned referendums were postponed and later dropped) held in the North-East of England in November 2004. The main reasons behind this no vote were the lack of consensus over where the "regional capital" would be, the lack of convincing arguments in favour of the reform, and the fear of adding another layer of politicians, public servants and taxes. The initiative was suspended indefinitely following the rejection (at 77.9%) of the North East Assembly proposal in 2004.

Local governments are governed by the devolved nations and by the UK government for England. Therefore, organisation, responsibilities and finances as well territorial and decentralisation reforms differ from one nation to another as well as within England, although they have some common characteristics. Local governments in each of the four constituent countries have councils, governed by directly-elected bodies. Local councillors are elected at least every four years, either through the 'first past the post' system (England and Wales), or using the Single Transferable Vote system (Scotland and Northern Ireland). Councils are typically chaired by the leader of the largest single political group in the Council, along with a chief executive leading the executive arm. The 2000 Local Government Act enlarged the range of available options for local councils executive leadership in England and Wales, including directly-elected mayors. Thereby, all councils were required to review their executive arrangements, and some of them held referendums on such a proposal and, as of 2016, 16 councils have directly-elected mayors.

As a result of the EU referendum in June 2016, the United Kingdom voted to leave the European Union. The UK is currently scheduled to leave the EU on the 31 October 2019 unless a deal is agreed before this date.

TERRITORIAL ORGANISATION

2019	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	Local authorities – single tier and district authorities	County councils (26) Greater London Authority (1), combined authorities (8)	Devolved nations (Wales, Scotland, Northern Ireland)	
	Average municipal size: 175 500 inhabitants			
	382	35	3	420

OVERALL DESCRIPTION. The UK territorial organisation is highly complex and differs greatly in each of the four constituent countries. England has, in places, a two-tier subnational government system whereas in Scotland, Wales and Northern Ireland there is only one tier of local authorities. England has 35 local governments at the intermediary level (upper tier), comprising 26 county councils, the Greater London Authority (GLA) and eight combined authorities. At the local level, England has 317 lower tier or 1st level authorities responsible for local services. In Wales, there are 22 local authorities, 32 in Scotland, and 11 in Northern Ireland (formerly 26). In addition, there is a structured sub-municipal level of approximately 9 500 parish councils in England, 735 community councils in Wales, and 1 200 in Scotland. These entities have elected councillors, deliver some services at community level and are consulted by local authorities on issues regarding their community.

REGIONAL LEVEL. The three devolved nations represent 46% of the UK area but 16% of its population. They have very different characteristics in terms of area, demographics and socio-economic development. Scotland is the largest region both in terms of area and population (5.4 million inhabitants in 2017). It is followed by Wales (3.1 million inhabitants) and Northern Ireland (1.8 million). Regional disparities in terms of GDP per capita (measured by TL2) are high and have increased in the United Kingdom over the last 16 years. In 2016, the GDP per capita in Wales was equivalent to 41% of the GDP per capita in Greater London. The United Kingdom has the 6th highest regional economic disparities among 30 OECD countries with comparable data and recorded the 4th largest increase in disparities between 2000 and 2016.

LOCAL AUTHORITIES. The system of local government is asymmetric, depending on the UK regulation for England and on regulation of each devolved nation.

In Wales, there are 22 "principal" local government areas at municipal level, each of which has a locally-elected council. Municipalities are further divided into 735 community areas for which there may be a community council. The framework for local government in Wales is the Local Government Act 1972 (LGA 1972), which has been substantially amended since its enactment including, significantly, by the Local Government (Wales) Act 1994 which established the current system of principal local authorities. In Scotland, the current structure of local government, establishing the 32 council areas, is based on the Local Government (Scotland) Act 1994, which has been amended several times since. There are around 1 200 community councils in Scotland, which are voluntary organisations set up by statute by the Local Authority and run by local residents to act on behalf of their area. In Northern Ireland, the district councils are ruled by the Local Government Act (Northern Ireland) 1972, modified in 2005 and 2014. In fact, Northern Ireland carried out an important local government reform reducing the number of local councils from 26 to 11, effective as of April 2015.

In England, the current structure results from continuous territorial reform. The two-level system still in place in some rural areas is disappearing and counties are gradually being replaced by "unitary authorities". The structure remains, however, complex, including county councils, the Greater London Authority, and eight combined authorities at the upper-level and over 300 unitary and district councils at the lower-tier. In addition, the local government system in London comprises 32 London Boroughs, and 1 Sui Generis authority, the City of London Corporation. In England, decentralisation in the form of "localism" has gradually emerged since the 2000s. A process based on several white papers and reviews on local government led to the adoption of the Localism Act 2011. This act aimed at pushing decentralisation forward by giving local authorities general competences, transferring new responsibilities to local authorities and pushing for fiscal decentralisation. In parallel, the government has negotiated "City Deals" with large cities. The first deal led to the creation of the Greater Manchester Combined Authority in 2014. The "Cities and Local Government Devolution Act 2016" was passed in 2016. It is considered an important step towards decentralisation. It makes various amendments to the 2009 Act to allow greater devolution of powers to combined authorities. It also includes provisions for mayors to be elected directly and have various degrees of power as part of "Devolution Deals". There are currently eight combined authorities in England, six with directly-elected mayors. Devolution deals are also found in Scotland and Wales.

Overall, the United Kingdom has large municipalities on average, around 168 000 inhabitants (with a median size of 132 200 inhabitants), which is the OECD's highest (with Ireland and Korea). All municipal level authorities have more than 20 000 inhabitants, compared to 30% in the OECD on average.

Inter-municipal cooperation is developing. In England, in addition to the creation of combined authorities at metropolitan area level, more and more local authorities are involved in "Shared Service Agreements" which allows collaboration between two or more local authorities on a range of services, one major motivation being costs savings. In England, recent figures from the Local Government Association show that the current 416 shared service arrangements between councils resulted in GBP 462 million in cost savings (as of September 2015). In Scotland, councils are able to set up joint board or joint committee organisations with other councils to provide a service across a combined area of the participating local authorities.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

At regional level, the system of devolution is sound but asymmetric. The three devolved nations have 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. A recent trend is the merger of health (a national power) with social care (a local one).

UNITED KINGDOM

UNITARY COUNTRY

Several decentralisation processes are underway. In Northern Ireland (Local Government Reform), local government has undergone a significant reform process in terms of both the number of councils (see above) and their functional responsibilities. The latter have increased, particularly in the area of community planning, in addition to being granted a General Power of Competence. In England, the Localism Act 2011 provided local authorities and some parish councils with a General Power of Competence and transferred new responsibilities in several areas (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. The Greater London Authority has also more powers and responsibilities than other cities in England. Finally, parish and community councils are responsible for local services.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	DEVOLVED ADMINISTRATIONS (WALES, SCOTLAND, NORTHERN IRELAND)	LOCAL AUTHORITIES
1. General public services	Internal administration; Local government; Statistical office	Internal administration; Electoral register
2. Public order and safety	Criminal justice; Police; Fire protection	Fire protection; Civil protection
3. Economic affairs/transports	Regional spatial planning; Economic development; Highways and roads; Transport; Agriculture, forests and fisheries; Trade and industry, tourism	Urban roads; Cemeteries and crematoria; Electricity; Trade and industry; Tourism; Local economic development/promotion
4. Environmental protection	Sanitation	Waste collection and disposal; Sewerage; Slaughterhouses Environmental protection
5. Housing and community amenities	Housing; Regional planning; Water	Housing; Water provision; District heating; Town planning
6. Health	Primary care; Hospitals; Health protection; Environmental health	Health protection
7. Recreation, culture & religion	Culture and arts; Sports	Cultural facilities; Parks and open spaces
8. Education	Education; Higher and adult education; Training	Pre-primary and primary education; Secondary education
9. Social protection	Social services	Family welfare services; Welfare homes

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: local and parish councils and local government units, grouping all local budgetary organisations, including their regional offices, town councils and regional councils, community schools (i.e. around 28 .000 organisations). Note: Data do not include the three devolved administrations of Scotland, Wales and Norther Ireland, which are included in the central government accounts.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. Fiscal powers in the United Kingdom are quite centralised, and the country positions itself below the OECD average regarding the different dimensions of fiscal decentralisation. Wales, Scotland and Northern Ireland however have a relatively high degree of autonomy in several governmental areas including fiscal matters; whereas England has a more centralised structure of government, with local councils that preside over little fiscal power.

Greater devolution of taxing and borrowing power is taking place in the three devolved administrations. The two successive Scotland Acts passed in 2012 and 2016 devolved further fiscal powers to Scotland. A new fiscal framework for Wales was also agreed between the Welsh and UK governments as of 2016, following the recommendations of the Silk Commission, which devolved tax and borrowing powers to the National Assembly for Wales and the Welsh Government.

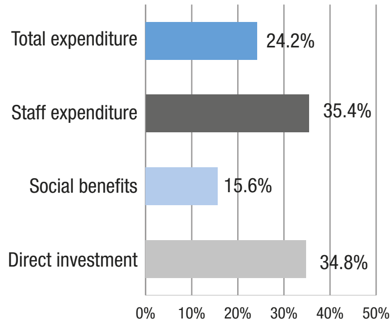
Fiscal decentralisation is asymmetric between regions but also within local authorities, depending on where they are located (three devolved nations and England). But there are also asymmetric fiscal arrangements across cities themselves, between those having signed a devolution deal and the others. The recent steps towards devolution deals with cities – London in particular – which give English cities more powers are also introducing a major change with a significant decrease in central government funding (Government has committed to reduce central grants for local government by 2020), part of broader reductions in public sector spending.

It is important to note that figures presented below are under-estimated as fiscal data regarding the devolved administrations in Scotland, Wales and Northern Ireland are not included in the subnational government sector but rather in the central government sector. Therefore, data presented in the tables relate to local authorities and their related organisations only.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**4 283**	**10.0%**	**100%**
Inc. current expenditure	3 855	9.0%	90.0%
Staff expenditure	1 373	3.2%	32.1%
Intermediate consumption	1 267	3.0%	29.6%
Social expenditure	1 056	2.5%	24.7%
Subsidies and current transfers	53	0.1%	1.2%
Financial charges	75	0.2%	1.8%
Others	30	0.1%	0.7%
Incl. capital expenditure	428	1.0%	10.0%
Capital transfers	61	0.1%	1.4%
Direct investment (or GFCF)	367	0.9%	8.6%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



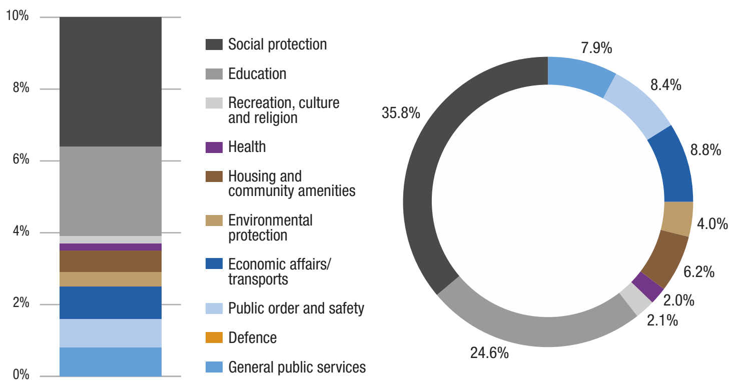
EXPENDITURE. Spending decentralisation in the UK (without expenditure from the three devolved administrations) as a share of GDP and public expenditure is lower than the OECD on average where subnational government expenditure accounted for 16.2% of GDP and 40.4% of public expenditure. UK ratios are also well below the EU28 average (15.5% of GDP and 33.4% of public expenditure). They are, however, more in line with the average of OECD unitary countries (9.2% of GDP and 28.7% of public expenditure). Even though SNGs are key public employers in significant sectors (education, social care, police force), the share of local staff spending in total public staff spending is lower than other OECD and EU countries: 35.4% vs 62.9% in the OECD and 50.9% in the EU28.

DIRECT INVESTMENT. UK local governments play a much more limited role as public investors than the OECD average (56.9% of public investment and 1.7% of GDP in 2016), even when considering the average for unitary countries (50.7% and 1.7% of GDP) or the EU28 average (51.6% of public investment and 1.4% of GDP). Stable from 2014, local government investment has increased since 2011, despite the crisis and the cuts in grants. Between 2007 and 2017, investment increased by 1.4% per year on average in real terms. Most subnational investments are dedicated to economic affairs and transport (37.4% of SNG investment in 2016) and to housing and community amenities 35.7%). Education accounted for 11%, and general public services 9.4%. Transportation infrastructure investment has become a bottleneck for the development of the UK territories, and nearly 30% of transport infrastructure spending takes place in London, from the local government body, called "Transport for London". The UK government recently set up a National Productivity Investment Fund (budget of 1.2% of GDP by 2021-22) with the specific aim to increase public infrastructure spending. Since 2012, City Deals or City Regional deals first in England and then across the UK have developed long-term investment plans where the UK and Devolved Governments give back locally-raised tax receipts to promote medium-term investment. In England, local enterprise partnerships (LEPs) are voluntary non statutory partnerships between local authorities and businesses set up in 2011 to help determine local economic priorities and lead economic growth and job creation within the local area. There are currently 38 LEPs covering the whole of the country. Over GBP 9 billion of the Government's Local Growth Fund has been committed to LEPs since 2015-16 to help them deliver on their investment priorities and create new economic opportunities for local businesses and communities.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

The two main local government categories of spending in 2016 are social protection and education, even though dedicated amounts have been decreasing (totalling for more than 60% of total SNG expenditure). In particular, the share of social protection expenditure in local expenditure is particularly high, compared to OECD average (14.0%). Adult Social Care represented the highest increase for SNG spending from 2015, together with Children Social Care and public health in general. The share of education expenditure is on par with OECD levels (24.8%) but it has decreased substantially in recent years (it amounted to 33% of local expenditure in 2010). Lower education spending is a consequence of the ongoing change in status of local authority schools to centrally-funded academies. They are followed by three areas that have similar weights: security and public order (police and fire services), general public services and economic affairs/transport.

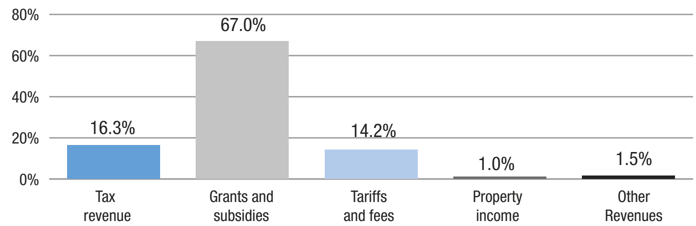
% GDP | % SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**4 134**	**9.7%**	**25.2%**
Tax revenue	676	1.6%	5.8%
Grants and subsidies	2 770	6.5%	
Tariffs and fees	587	1.4%	
Property income	40	0.1%	
Other revenues	61	0.1%	

% SNG REVENUE



UNITED KINGDOM

UNITARY COUNTRY

GENERAL DESCRIPTION. As for expenditure, revenue data do not include the devolved administrations of Scotland, Northern Ireland and Wales. Local governments in the UK depend largely on grants and subsidies from the UK government and devolved administrations (67.0% vs 37.2% in the OECD and 48.8% in OECD unitary countries). Consequently, the share of taxes in local revenues is small in the UK (16.3% vs 44.6% in the OECD and 38.7% in OECD unitary countries) while the share of tariffs and fees is in line with the OECD average. Local councils' fiscal framework varies from one country to another but, in general, local governments are highly dependent on central/devolved government transfers. However, recent reforms in England have reinforced local taxation autonomy through the localisation of local council tax support and business rates retention schemes (BRRS). Despite new measures designed to strengthen their fiscal powers, most face funding gaps for the financing of local services. The situation has been exacerbated by major cuts in grants.

TAX REVENUE. The vast majority of taxes in the UK are set by the central government. Over past years, increasing tax powers were devolved to the three devolved assemblies, in particular in Scotland and Wales to improve the financial accountability of devolved administrations.

In Scotland, the two successive Scotland Acts passed in 2012 and 2016 devolved further fiscal powers to Scotland, including the ability: to set a Scottish Rate of Income Tax (10% of income tax from April 2016 onwards); to set rates and thresholds for income tax for non-savings and non-dividend income (from 2018); to vote on and administer new taxes to replace the UK Stamp Duty Land Tax (SDLT), the UK Landfill Tax and the Air Passenger Duty. The Scottish parliament will also be devolved half of VAT receipts collected in Scotland by 2019 (with homogenous rates within the UK), and the air passenger duty (still on hold).

Following the Wales Act 2014 and Wales Act 2017, Wales has also been devolved stamp duty land tax (SDLT) and landfill tax as of April 2018, and partial income tax powers will be further devolved in 2019 (PIT surtax). Regarding Northern Ireland, the country was devolved air passenger duty which was abolished in 2012, and plans for the devolution of CIT were postponed. Once these changes will be implemented, the UK Institute for Government estimates that Scotland will administer approximately 43% of tax revenues collected within its territory, Wales 21%, and Northern Ireland 14%.

Taxing powers of local authorities have also been increased. Overall, local tax revenues amounted to 1.6% of GDP and 5.8% of public tax revenues, well below the OECD average (7.1% of GDP and 31.9% of public tax revenues) and the OECD average for unitary countries (respectively 4.7% and 19.8%).

In England, Scotland and Wales, local councils are funded essentially by the council tax and a share of the business rates. The council tax is a property tax based on the rental value of individual property and is paid by the resident, based on his or her situation, income level and the property value. The business rates are levied on non-residential properties. 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. Taken together, recurrent property taxes represented 1.6% of GDP and 16.2% of total subnational revenue (compared to 1.1% of GDP for the recurrent property tax on average in OECD countries in 2016).

Until 2013, the structure of local funding in England, Scotland, Wales and Northern Ireland was relatively similar but has become more divergent ever since then. In England, the Local Government Finance Act 2012 introduced major changes in the English system. Local government taxing power increased in 2013 through the localisation of the council tax support scheme and of the business rates retention scheme (BRRS). The 2012 financial reform abolished the national council tax benefit scheme, and introduced a local council tax support scheme (LCTS). Local councils in England were then responsible for designing their own tax support schemes for the active population - though they are obliged to provide a centrally determined (and largely protected) level of support for pensioners. Thereby, in 2016, 152 local authorities with responsibilities for providing social care services could, for the first time, raise additional funding through the council tax precept. When the BRRS was introduced in 2013–14, the proportion of the real-terms change in business rates revenues kept by the councils was up to 50%. However, since April 2017, the government has been piloting 100% retention of real-terms changes in business rates revenues in a number of areas of England.

In Scotland, Council tax support was localised to Scotland. The Scottish Government has made changes to the Council Tax multiplier. The Scottish Government also proposed to consult on exchanging a fixed proportion of income tax receipts, distributed to individual councils through the local government settlement. In Northern Ireland, councils are legally required to set domestic and non-domestic district rates. Due to the creation of the new councils in 2015, a District Rate Subsidy has been introduced for a four-year period for those ratepayers most affected by significant rises in their rates bill.

GRANTS AND SUBSIDIES. The devolved administration of Scotland, Wales and Northern Ireland are all mainly funded by block grants from the UK government, based on the Barnett formula, established in 1978. Under this formula, the block grant in any given financial year is equal to the block grant in the previous year plus a population share of changes in UK government spending on areas devolved to each country. It may also vary based on changes in the UK department expenditure limit, and takes into account a comparability factor. Changes in spending devolution and taxing power may lead to amendments to the Barnett formula. For instance, the formula for Wales has been amended in recent years to respond to the new fiscal framework, in order to temporarily include a funding floor (115% of equivalent funding per head in England) as well as to add a new needs-based factor to the formula.

At local level, grants and subsidies are the main source of revenues and they differ from one region to the next. In England, the main grants (excluding the housing grant) are referred to collectively as Aggregate External Finance (AEF). AEF includes the Revenue Support Grant (distribution of RSG recently changed; now it is based on the main resources available to councils) and certain specific grants (distributed by individual government departments, such as Dedicated Schools Grant, Pupil Premium Grant, Local council tax support Grant and Public Health Grant). From 2011-12, a new 'un-ringfenced' general grant called Local Services Support Grant was set up to group previous earmarked grants. From 2013-14 the Business Rates Retention Scheme replaced the Formula Grant, which was used to redistribute business rates. In 2016, to compensate for the change of the calculation method of the RSG, local governments also received a transitional grant dedicated to ease the pace of lower central government funding, aimed to last until 2018.

In Wales, the Revenue Support Grant – non-earmarked – is allocated to councils by the Welsh Government according to a population-based formula. The Scottish Government provides a block grant to councils that makes up approximately 86% of their revenue. The grant is broken down into three constituent parts: General Revenue Grant (previously known as Revenue Support Grant), Non-Domestic Rates Income and Specific Grants to be used for specific services such as Pupil Equity Fund, early learning and childcare, and criminal justice support. This arrangement was updated in 2011 and gave councils greater control over their budgets. However, while in Scotland the Devolved Government ended ringfencing of local budgets (agreed with Local Authorities in 2007), the Scottish Government subsequently provided additional grants that were conditional on certain indicators (e.g. class sizes). Ringfencing is therefore gradually creeping back as national policy priorities are introduced to local government.

In Northern Ireland, transfers to councils through the Department for Communities 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 the transferred functions grant, which supports the functions that were transferred as part of local government reform to district councils.

OTHER REVENUES. Other revenues include fees and charges, especially in the education, transport, social care and cultural sectors (12.8% of local government revenue). Local governments can also levy congestion charges and possibly parking charges. They also raise revenues from the rent and sales of properties.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**3 519**	**9.6%**	**7.9%**	**100%**
Financial debt*	1 804	4.9%	4.3%	51.3%

* Currency and deposits, loans and bonds

FISCAL RULES. Fiscal rules were first adopted in the UK in 1997, later formalised in the Finance Act 1998 and the Code for Fiscal Stability. An independent Office for Budget Responsibility was also set up as the UK Fiscal Council, to address gaps in the national fiscal framework and also to scrutinize the on-going operations and spending of the devolved governments, in collaboration with country-specific fiscal commissions. Under the supervision of the Auditor General, the Scottish government is required to operate a balanced budget on a yearly basis. In England, best value performance indicators are developed annually to assess local governments' performance, which is just one of the measures taken to increase spending efficiency and performance budgeting.

DEBT. Each devolved administration has the power to borrow money to meet cyclical fluctuations in income and to fund capital expenditure. As with other aspects of devolved finance the extent and type of borrowing available varies between the devolved governments. The borrowing powers of Scotland, Wales and Northern Ireland have grown as devolution has progressed. From 2016, the Scottish Parliament has been granted new borrowing powers, including by issuing bonds. The Wales Acts 2014 and 2017 devolved greater borrowing powers to the Welsh Government and National Assembly for Wales. Northern Ireland already enjoyed more borrowing powers than the other two devolved governments.

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 prudential rules. In Northern Ireland, borrowing is subject to approval by the Ministry of the Environment, and must aim at financing capital projects only. The devolution deals involve more borrowing powers against the long-term Investment Fund Grants which are part of the deals promised over 30 years as regional financial support.

Overall, local government debt remains well below the OECD average (24.5% of GDP and 20.7% of public debt) as well as below the OECD average for unitary countries (14.5% of GDP and 11.8% of public debt). It is made up of financial debt (51% of financial debt stock), pension liabilities (24%) and other accounts payable (25%). Bond financing is very limited, 95% of the financial debt being made up of loans. However, in 2015, the Local Government Association set up a municipal bond agency (the Local Capital Finance Company) aimed at reducing long-term capital costs for councils and increasing competition in the marketplace, and at giving councils more control over the interest rates they pay. For instance, Aberdeen City Council issued a municipal bond in 2016.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: OECD
Last update: 02/ 2019

www.sng-wofi.org

Socio-economic indicators: OECD // Eurostat // World Bank // UNDP // UN DESA // ILO // UK Office for National Statistics.
Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // Eurostat // OECD (2018) Key Data on Local and Regional Governments in the European Union.
Other sources of information: OECD (2019) making decentralisation work: a handbook for policy makers // Gal P., Egeland J. (2018) Reducing regional disparities in productivity in the United Kingdom, OECD Economics Department Working Papers // OECD (2018) OECD Regions and Cities at a Glance 2018 // CLGF (2018) The local government system in UK, country profile 2017-2018 // OECD (2017), Multi-level Governance Reforms: Overview of OECD Country Experiences // Local Government Finance (2017) Local Authority Revenue Expenditure and Financing : 2016-17 Final Outturn, England // House of Lords (2016) The Union and Devolution, Select Committee of the Constitution // CEMR (2016) Local and Regional Governments in Europe Structures and Competences // SPICE (2016) Financial Scrutiny Unit Briefing Subject profile – local government in Scotland // House of Commons (2015) Combined authorities // European Committee of the Regions (2014) Division of Powers // Congress of Local and Regional Authorities (2014) Local and regional democracy in the United Kingdom, CG(26)10FINAL.

ARGENTINA

FEDERAL COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: ARGENTINAN PESO (ARS)

POPULATION AND GEOGRAPHY

Area: 2 780 400 km^2
Population: 44.045 million inhabitants (2017), an increase of 1.0% per year (2010-2015)
Density: 16 inhabitants / km^2
Urban population: 91.7% of national population
Urban population growth: 1.1% (2017 vs 2016)
Capital city: Buenos Aires (34.0% of national population)

ECONOMIC DATA

GDP: 920.2 billion (current PPP international dollars), i.e. 20 785 dollars per inhabitant (2017)
Real GDP growth: 2.9% (2017 vs 2016)
Unemployment rate: 8.7% (2017)
Foreign direct investment, net inflows (FDI): 11 517 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 14.8% of GDP (2017)
HDI: 0.825 (very high), rank 47 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Argentina is a federal representative republic, divided into 23 provinces and the federal capital of Buenos Aires. Argentina's subnational level of government is two-tiered, divided between provinces at the state (provincial) level and municipalities at the local level.

According to the 1853 Constitution (last revised in 1994), the President is both the Head of State and Head of Government, and is elected for a 4-year term by direct and universal suffrage. The Legislative Power is vested in a Congress (*Congreso Nacional*) composed of two chambers: the House of Deputies (*Cámara de Diputados de la Nación*) and the Senate (*Senado de la Nación*). The House of Deputies is composed of representatives directly elected for a 4-year term by a system of proportional representation. The Senate is composed of three senators from each province, and three from the Capital City of Buenos Aires (*Ciudad Autonoma de Buenos Aires*), elected for six years. The Senate is presided by the Vice-President of the Republic, elected at the same time as the President for a 4-year term.

At the provincial level, most provinces pre-date the nation's founding and enjoy a strong degree of autonomy. Provincial governments each have their own executive, legislative and judicial powers. The executive branch is led by the governor, elected according to each province's electoral system (representative, proportional, and majority). Provincial legislative power is vested in a bicameral provincial congress in eight provinces, comprising an upper chamber and a lower chamber, and a unicameral congress in the remaining 15 provinces and in the Capital City of Buenos Aires. Each province enacts its own constitution, as stated in Section 5 of the Federal Constitution of 1853. Inter-jurisdictional relations between the federal and provincial governments are facilitated through Federal Councils in several sectors (Federal Investments Council, Federal Taxes Council, Federal Councils on Education, etc).

The Autonomous City of Buenos Aires (CABA) has an autonomous system of government with its own powers of legislation and jurisdiction, and a directly-elected mayor. However, unlike the provinces, which enact and legally structure their constituent municipalities, federal law has restricted the power of Buenos Aires over its jurisdictions and limits its involvement in a number of sectors, including security and police, urban transport and service provision.

At the local level, the federal constitution establishes the legal basis for local government autonomy, including the rights to elect their own authorities. At provincial level, municipal autonomy is recognised in each provincial constitution. The scope of local government autonomy is largely determined at the provincial level. Each provincial constitution establishes differentiated attributions and organisational structures for local governments, as well as financial arrangements. Executive power at the local level is generally exercised by an intendant, elected by direct suffrage for two or four years, and legislative power is vested in a council whose total number of members is set according to legal prescriptions depending on the province. However, in some provinces, small local governments are governed by a single body, which holds both the executive and legislative functions.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	2 277 local governments *(gobiernos locales)*		23 provinces *(provincias)* + 1 The Autonomous City of Buenos Aires (CABA)	
	Average municipal size: 19 340 inhabitants			
	2 277		24	2 301

OVERALL DESCRIPTION. Argentina is a federal republic with 23 provinces (*provincias*) plus the Autonomous City of Buenos Aires (*Ciudad Autónoma de Buenos Aires*). Provinces are autonomous and are subdivided into 2 277 autonomous local governments.

PROVINCIAL LEVEL. The provincial level of government is composed of 23 provinces (*provincias*) and the Autonomous City of Buenos Aires. The largest province is the Province of Buenos Aires (307 571 km2) whereas the smallest one is Tucuman, which extends over just 29 801 km2. For statistical purposes, the provinces are further divided into a total of 529 department (*departamentos*, also called *partidos* in the Province of Buenos Aires), which cover the entire Argentinian territory and, unlike local governments, are mutually exclusive. In addition to the decentralised political structure, there also are deconcentrated units of the federal government in all areas of public policy and it is common for the federal ministries to cooperate directly with the provincial authorities. For statistical purposes, Argentina is also divided into six regional areas: Metropolitana, Cuyana, Noroeste, Noreste, Pampeana and Patagónica.

LOCAL GOVERNMENT LEVEL. At the local level, the form of local government varies according to each province, and as of 2017, it included 1 191 municipalities (*municipios*), 496 communes (*comunas*), 94 development commissions (*comisiones de fomento*), 171 municipal commissions (*comisiones municipales*), 113 rural communes (*comunas rurales*), and 212 neighbourhood councils (*juntas vecinales*) and autonomous government councils (*juntas de gobierno autonomas*). Each category differs in its degree of autonomy. In addition, municipalities are divided into municipalities with organic charters, and municipalities without organic charters.

Provinces may be composed of a combination of these six types of local government, without a hierarchical relationship. The form of local government is based on the size of the population, but it can also be related to the number of registered voters, to the existence of an urban centre, etc. In most provinces, the minimum threshold for establishing a municipality is 500 inhabitants, but this limit can vary and be set as high as 10 000 inhabitants, for example in Santa Fe. Larger municipalities are authorised to enact their own Organic Charter of Municipalities (*Carta Orgánica Municipal*) subject to additional criteria depending on each province, such as the existence of urban areas and a population threshold of up to 30 000 inhabitants. As of 2017, approximately 130 municipalities had their own Organic Charters, established according to guidelines set in the Constitution of the relevant province. Other municipalities and types of local government are governed by the Organic Laws of Municipalities enacted by provincial legislation.

Other forms of local governments do not have a minimum threshold but rather maximum thresholds, which vary from 0 to 10 000 inhabitants, and consequently the local government level may be very fragmented in some cases. The average number of local governments per province in Argentina is 91, and in four provinces – Buenos Aires, La Rioja, Mendoza and San Juan – as well as in CABA, the departments have the same status as local governments. Local governments can extend across department boundaries, and in 13 provinces, some areas of the territory are not covered by local governments. Rural communes are only found in the provinces of Chubut and Tucuman. The CABA is divided into 15 communes (*comunas*) and subdivided into 48 neighbourhoods (*barrios*). Finally, like the provincial level, there are also deconcentrated bodies of federal ministries at the municipal level.

Argentina's territorial organisation is far from homogenous, with striking disparities in size and economic activities within and across provinces and local governments. The level of fragmentation at the municipal level is smaller than in most federations and quasi-federations within the OECD when looking at the average number of inhabitants per municipality (19 340 in Argentina). Approximately 80% of local governments have less than 10 000 inhabitants, while only two municipalities have populations above 1 million. In terms of inter-municipal cooperation, arrangements depend heavily on each province's constitution, which include varying degrees of incentives for horizontal and vertical coordination. In some cases, public service delivery (mainly electricity, gas and water) is managed through service cooperatives (*cooperativas*), which provide a community-based response in sparsely populated remote areas. "Urban agreements" (*convenios urbanisticos*) can also be promoted to support inter-municipal cooperation in service delivery along urban corridors near metropolitan areas.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The provinces are responsible for all the powers not delegated to the Federal Government by the National Constitution, as well as those powers expressly reserved to them by special pacts at the time of their incorporation. Provinces have exclusive competences and also share competences with the federal state. Provinces have the power to create regions for socio-economic development or specific bodies to exercise provincial responsibilities and they may, upon approval by the National Congress,, ratify international agreements, as long as these agreements do not conflict with the Nation's foreign policies. Provincial governments also own and manage the natural resources within their jurisdiction. Overall, there is a lack of formal guidance regarding responsibilities for territorial development, and the federal framework does not require subnational governments to design or implement formal territorial development strategies.

Exclusive competencies of provincial governments encompass electricity, primary, secondary education and vocational training, and interprovincial roads. Shared competences include some of the remaining aspects of education, justice, police and penitential services, health and social assistance, activities in the area of economic promotion and public transport, housing, energy and environmental matters. These responsibilities are generally spread across the three levels of government, and may be shared also with the private secor (public transport, internet services, hospitals). Education was devolved from the federal government to provinces and to the CABA in 1993 (except for tertiary education), under the coordination of the Federal Council for Education established by law in 2006. The Federal Council works jointly with Provincial Councils for Education Policy. The law on Education Financing (Law No.26075 of 2010) demonstrated further efforts to consolidate education service delivery among government tiers.

The competences assigned to the local governments and municipalities vary across provinces and depend on each provincial constitution. Since Argentina's financial crisis in 2001, municipal functions have expanded, and there is an increasing effort to coordinate with higher levels of government and participation of local authorities in service delivery. Municipal competencies vary widely depending on municipal size, and municipalities with high population density can be assigned significant budgetary and financial resposnibility towards public service delivery. As such, some municipalities provide for school maintenance and healthcare services on a de facto basis. Municipal authorities share with provincial governments the responsibilities for primary education, primary healthcare, water and sanitation, regional roads construction and maintenance and fire protection, and responsibilities in economic development, tourism and health prevention with the federal government. Most municipalities have little or no power regarding major infrastructure work undertaken by national agencies in their jurisdictions. Despite the large array of devolved responsibilities, municipal governments in non-resource rich regions often lack the capacity to implement the responsibility assigned to them by provincial and federal authorities due to a lack of adequate human resources.

ARGENTINA

FEDERAL COUNTRY

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	PROVINCES	MUNICIPAL LEVEL
1. General public services	Administration of all provincial services; Coordination and oversight of municipal governments	Regulation and control of local activities, including regulation of land use in accordance with provincial laws, business licenses
2. Public order and safety	Fire protection (shared); Justice and police (shared)	Assistance of population at risk; Fire protection (shared)
3. Economic affairs / transports	Economic promotion; Clusters development; Promotion and financing of economic services; Electricity; Interprovincial roads; Public transport (shared)	Urban planning; Land zoning; Urban infrastructure; Road construction and maintenance; Markets and cemeteries; Public transport and regulation of public roads; Tourism; Management of heritage and historical sites (shared)
4. Environmental protection	Natural resources management; Sewerage (shared)	Public squares and green areas; Waste management; Regulation of pollution; Sewerage (shared)
5. Housing and community amenities	Water management (shared)	Street lightning; Water management (shared)
6. Health	Healthcare (shared)	Primary healthcare (shared); Health prevention (shared)
7. Recreation, culture & religion		Sport
8. Education	Secondary education, including vocational education and technical training; Tertiary education (shared)	Primary education
9. Social protection	Unemployment subsidies (shared)	

SUBNATIONAL, STATE AND LOCAL GOVERNMENT FINANCE

Scope of fiscal data: provinces and the Capital City of Buenos Aires at the provincial level, and municipalities and other forms of local governments at the local level.	Other	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. Argentina is one of the most decentralised countries on the American continent. Subnational governments are heavily involved in the design and implementation of public policies and the provision of public services. In addition to Article 14 of the Federal Constitution, law no. 23 458 of 1988 and the 2017 Fiscal Responsibility Law both regulate intergovernmental fiscal relations between and among the provinces, the municipalities and the federal government.

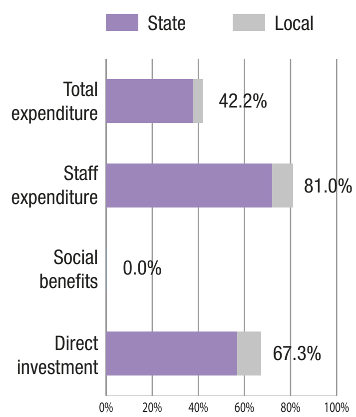
Expenditure assignments are generally financed out of own-source taxes, fiscal transfers from the federal government and royalties on natural resources. However, Argentina's level of revenue decentralisation is much lower than that of expenditure decentralisation, and the fiscal asymmetries in revenues and expenditure across municipalities add to the challenges of horizontal imbalances due to regional disparities. Tax collection is highly concentrated at the federal level, and the economic and social disparities across provinces make assigning taxing powers to subnational governments a major challenge. Hence, subnational governments remain highly reliant on fiscal transfers to carry out their spending obligations, and provincial governments resort to borrowing. In 2017, a Fiscal Consensus was ratified by all Argentinian provinces (except for San Luis) with the intention of harmonising the tax structures among different jurisdictions.

The local legislative council oversees all local government acts including the budgetary planning process, which is then overseen by the Audit office at the provincial level. The federal secretariat of municipal affairs also oversees the work of the municipalities.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.			% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT EXPENDITURE		
	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total expenditure	3 530	3149	381	17.6%	15.7%	1.9%	100%	100%	100%
Inc. current expenditure	3 072	2744	328	15.3%	13.7%	1.6%	87.0%	87.2%	86.0%
Staff expenditure	1 899	1688	212	9.5%	8.4%	1.1%	53.8%	53.6%	55.6%
Intermediate consumption	361	275	86	1.8%	1.4%	0.4%	10.2%	8.7%	22.5%
Social expenditure	0	0	0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Subsidies and current transfers	745	715	29	3.7%	3.6%	0.1%	21.1%	22.7%	7.7%
Financial charges	68	66	1	0.3%	0.3%	0.0%	1.9%	2.1%	0.3%
Others	0	0	0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Incl. capital expenditure	458	404	53	2.3%	2.0%	0.3%	13.0%	12.8%	14.0%
Capital transfers	130	127	2	0.6%	0.6%	0.0%	3.7%	4.0%	0.6%
Direct investment (or GFCF)	328	277	51	1.6%	1.4%	0.3%	9.3%	8.8%	13.4%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. In 2016, SNG expenditure in Argentina reached 17.6% of GDP and 42.2% of public expenditure, below the OECD average for federal countries, which in 2016 was 19.2% of GDP, 50% of public expenditure. They are major employers with staff expenditure representing more than 81% of public staff expenditure and 53.8% of total SNG expenditure. Among other current expenditure lines, subsidies and transfers came in second and reached 21.1% of total SNG expenditure. These expenditures are generally all made at the provincial level, responsible for 89.2% of SNG expenditure overall. In particular, state government expenditure accounted for 37.6% of public expenditure and 15.7% of GDP, while municipal-related spending only stood at 4.5% of public expenditure and 1.9% of GDP in 2016. The weight of current expenditure in the subnational budget is very high, leaving a small window for capital expenditure (13%) and more specifically investment (9.3%).

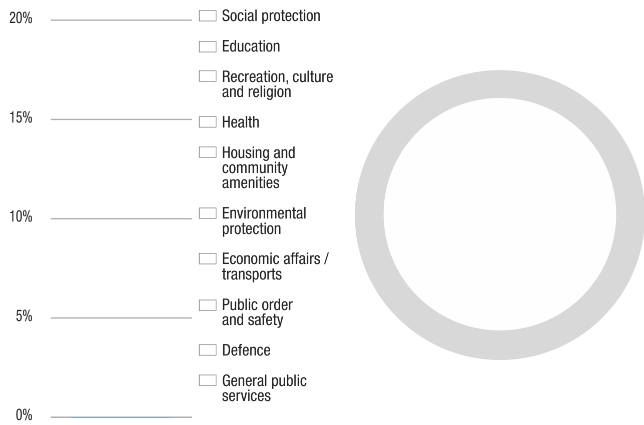
DIRECT INVESTMENT. In Argentina, public investment is a shared responsibility among levels of government in several sectors (for instance transport), and therefore it relieson effective federal-provincial cooperation. In 2016, SNG investment represented a level of their total expenditure in line with the OECD average for federal countries (9.2% in 2016). In addition, their involvement accounted for a significant share of total public investment (67.3%) with provincial governments carrying, altogether, 84.5% of total SNG investment, accounting for 56.8% of the total public investment. On the other hand, municipalities represented 15.5% of SNG investment, accounting for 10.4% of total public investment. In the energy sector, the federal-level control over prices and quotas of biofuels, among other regulatory measures, is also discouraging investment in several provinces (e.g. Córdoba). Overall, provinces lack comprehensive infrastructure master plans and regional development strategies aligned with national infrastructure policies and coordinated with local authorities.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

	% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT		
	SNG	State	Local	SNG	State	Local
Total expenditure						
1. General public services						
2. Defence						
3. Security and public order						
4. Economic affairs / transports						
5. Environmental protection						
6. Housing and community amenities						
7. Health						
8. Recreation, culture and religion						
9. Education						
10. Social protection						

SNG EXPENDITURE AS A % GDP

% OF TOTAL SNG EXPENDITURE

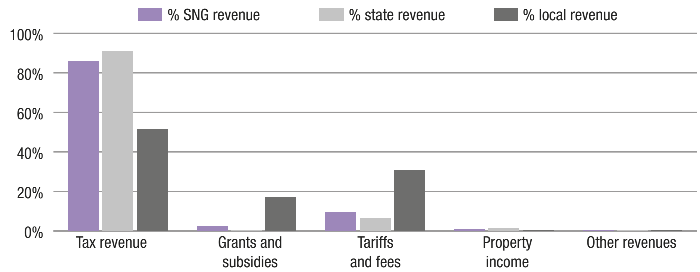


At the provincial level, key sectors of expenditure are education, health and social assistance. Economic infrastructure, social insurance/poverty-related spending are jointly borne by the federal and provincial governments, and provinces and the CABA are primarily responsible for financing road construction and maintenance, as well as the purchase of equipment for investments in railway and other infrastructure projects. Since Argentina's financial crisis in 2001, municipalities in several provinces have undertaken spending related to environmental conservation, economic and social programmes, as well as implementing policies in favour of minority groups.

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	% GDP			% GENERAL GOVERNMENT (SAME REVENUE CATEGORY)		
	SNG	State	Local	SNG	State	Local
Total revenue	15.2%	13.2%	1.9%	42.8%	37.4%	5.4%
Tax revenue	13.0%	12.1%	1.0%	54.6%	50.4%	4.1%
Grants and subsidies	0.4%	0.1%	0.3%			
Tariffs and fees	1.5%	0.9%	0.6%			
Property income	0.2%	0.2%	0.0%			
Other revenues	0.1%	0.1%	0.0%			

% SUBNATIONAL, STATE AND LOCAL GOVERNMENT REVENUE



OVERALL DESCRIPTION. SNGs revenue sources include taxes, intergovernmental transfers from the federal government, tariffs and fees, property income and some other small revenue sources. According to existing legislation, provincial governments are the only level of government allowed to directly tax its residents. Indirect taxes can be set either by the federal government or by provincial authorities. The federal government has retained the exclusive right to tax foreign trade. However, the Federal Government can constitutionally set direct taxes under "special circumstances". Initially, during the 19th and the beginning of the 20th century, the Federal Government mainly focused on raising taxes on international trade. The Great Depression induced a sharp decrease in federal revenues, leading the federal government to evoke "special circumstances" and to start collecting taxes previously assigned to the provinces. At the same time, provinces had to delegate to the federal government the administration of some of the most essential taxes (including personal and corporate income tax, consumption tax and wealth taxes). This delegation persists. Provinces also collected revenues from natural resource exploitation.

ARGENTINA

FEDERAL COUNTRY

The primary source of municipal revenue is fees for the provision of services. Provinces can grant fiscal taxation power to their municipalities, although these are very limited and vary depending on the category of municipality and each province's tax-sharing laws. In some provinces, local governments are limited to taxing vehicles and urban properties. In 2016, SNGs revenues accounted for 42.8% of total public revenues, of which a large share is collected at the provincial level including the City of Buenos Aires (37.4% of public revenues). Tax revenues represented the largest share and stood at 86.1% of total SNG revenues, 54.6% of total public tax revenues and 13% of GDP.

TAX REVENUE. Tax revenues represented the bulk of SNGs revenues in 2016, accounting for 91% of total provincial government revenues and slightly more than half of local government revenues. This is explained by the fact that in the Argentinian accounting system the tax revenue category comprises both exclusive and shared taxes determined under a co-participation system, which represent almost half of SNG tax revenue. The tax system is complex, with more than 35 taxes and a complicated system of cross-exemptions. Indirect taxes are under the domain of national and provincial authorities, and provinces have the monopoly to set direct taxes on their respective populations (the federal government can set direct taxes under special circumstances). While the taxes applied are very similar across provinces, their shares in provincial tax revenues vary based on a number of criteria (e.g. population, business density, size of urban centres, etc.). In December 2018, several laws were passed – by consensus between the Federal and certain provincial governments – including a number of tax provisions (no. 27 467 and no. 27 469). Upon ratification at the provincial level, the agreement would postpone the reduction of the provincial stamp tax for an additional year. The primary source of tax revenue for provinces comes from their share of sales tax, which accounted for 32.2% of provinces' tax revenue in 2016 (3.9% of GDP). Provincial revenues from shared taxes also include a part of the income tax (of which 4% of income tax revenues are allocated to the provinces and an additional share is allocated to the Province of Buenos Aires), 6.3% of the tax on personal goods, and revenue from natural gas taxes. Besides, the own taxes of provinces include the property tax (7% of provincial tax revenue and 0.9% of GDP, compared to 1.1% of GDP on average in the OECD), gross income tax, tax on motor vehicles and stamp and gift taxes.

The reliance of Argentinian provinces on a tax on gross sales (I*mpuesto a las Actividades Lucrativas*) is longstanding. With the introduction of a VAT in 1975, provinces agreed to remove the sales tax and receive a share of the VAT revenues collected by the federal government. The gross sales tax at the provincial level was however reintroduced with a different name (*Ingresos Brutos*) in the 1980s when provincial authorities ran up sizeable deficits. In the 1990s, the federal government initiated new fiscal agreements with the provinces with the objective of reducing the gross sales tax. Provinces agreed to exempt primary activities, manufacturing, construction and financial services from the tax, yet they did not all comply with these agreements. In addition, while fiscal agreements were abandoned in the 2000s, provincial authorities resumed their collections on previously exempted sectors. While some provinces have reduced their rates for small firms or provided fiscal incentives for industrialisation, substantial differences in tax rates for similar economic activities across provinces, especially in the manufacturing sector, remain. Furthermore, regional and local authorities often impose extra requirements on firms from other provinces. In the province of Buenos Aires, out-of-province manufacturers have a rate of 3% compared with 0.57% for in-province manufacturers; in Córdoba, the difference is 3.5% compared to 0.46%. Withholding regimes are also very different across the provinces (more than 60 different regimes). The Convenio Multilateral signed by the provinces is the mechanism used to distribute collections from large taxpayers with sales in more than one jurisdiction among the provinces.

Municipalities in general have very limited taxing powers, and only a small number of municipalities (Córdoba, Chaco, Chubut, Formosa, and Salta) are allowed to collect taxes. These taxes are mostly related to municipal services, vehicles, business and environmental tax, and property tax. Each province and most local governments have their own tax administration department or agency (either centralised or decentralised). Some provinces agree to share information with the federal tax agency, but there are no joint audits. The operation and degree of administrative autonomy may differ significantly. For instance, in some provinces the tax authorities are organised as independent offices deciding on their own budget and reporting to the Provincial Ministry of Finance or Economy while others are administrative branches or provincial Directorates, as in Santa Fe and Mendoza, under the corresponding unit of the Ministry of Economy or Finance.

GRANTS AND SUBSIDIES. Intergovernmental transfer agreements between the federal government and the 23 provinces and Capital City of Buenos Aires are regulated according to the 1988 Law no. 25 548 of Co-participation (*Coparticipación Federal de Impuestos*), as amended in 2002. This law established an equalisation scheme between the federal and provincial level, funded through the withholding of a specified percentage of provincial tax revenues (64% of the income tax, 89% of VAT revenue, 93.7% of taxes on personal goods, 30% of tax on financial transactions and 30% of the self-employment tax). In addition, national level block grants are used to finance provincial funds (e.g. Energy Fund, Housing Fund, Road Fund).

As of 2016, transfers represented barely 2.7% of SNG total revenue (compared to 37.2% on average in the OECD), and 0.4% of GDP. These shares have been decreasing in recent years, and are expected to decrease further as revenues are recentralised and as a result of changes in the composition of taxes that have favoured the federal government. In 2016, grants accounted for 17.1% of local government revenue, compared to 0.6% for provinces and the CABA. Overall, 58% of grants from the federal governments are current, versus 41.9% of capital grants.

Law no. 25 548 sets the percentages of funding allocated to each province, although it does not specify the shares to be transferred to the municipalities. According to the Co-Participation Law, and with very few exceptions (e.g., taxes on international trade), taxes collected by the Federal Government form a common pool (*Masa Coparticipable*). The primary distribution of this common pool is set as follows: 42.3% to the Federal Government, 54.7% to be shared among all provinces, and 2% to be divided among certain provinces to compensate for losses caused by prior co-participation arrangements (1.57% to Buenos Aires, 0.14% to Chubut, 0.14% to Neuquén, 0.14% to Santa Cruz). The remaining 1% makes up a special fund dedicated to provinces facing unforeseen contingencies (*Fondo de Aportes del Tesoro Nacional*). From the part of the common pool assigned to all provinces, each of them receives a fixed share set by the law. Each province determines the composition and distribution of these revenues to the municipalities based on provincial disposable revenues. In 2016, transfers to the municipalities represented 17% of their total revenues. Until 2015, 15% of total tax revenues subject to the co-participation regime were withheld by the Government to fund the social security system. In 2015, this agreement was repealed for the provinces of Córdoba, San Luis and Santa Fe, and the federal government had to return the funds. Besides, the Joint Federal Fund (*Fondo Federal Solidario*), created in 2009 part of the Co-Participation Law and financed by 30% of taxation of soy exports, allocated funds for infrastructure expenditure to provinces and municipalities.

Unlike tax sharing or equalisation mechanisms in other countries, the equalisation coefficients are related neither to observable exogenous provincial characteristics (geographic, demographic, socioeconomic) nor to provincial expenditure needs or plans. Shared revenues are rather close-ended as there are no limits on the absolute amount of resources that a province can receive or on the share of its revenues that can come from the Federal Government. Besides, any agreement to amend the formula and reassign funds from one province to another requires unanimity among all parties involved, which has proven difficult to achieve so far.

OTHER REVENUES. Other revenue sources differ from one municipality to another and depend on provincial regulations. More generally, they include property rents, business licenses or user fees and charges. In addition to direct and indirect taxes, authorities in resource-rich provinces also receive significant amounts of funding from royalties from natural resource exploitation, and particularly from mining, electricity and the production of crude oil and natural gas. The rates on natural resource exploitation vary across some provinces, which agreed on different rates in bilateral negotiations with private firms in order to grant concessions. The regime of royalty payments is determined by the 1967 law no.17319, which establishes standard procedures for revenue mobilisation on natural resources, and is applicable to all provinces. However, this source of revenue is highly volatile, and subject to change in international prices. In some cases, royalties are collected by federal authorities and then transferred to the provincial units where the production takes place according to the devolution criteria. In 2016, tariffs and fees represented the second most important revenue sources of the municipalities – 30% of the total revenues. The tariffs, fees and user charges are collected on public services including lighting, sanitation services, safety and hygiene, building permits, street cleaning, etc. Property income represented only a small share of SNGs revenues, be it at the provincial (1.3% of state revenues) or at the local level (0.4% of municipal revenues).

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.			% GDP			% GENERAL GOVERNMENT DEBT			% SNG DEBT		
	SNG	State	Local	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total outstanding debt	**1 126**			**5.6%**			**10.5%**			**100%**		
Financial debt*	1 126			5.6%			10.5%			100%		

* Currency and deposits, loans and bonds

FISCAL RULES. Fiscal rules are set out in the Fiscal Responsibility Law (FRL) adopted in 1999, and amended successively in 2001, 2004 and 2017. All jurisdications were required to maintain balanced budgets, excluding investment in basic social and economic infrastructure and IFI-financed projects, and to prepare annual fiscal programs setting forth certain fiscal policies. In 2000, a Fiscal Responsibility Council was created to monitor the implementation of the rules and impose penalties for non-compliance, ranging from public disclosure to partial witholding of budgetary transfers. However, the effectiveness of fiscal control was relatively weak due to the lack of independence of the Council. In 2009, at the height of the financial crisis, and as national and provincial governments were not able to meet the requirements for fiscal responsibility, the FRL was de facto suspended, and the monitoring of fiscal responsibility lost much of its transparency. From 2012 until 2016, internal improvements were made to improve access and reliability of information, and in 2017, the federal government and provinces agreed to a new Fiscal Responsibility Law. The new Law limits the increase in public employees at the provincial level with population growth, and commits provinces to maintain non-wage current primary spending flat in real terms. In 2018, following a sharp depreciation of its currency by 50%, Argentina agreed a USD 56.3 billion financing arrangement with the International Monetary Fund to reduce the country's dependence on market financing over the period 2019-2020. In this framework, new primary fiscal targets of 0% of GDP in 2019 and 1% in 2020 were set for the country. The arrangement also enacted the allocation of resources to the newly created Congress Budgetary Office, the strengthening of tax authorities and of the social safety net, including the redesign of the assistance program.

DEBT. Argentina stands as one of the most decentralised countries in Latin America in terms of subnational fiscal borrowing, as subnational governments in Argentina tend to use debt to finance many of their assigned public expenditures. Provinces are granted borrowing rights through the federal constitution, and provincial debt is subjected to provincial legislatures, while municipal debt is subjected to municipal legislatures. As a result, Argentina's federal government has limited means to interfere in subnational borrowing, except in the case of foreign loans that need Congressional approval. During the 1980s-1990s, most subnational borrowing went through provincial banks, resulting in an unsustainable debt level, which exacerbated the financial crisis of 1999. As the crisis abated, notably through the relief of public debt of the provinces, and subnational borrowing resumed, a Fiscal Solvency Law was passed in 1999 at the national level. Provinces were encouraged to pass similar laws on their own. In 2004, the Congress approved law no. 25917, which set forth new fiscal responsibility and transparency measures limiting provincial debt levels within provincial jurisdictions to 15% of the net current resources of municipalities (after deduction of revenue-sharing transfers to municipalities). In the case of domestic borrowing, for which inter-governmental transfers are used as collateral, the loans are registered with the Ministry of Economy and with the National Bank (*Banco de la Nación*). The latter has the authority to deduct any debt payment on guaranteed loans from the amount allocated as intergovernmental transfers. The Ministry of Economy must authorise all provincial loans that use co-participation funds as a guarantee. In 2010, the national government restructured almost all provincial debt within the Fiduciary Fund for Provincial Development Programme (*Fondo Fiduciario para el Desarrollo Provincial*). This preventive measure led to a reduction in the subnational debt level between 2003 and 2015. In 2016, according to our estimates, SNG total outstanding debt reached 5.6% of GDP, an increase compared to 2013 (4.3%). The weight of SNG debt in total debt has slightly increased, standing at 10.5% of public debt in 2016 compared to 10% in 2013. SNG's debt was mostly composed of bonds and debt securities and a tiny share coming from loans.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: OECD
Last update: 02/ 2019
www.sng-wofi.org

Socio-economic indicators: World Bank // UNDP // UN Desa // ILO // INDEC (2017) Anuario Estadístico de la República Argentina.
Fiscal data: Ministerio de Hacienda y Finanzas Públicas, Officina Nacional de Presupuesto, INDEC : Sector Publico. // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data // IMF GFS.
Other sources of information: OECD (2019) OECD Economic Surveys: Argentina 2019 // Rosales, Mario (2017) Descentralización y Municipios en República Argentina. In FLACMA(2017) Municipalismo : Perspectivas da descentralização na América Latina, na Europa e no Mundo // M. Besfamille, N. Grosman, D. Jorrat, Manzano, Sanguinettik (2017) Public expenditures and debt at the subnational level: Evidence of fiscal smoothing from Argentina // OECD (2017) OECD Economic Surveys: Argentina 2017: Multi-dimensional Economic Survey // OECD (2016) OECD Territorial Reviews: Córdoba, Argentina // Cetrángolo, Gómez Sabaíni & Morán (2015) Argentina: reformas fiscales, crecimiento e inversión (2000-2014) // Cetrángolo, O. & Goldschmit, A. (2013) La descentralización y el financiamiento de políticas sociales eficaces : impactos, desafíos y reformas. // M. Astudillo Moya, MI Garcia Morales (2013) Inter-Governmental fiscal relationships of municipalities and provinces in Argentina and Mexico // Beltrán Toro & González Catalán (2013) Disparidades territoriales y desempeño exportador al MERCOSUR : evidencia a nivel de las provincias argentinas.

BOLIVIA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: BOLIVIANO (BOB)

POPULATION AND GEOGRAPHY

Area: 1 098 580 km^2
Population: 11.052 million inhabitants (2017), an increase of 1.6% per year (2010-2015)
Density: 11 inhabitants / km^2
Urban population: 69.1% of national population
Urban population growth: 2.0% (2017 vs 2016)
Capital city: Sucre (2.6% of national population)
Administrative capital: La Paz (7.9% of national population)

ECONOMIC DATA

GDP: 84 billion (current PPP international dollars), i.e. 7 560 dollars per inhabitant (2017)
Real GDP growth: 4.2% (2017 vs 2016)
Unemployment rate: 3.2% (2017)
Foreign direct investment, net inflows (FDI): 725 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 21.3% of GDP (2017)
HDI: 0.693 (medium), rank 118 (2017)
Poverty rate: 7.1% (2016)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Bolivia's Political Constitution (CPE), approved in 2009 through a national referendum, states that Bolivia is a Unitary Social State of Pluri-National Communitarian Law that is decentralized and organized in autonomous regions with a classic model of division of powers. The Pluri-National Legislative Assembly is formed by the Chamber of Deputies and the Chamber of Senators. Those two bodies are composed respectively of 130 deputies and 36 senators. Deputies are elected by electoral district for a five-year mandate, half of whom are directly elected and the other half on a proportional representation list system. In the Senate, the seats are occupied by four members of each of the departmental districts who are directly elected for five years. The Executive Branch is headed by the President of the State elected for five years and the Judicial authority is exercised by the Supreme Court of Justice, its courts and the rural native indigenous jurisdiction.

The Bolivian Constitution has established a territorial organization where several self-governments coexist within a unitary country (departments, provinces, municipalities and rural native indigenous territories), with an almost quasi-federal approach. However, there exist certain provisions of a centralist nature within the Constitution which limit the autonomy of subnational governments. Decentralization is entrenched in the Constitution through a definition of autonomy that implies the direct election of authorities by citizens, the administration of economic resources and the exercise of legislative, regulatory, fiscal and executive responsibilities by subnational governments within their jurisdiction and granted competences (Art. 272).

Bolivia's decentralization process started in 1994 with the approval of the Popular Participatory Law and the Administrative Decentralization Law, which created 311 popularly elected municipal governments. These laws were replaced in 2010 by Law 031 establishing the Legislative Framework for the Decentralization Process and Regulation of the Autonomies. Together with the promulgation of the 2009 CPE, the Law 031 has given rise to the autonomous period in Bolivia. Law 031 establishes that subnational governments are in charge of elaborating departmental autonomous statutes, organic municipal charters and rural native indigenous communities' statutes to regulate the exercise of their responsibilities (Art. 62). In 2014, the central government approved the Law 482 on Autonomous Municipal Governments, which serves as a regulatory framework for the organizational structure and functioning of local governments that have not crafted their organic municipal charter for exercising their responsibilities. Progress in the achievement of autonomy has been slow since the approval of the Constitution.
A mechanism for coordination has also been established at national level, i.e. the National Council of Autonomies, to provide a permanent forum for coordination and consultation between the plurinational government and the subnational governments. This Council is composed of representatives of the plurinational state (ministers) and subnational entities (departmental governors, municipal associations and representatives of rural native indigenous autonomies).

The last subnational elections were held in 2015 to elect the departmental, regional and municipal governments.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	339 municipal self-governments *(gobiernos autónomos municipales)* 3 rural native indigenous autonomies (*autonomías indígenas originarias campesinas*)	1 regional self-government *(Gran Chaco)*	9 departmental self-governments *(gobiernos autónomos departamentales)*	
	Average municipal size: 29 675 inhabitants			
	342	1	9	352

OVERALL DESCRIPTION. Bolivia is administratively and politically divided into 9 departments, 339 municipalities, 1 region and 3 rural native indigenous communities.

DEPARTMENTS. Departmental self-governments are headed by a Departmental Assembly and an executive organ headed by a governor in charge of implementation (Art. 277 CPE). The assembly is made up of members elected by universal suffrage, members elected by proportional representation and members elected by rural native indigenous communities residing in the Department. The executive organ is elected by universal suffrage for a five-year term. The 9 departments are further divided into 112 provinces, yet these do not constitute self-governments and are administered by a sub governor nominated by the respective department governor.

MUNICIPALITIES. Municipal self-governments are classified in 4 groups according to the size of their population: Municipalities A, with a population of less than 5 000 inhabitants; Municipalities B, with a population ranging between 5 001 and 15 000 inhabitants; Municipalities C, with a population between

15 001 and 50 000 inhabitants and Municipalities D, with 50 001 inhabitants or more. As of 2016, the six cities with the largest populations are Santa Cruz de la Sierra (1 640 615 inhabitants), El Alto (901 823), La Paz (794 014), Cochabamba (681 947), Oruro (284 839) and Sucre (280 932).

Municipal self-governments consist of a municipal council and an executive organ, chaired by the mayor elected by universal suffrage (Art. 283 CPE). The municipal councillors are elected every five years by electoral district on a separate ballot from that of the mayor. The number of councillors varies between 5 and 11 depending on the size of the municipality. Additionally, certain seats are assigned through a proportional representation list system. The Organic Municipal Charter is the rule through which the exercise of the municipal self-government's authority is regulated, but its elaboration is optional.

Various provinces or municipalities that have geographic continuity which cross the departmental borders and that share the same culture, language, history, economy and ecosystems can form a region. A region constitutes an area of planning and management. It is governed by a regional assembly and an executive body appointed by the regional assembly and responsible for implementation (Art. 281 CPE). Members of the regional assembly are elected in equal numbers for each municipality together with the lists of candidates for the municipal councillors. As for Departmental Assembly, a number of seats are allocated to members elected by rural native indigenous communities living in the region's municipalities. To date, there is only one region, the *Gran Chaco* in the department of *Tarija*, which gained independence through a referendum organised in 2009.
Finally, the Bolivian Constitution acknowledges rural native indigenous autonomies as self-governments that can exercise their free determination, in accordance with their norms and procedures and in harmony with the Constitution (art. 290).

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The Constitution establishes four types of responsibilities: sovereign, exclusive, concurrent and shared (art. 297 CPE). Sovereign responsibilities are reserved to the central government while exclusive responsibilities correspond to a single jurisdiction (national or autonomous levels), with the exception of the regional jurisdiction. The regulation and execution of some of the exclusive responsibilities can be delegated to the municipal level (e.g. waste management). In the case of concurrent responsibilities, the central government is responsible for legislation and subnational governments for regulation and execution (e.g. building community roads). Shared competences are those whose basic legislation corresponds to the Plurinational Legislative Assembly and complementary legislation to subnational governments (e.g. creation or modification of subnational governments' taxes). Municipal self-governments have also been assigned competences beyond the provision of basic services such as education and health services, although the formal transfer of responsibilities has not yet taken place.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	DEPARTMENTS	MUNICIPALITIES AND RURAL NATIVE INDIGENOUS COMMUNITIES
1. General public services		
2. Public order and safety	Departmental civil security plans, programs and projects; Provide support for police forces and prisons	Creation of civil security plans, programs and projects; Provide support for police forces and prisons (responsibility shared with the departmental level)
3. Economic affairs /transports	Plan and execute economic and social development plans; Rural electrification and energy provision; Employment and tourism promotion, infrastructure building and delivery of services for production; Building and management of departmental train lines, road routes and airports	Promote local development; Promotion of employment and renewable energies; Creation of local airports; Planning; Construction and management of communal roads in coordination with rural native communities (when it applies)
4. Environmental protection	Natural heritage conservation; Integrated waste management (responsibility shared with the national and municipal levels)	Integrated waste management (responsibility shared with the national and departmental levels); Environmental protection of local natural patrimony; Natural resources and protected areas
5. Housing and community amenities	Departmental land use planning	Create land use plans and land cadastres for the municipalities Construction/renovation; Distribution of drinking water; Public lighting
6. Health	Infrastructure building and provision of equipment and medical supplies for hospitals	Infrastructure building and provision of equipment and medical supplies for cities; Human and animal alimentary sanitary controls
7. Recreation, culture & religion	Sports; Culture; Oversight of artistic and architectural patrimony	Promotion and conservation of the historic, cultural and architectural patrimony; Local sports
8. Education	School infrastructure building; Basic services and provision of educational material	School infrastructure building; Basic services and provision of material and school alimentation
9. Social protection	Implementations of social projects for childhood, adolescence, women, the elderly and people with disabilities.	Implementations of social projects for childhood, adolescence, women, the elderly and people with disabilities

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: municipalities and departments.	Other	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. Subnational finance in Bolivia is regulated by the Constitution, the 2010 Law 031 on the Legislative Framework for the Decentralization Process and Regulation of the Autonomies and Law 154 on the Classification and Definition of Taxes and Regulation for the Creation and/or Modification of Subnational Government Tax. The Constitution stipulates that the responsibilities transferred to subnational governments must be necessarily coupled with the identification of the sources of income for their financing. The Constitution acknowledges subnational governments' autonomy in the administration of subnational funds and guarantees that such funds shall not be centralized in the National Treasury (Art. 340). It establishes that subnational budgets should be elaborated and approved by each subnational government (Art. 321 and 340), which also has the authority of approving, modifying or eliminating taxes in their jurisdiction (Art. 299 and 323). Law 031 states that the central government is in charge of determining budget formulation and sets the expenditure ceiling for subnational governments. Central government has a monopoly on the creation of new taxes.

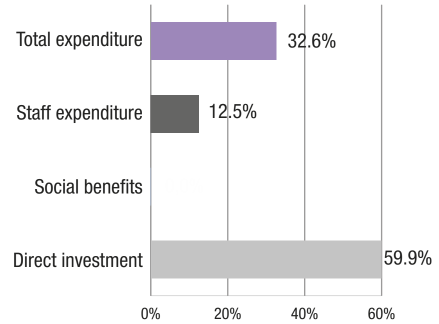
BOLIVIA

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**816**	**11.3%**	**100%**
Inc. current expenditure	247	3.4%	30.2%
Staff expenditure	102	1.4%	12.5%
Intermediate consumption	111	1.5%	13.6%
Social expenditure	-	-	-
Subsidies and current transfers	23	0.3%	2.8%
Financial charges	5	0.1%	0.7%
Others	7	0.1%	0.8%
Incl. capital expenditure	569	7.9%	69.8%
Capital transfers	43	0.6%	5.0%
Direct investment (or GFCF)	526	7.3%	64.4%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



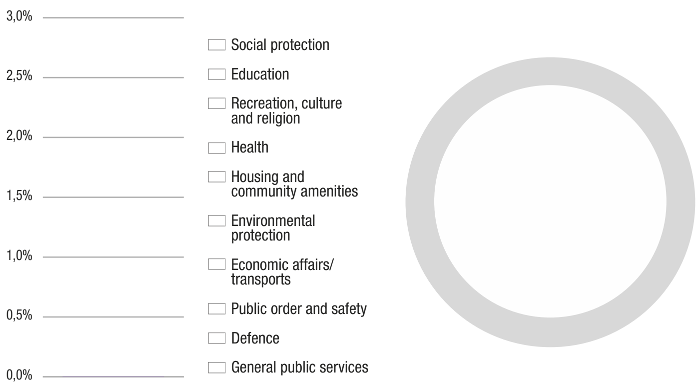
EXPENDITURE. Current expenditure increased over the last years although the increase was smaller in 2016 due to lower spending on staff expenditures and the purchase of goods and services. Departmental and municipal governments' total expenditure respectively amount to 9% and 24% of total public expenditure. SNG capital expenditures represent a significant share of expenditures compared to the average of other countries, accounting for 70% of SNG total expenditures and 65% of public expenditures. A large share of these capital expenditures is made up of direct investment.
Nevertheless, it should be noted that some projects remain implemented in municipalities by ministries and delivered in person by the President (football fields, settlements, irrigation projects, etc.).

DIRECT INVESTMENT. With the decline in oil prices and the subsequent decrease in subnational government revenues, subnational government investment has fallen significantly, from $8 676 million PPPs in 2014 to $5 723 million in 2016. Despite this downward trend, sub-national governments continue to spend more than 64 per cent of their expenditures on direct investment, most of which is financed by own resources, national government transfers and a smaller share by subsidies granted by the national government in the form of trust funds (Fideicomisos), as provided for in Law 742 amending the general government budget 2015.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Subnational governments' expenditures are mainly directed towards territorial infrastructure, social services provision and support of health and educational services, primarily through the construction and maintenance of buildings and provision of educational and health-related materials. Nevertheless, over the past decade, emphasis has been placed on promoting economic activities and environment protection within the different levels of subnational governments.

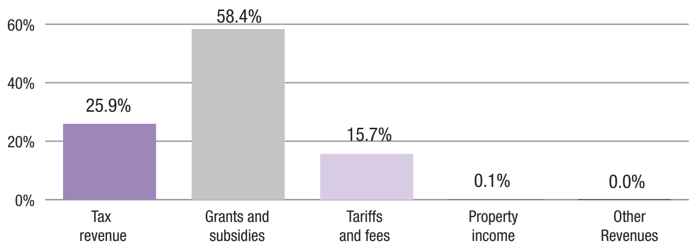
% GDP | % SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**750**	**10.4%**	**33.2%**
Tax revenue	194	2.7%	13.0%
Grants and subsidies	438	6.1%	
Tariffs and fees	118	1.6%	
Property income	1	0.01%	
Other revenues	-	-	

% SNG REVENUE



OVERALL DESCRIPTION. The revenue sources available to subnational governments are detailed in Law 031. Revenues may come from departmental or municipal taxes, licences and royalties related to the exploitation of resources, the sales of goods and services or assets, internal and external loans and central government transfers related to the tax on oil or to the transfer of new responsibilities. In addition, municipalities where there are mining activities also obtain revenues from the departmental level for the exploitation of mining resources. Regulations regarding subnational finance do not allow for sub-national governments to raise larger amounts of funds for instance through taxation. Over the past few years, the increase in revenues was mainly driven by the exploitation of non-renewable resources, although such increase experienced a sharp drop in 2016 due to the decrease in the prices of oil and minerals, resulting in lower resources collected through Direct Taxes on Hydrocarbons (IDH).

TAX REVENUE. Sub-national government tax revenues include direct taxes on hydrocarbons, royalties, patents and revenues from the general tax system, i.e. fiscal co-participation. Fiscal co-participation was established by Law No. 1551 in 1994 (which was replaced by Law No. 031 in 2010). It includes value added tax, business profit tax, tax on transactions, tax on consumption of excise goods, customs and excise duties and tax on free transfers of goods. These taxes are shared by the central government with subnational governments.

Tax revenues in capital cities are much higher than those of departmental governments. In addition, departmental governments rely heavily on national transfers, leading to tax inequalities within departments and between departments and some municipalities. Law 031 introduced the possibility of establishing a “Fiscal Pact” in Bolivia whose main objectives are to reduce territorial inequalities resulting from tax regulations, redistribute income and diversify the sources of income of subnational governments (in particular to reduce their dependence on hydrocarbon resources). The final document of the Fiscal Pact, under discussion since 2008, was finalized in 2018 without fully addressing the problems of tax redistribution for departments and municipalities.

GRANTS AND SUBSIDIES. Both departmental and municipal governments receive a large proportion – nearly 60% - of their revenues from central government transfers and subsidies. Smaller subnational governments or governments in the poorest regions are the ones most dependent on these transfers.

The departments rely mainly on current transfers from the central government, which include oil and gas revenue shared through royalties, Direct Taxes on Hydrocarbons (IDH) and a separate compensatory fund. Hydrocarbon royalties are distributed only to four producing departments, namely Cochabamba, Chuquisaca, Tarija, and Santa Cruz, and to two remote non-producing departments (Beni and Pando) while IDH revenues are shared across the nine departments. Both producing and non-producing departments are required to share 66.9% of their IDH funds with their municipalities, apportioned on the basis of municipal population. According to Law 031, the equitable distribution of resources from the exploitation of natural resources must be ensured by the subnational governments in order to reduce regional inequalities and inequalities in access to productive resources. Yet in practice, the redistribution of oil and gas revenues among subnational governments mainly considers the location of extraction projects and population as the main criteria for resource allocation.
Municipalities also depend on central government transfers including IDH and fiscal co-participation transfers, to finance their expenditures.

OTHER REVENUES. Other SNG revenues include patents and royalties from natural resource exploitation. The gas-rich department of Tarija adopted the PROSOL (*Programa Solidario Comunal Departamental*) law in 2007, which seeks to use revenues from natural gas royalties to finance productive initiatives prioritized by local farming and indigenous communities through the establishment of annual cash transfers.
In addition, Bolivian subnational governments collect fees, patents on economic activity and special contributions, legacies, donations, revenues from the sale of goods, services and assets. Municipal governments’ other revenues are derived from the property tax on real estate, tax on motor vehicles and the co-participation of the special excise tax on the consumption of alcohol-grade corn chicha.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**66**	**1.0%**	**5.1%**	**100%**
Financial debt*	66	1.0%	5.2%	100%

* Currency and deposits, loans and bonds

FISCAL RULES. The subnational governments’ budgets are governed by the General Development Plan, which includes the development plans of local and regional authorities and the general government budget. Subnational governments must ensure the financial sustainability of the exercise of their powers in the mid- and long-term. They must maintain all their financial resources in fiscal current accounts. Local and regional governments must approve their budgets in accordance with the principle of balanced budget rules and be subject to the overall tax ceilings established in accordance with the tax framework determined by the Ministry of Public Finance (article 114 of Law 031).

DEBT. The legal system establishes that subnational governments may contract debt obligations in order to fulfil their responsibilities, yet the central government sets the annual debt limit for every subnational government. All loans, including those for investment projects, need previous approval of the central government. Once the Minister has approved the operation, subnational governments may directly contract internal debt. However, external debt can only be contracted by the central government and requires the approval of the Pluri-National Legislative Assembly. As the process is long and complicated, only a few municipal governments are actually in a position to apply.

If subnational governments fail to meet their external debt obligations, the central government has the authority to withdraw the corresponding funds from the subnational governments’ accounts. Moreover, subnational governments are required to submit monthly reports on their debt to the Subnational Debt Administration and Information System (SAIDS).

With regard to the issuance of bonds, although in principle all municipalities have the ability to do so, only those municipalities that are departmental capitals have access to the process and to raising funds through these means.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: UCLG
Last update: 02/ 2019
www.sng-wofi.org

Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data: Ministry of Economy and Finance of Bolivia // OECD Revenue Statistics // Deputy Ministry of Public Investment and External Financing (VIPFE) // National Institute for Statistics // World Bank // Central Bank of Bolivia.
Other sources of information: Ministry of Economy and Finance (2016) Fiscal Report // Ministry of Economy and Finance (2017) Memoria de la Economía boliviana // Patricia I. Vasquez (2016) Four Policy Actions to Improve Local Governance of the Oil and Gas Sector, International Development Policy - Revue internationale de politique de développement // María Lasa Aresti (2016) Oil and Gas Revenue Sharing in Bolivia, Natural Resource Governance Institute // Ministerio de Autonomía (2011) ¿Qué es la autonomía departamental?, Serie Bolivia Autonómica nº2.

BRAZIL

FEDERAL COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: REAL (R$)

POPULATION AND GEOGRAPHY

Area: 8 515 759 km^2
Population: 209.288 million inhabitants (2017), an increase of 0.8% per year (2010-2015)
Density: 25 inhabitants / km^2
Urban population: 86.3 % of national population
Urban population growth: 1.1% (2017 vs 2016)
Capital city: Brasilia (2.14% of national population)

ECONOMIC DATA

GDP: 3 255 billion (current PPP international dollars), i.e. 15 553 dollars per inhabitant (2017)
Real GDP growth: 1.1% (2017 vs 2016)
Unemployment rate: 13.3% (2017)
Foreign direct investment, net inflows (FDI): 70 685 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 15.63 % of GDP (2017)
HDI: 0.759 (High), rank 79 (2017)
Poverty rate: 3.4 (2015)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Brazil is a federal republic under a presidential system (Constitution of 1988, confirmed by referendum in 1993), formed by the indissoluble Union of three autonomous levels of government (Title III): the federal (called the Union), the states and the municipal level. The constitutional provisions regulating the legal and financial frameworks are called the "Brazilian Federative Pact". It establishes the singular Brazilian case of multi-level governance in which municipalities are federal entities having their autonomous relations with both the States and the Union. The federated states and the Federal District have their own constitutions, which cannot contradict the 1988 Constitution. Neither the Union nor states' governments can prohibit actions by municipalities.

The Constitution establishes the division of powers into a flexible tri-partition. On the one hand, the Judiciary is organized at the federal level in the form of counties covering several municipalities or parts of larger municipalities. On the other hand, both the Executive and Legislative branches are organized independently in all tiers of government. The President, state governors and mayors are elected by universal suffrage as head of their respective government for four-year terms. Voting is mandatory in Brazil and elections actually take place every two years. Municipal elections for both the mayor and parliamentarians are split from state and federal elections. At federal level, the Secretary of Institutional Relations under the Office of the President (Casa Civil in Portuguese) is responsible for the general coordination of government with the National Congress. While state and municipal legislative houses are unicameral the National Congress is bi-cameral, composed of the Senate and the House of Representatives. By law, all members of the Legislative bodies, at all levels, are directly elected by the citizens through a proportional system. The 81 Senators are elected for an eight-year term, on the basis of federated state electoral districts: three senators per state. Every four years, part of the Senate is renewed. In the 2018 elections, voters elected two senators. The House of Representatives is composed of 513 members also elected on the basis of state districts. The number of representatives is calculated based on population. Thereby, 11 states have 8 MPs (mainly Northern and Center-Western regions of Brazil) while four states elect between 39 and 70 MPs (amongst which Sao Paulo elects the highest number of MPs). The heads of each executive branch are accountable to their respective legislative branches and can be impeached.

As a result of the City Statute, passed in 2001, the Ministry of Cities was created in 2003 as the coordinating body of urban policies and investment. In addition, the National Council of Cities and the National Conference of Cities were created in 2004. National Conferences are convened by the Union, with the purpose of formulating urban policies in coordination with civil society. The Council of Cities is the permanent collegial advisory body of the Ministry of Cities contributing to inclusive multi-level policy making, implementation and monitoring of the National Policy for Urban Development. Both state and municipal councils of cities were also created via specific law. In 2017, the 6th National Conference of Cities were postponed to 2019. There are similar structures promoting social participation on different issues such as Public Safety or Water and Sanitation. Lastly, the National Council for Fiscal Policy (CONFAZ) is a specific coordination mechanism between the Union and the States/federal district governments.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	Municipality *(Municipio)*		26 Federated States *(Estados Federados)* 1 Federal District *(Distrito Federal)*	
	Average municipal size: 37 574 inhabitants			
	5 570		**27**	**5 597**

OVERALL DESCRIPTION. Brazil is formed by the union of 26 federal states, the Federal District and 5 570 municipalities. According to the federal pact, there is no hierarchy between these federal entities. The Federal District cannot be divided into municipalities and has characteristics common to both states and municipalities. It is structured into administrative regions. The country is further divided into five administrative regions (North, Northeast, Center-West, Southeast and South). In addition, the island of Fernando de Noronha is the unique State district under the supervision of the State of Pernambuco. Lastly, the Union is responsible for the demarcation and protection of both indigenous and quilombos heritage land.

MUNICIPALITIES. Municipalities are endowed with legal personality and some administrative autonomy, being the smallest autonomous units of the Federation. The 2001 City Statute provides guidelines for municipal governments and all stakeholders to promote the social function of land, integrated territorial planning and the democratic management of the city. In 2013, 5 new municipalities were created. Since 2018, a draft bill renewing the procedure for the creation, merger and dismemberment of municipalities is awaiting final approval of the National Congress. There are great discrepancies in geographical and population sizes. In 2018, 57% of the Brazilian population lived in 5.7% of the municipalities, which are those with more than 100,000 inhabitants. In 2018, 17 municipalities had more than 1 million inhabitants.

INTER-MUNICIPAL COOPERATION. In addition to the City statute, a series of institutional reforms led to the legal framework encouraging integrated planning at both city and state level. To do so, inter-municipal (public) consortia were established by Federal Law Nº11.107/2005 as voluntary institutional arrangements formed by more than one federation entity for the purpose of carrying out "public functions of common interest". There are 491 Public consortia in 2018, some adopting an inter-federative status.

STATES AND FEDERAL DISTRICT. The levels of regional inequalities in Brazil are among the highest in the world, although it has decreased in the recent decades. In 2017, the HDI within states ranged from 0.850 (very high) in the Federal District to 0.683 (medium) in Alagoas. Four states appear with medium HDI, 20 states rank high and three rank very high. The Federal District and the states of Rio de Janeiro and São Paulo are the most densely populated, while the least densely populated states are Roraima, the Amazonas and Mato Grosso.
Moreover, the 2015 Metropolis statute provides Constitutional regulations for the creation by State governments of Metropolitan Areas. After formal creation, the Metropolitan Areas have a period of three years to formulate an integrated urban development plan (PDUI). In 2018, there are 69 metropolitan regions formally established by law, being Paraiba the state with bigger number of metropolitan regions (12), followed by Santa Catarina (9) and Alagoas (8). In 2018, most of Metropolitan Areas do not have a consolidated governance structure and were not able to formulate their PDUI leading to an extension of the PDUI formulation to a five-year period. The Union is responsible for establishing the three integrated development regions which are metropolitan regions overlapping state boundaries. The Union also guarantees the participation of civil society in the governance structure of metropolitan areas.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The State Constitutions and Municipal Organic Laws detail the competences for their respective jurisdictions within the overarching framework set by the 1998 Constitution. The Union is exclusively in charge of functions regarding the national interest, whereas functions of local interest are exclusive competences of municipalities. The States are responsible for public functions of regional interest, which include functions that cannot be undertaken by municipalities and those delegated by the Union. These may include transportation, water management or public order and safety. Lastly, there are functions of common interest which are shared between all levels of government, such as health care, education, social security, welfare, agriculture and food distribution, sanitation and housing. The City Statute expands constitutional regulations on urban policy. A series of federal laws build on the City Statute for better provision of services (e.g. public private partnerships and the national sanitation policy (Federal Laws No. 11.079 and 11.445 of 2004 and 2007)). Since 2015, the Metropolitan statute clarifies the assignment of shared responsibilities of common interest between cities and states under a coordinated mechanism and provides for civil society participation in the establishment and monitoring of the PDUI.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	STATES	MUNICIPAL LEVEL (GENERAL SCHEME)
1. General public services	Administration and operation of general services; Operation and maintenance of public buildings and facilities; Administrative services	Administration and operation of general services; Operation and maintenance of public buildings and facilities; Administrative services
2. Public order and safety	Administration and command of military police and fire-fighters; Civil police operations, administration of the prison system (when delegated by federal law); Road traffic control	Municipal police; Emergency services (shared)
3. Economic affairs /transports	Agriculture and rural development; Regional economic development and support to local enterprises and entrepreneurship; Regional tourism; Ports; Management and maintenance of state highways and roads; Management of inter-municipal transport	Maintenance of urban roads; Urban transport; Local tourism; Maintenance of building projects
4. Environmental protection	Environmental licensing (shared); Environmental education (shared); Protection, preservation and restoration of regional natural resources	Environmental licensing (shared); Environmental education (shared); Protection and preservation of fauna and flora; Parks and green areas in municipalities; Waste collection and disposal
5. Housing and community amenities	Supply and treatment of water and basic sanitation; Energy production (when delegated by federal government); Metropolitan land use planning; Housing construction and settlement upgrading (shared)	Public lighting; Street maintenance and urban paving, street cleaning; Urban development and land use planning; Housing construction and settlement upgrading (shared)
6. Health	Hospital services; Preventive healthcare; Secondary and tertiary health services	Basic health care and service delivery, Operation and administration of health posts (shared within the Unified System of Health)
7. Recreation, culture & religion	Regional museums; Libraries, Cultural activities and preservation of heritage	Sports facilities; Libraries; Municipal museums; Support to cultural activities of communities; Municipal exhibitions; Theatre and music production
8. Education	Secondary and higher education; Support to municipal administration of basic education	Administration of kindergartens; pre-schools and basic education
9. Social protection	Social Protection; Support municipal provision of care services	Municipal Social Assistance Policy as an integral part of the Single System of Social Assistance (SUAS)

SUBNATIONAL, STATE AND LOCAL GOVERNMENT FINANCE

Scope of fiscal data: 26 Federated States; the Federal District of Brasilia and 5 570 municipalities.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

BRAZIL

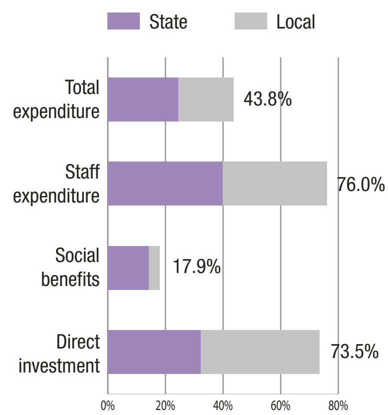
FEDERAL COUNTRY

GENERAL INTRODUCTION. The 1988 Constitution defines the Federal Pact or Fiscal Federalism by specifying tax powers (art. 145 to 162) of all the entities of the Federation and their respective mandatory spending assignments (art 21 to 32). It is largely asymmetric. In the nineties, Brazil adopted a Fiscal Responsibility Law to prevent states and municipalities from running excessive budget deficits. After a decade of fiscal expansion, Brazil is going through important contractor fiscal policies since 2015. In 2016, a Constitutional Amendment was approved resulting in a New Fiscal Regime within the 1988 Constitution's Transitory Constitutional Dispositions Act. It implies a twenty years' period of mitigation of the required minimum primary expenditures (e.g., health and education) and the ending of the annual balanced budget rule. In addition, the increased indebtedness levels at subnational level in the past years have led to the adoption of Complementary Laws (no. 156/16 and 159/17) with the aim of renegotiating debt repayment flows with the Union and establishing mechanisms for tax recovery of insolvent states.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.			% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT EXPENDITURE		
	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total expenditure	2 820	1 574	1 246	18.7%	10.4%	8.2%	100%	100%	100%
Inc. current expenditure	2 637	1 493	1 145	17.5%	9.9%	7.6%	93.5%	94.8%	91.9%
Staff expenditure	1 201	628	573	7.9%	4.2%	3.8%	42.6%	39.9%	46%
Intermediate consumption	643	254	389	4.3%	1.7%	2.6%	22.8%	16.2%	31.2%
Social expenditure	459	365	94	3.0%	2.4%	0.6%	16.3%	23.2%	7.5%
Subsidies and current transfers	134	66	68	0.9%	0.4%	0.4%	4.7%	4.2%	5.4%
Financial charges	200	179	21	1.3%	1.2%	0.1%	7.1%	11.4%	1.7%
Others									
Incl. capital expenditure	183	82	101	1.2%	0.5%	0.7%	6.5%	5.2%	8.1%
Capital transfers	19	10	9	0.1%	0.1%	0.1%	0.7%	0.6%	0.7%
Direct investment (or GFCF)	165	72	92	1.1%	0.5%	0.6%	5.8%	4.6%	7.4%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



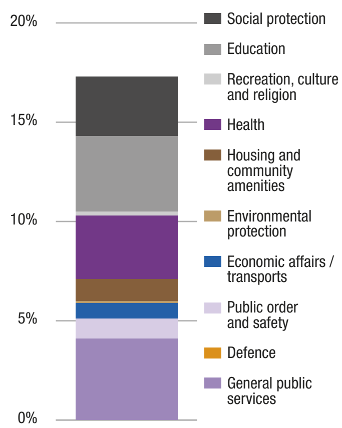
EXPENDITURE. In Brazil, subnational governments account for 44% of total public spending, above world average. Both states and municipalities are important social and economic actors accounting for a large share of public spending (respectively 24.4% and 19.3%). Yet, public budget is mainly devoted to compulsory expenditure. In 2016, current expenditures accounted for about 93.5% of total expenditure, largely consisting of public servants and employee compensation expenses (42.6%). Moreover, social expenditure represents the second-larger share of state government expenses (23.2% of state expenditures) whereas municipalities assign 31.2% of their spending to intermediate consumption. In 2016, the federal government adopted a current expenditure ceiling that entails the progressive reduction to 5% in federal current spending as a share of GDP over a decade.

DIRECT INVESTMENT. In contrast, only 6.5% of subnational governments' budgets were earmarked for capital investment in FY 2016, the lowest percentage in eleven years. Nonetheless, SNG direct investment represented three quarters of public investment in the country. Over the last decade, many government investment initiatives have been launched to address the infrastructure gap, however this still remains high. Over the past two decades, public investment has been considerably below the Latin American Countries (LAC) and income group averages resulting in much lower capital stock as of 2016. In 2016, subnational public investment accounted for 1 % of the GDP.

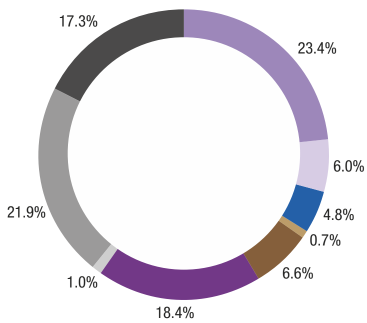
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

	% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT		
	SNG	State	Local	SNG	State	Local
Total expenditure	17.3%	9.2%	8.1%	100%	100%	100%
1. General public services	4.1%	2.4%	1.6%	23.4%	26%	20.3%
2. Defence						
3. Security and public order	1.0%	1%	0%	6.0%	10.8%	0.5%
4. Economic affairs / transports	0.8%	0.5%	0.3%	4.8%	5.8%	3.6%
5. Environmental protection	0.1%	0.1%	0.1%	0.7%	0.7%	0.8%
6. Housing and community amenities	1.1%	0.2%	1.0%	6.6%	1.7%	12.2%
7. Health	3.2%	1.2%	2.0%	18.4%	13.3%	24.3%
8. Recreation, culture and religion	0.2%	0.0%	0.1%	1.0%	0.5%	1.5%
9. Education	3.8%	1.6%	2.2%	21.9%	17.7%	26.6%
10. Social protection	3.0%	2.2%	0.8%	17.3%	23.6%	10.1%

SNG EXPENDITURE AS A % GDP



% OF TOTAL SNG EXPENDITURE

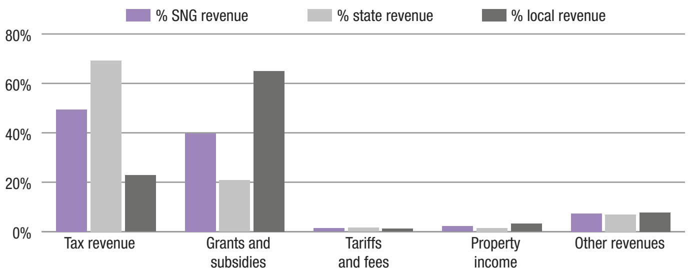


In FY 2016, expenditure incurred at the subnational level corresponds to 17.3% of the GDP. For States, the largest expenditure lines were general public services (26% of total subnational public spending), social protection (23.6%) and education (17.7%). Municipal spending reflects the distribution of responsibilities of the municipalities: education (26.6%), health (24.3%) and general public services (20.3%). At municipal level, expenditure on housing and community amenities represents 76.7% of public expenditure of the same category, while at state level expenditure on security and order accounts for 85.4% of public spending of the same category. The provision of general public services was the main economic activity of Brasilia (the Federal District) and of 48.9% of municipalities of which 56% are located in the North-West region. Spending in defence expenditures is negligible, as it is mainly an area of responsibility of the Federal Government.

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	% GDP			% GENERAL GOVERNMENT (SAME REVENUE CATEGORY)		
	SNG	State	Local	SNG	State	Local
Total revenue	20.3%	11.7%	8.7%	58.6%	33.6%	25.0%
Tax revenue	10.0%	8.1%	2.0%	44.0%	35.3%	8.7%
Grants and subsidies	8.1%	2.4%	5.6%			
Tariffs and fees	0.3%	0.2%	0.1%			
Property income	0.4%	0.2%	0.3%			
Other revenues	1.5%	0.8%	0.7%			

% SUBNATIONAL, STATE AND LOCAL GOVERNMENT REVENUE



OVERALL DESCRIPTION. In total, tax and other own-source revenues represent 60% of SNG total revenue (78% for states and 34% for municipalities), while 40% of subnational revenues are transferred resources. Most of the Brazilian municipalities are highly dependent on the States and the Federal Government's transfers. The Union transfers resources to the States and Municipalities and the States transfer resources to the Municipalities. Grants and Subsidies represent approximately 65% of the total resources available to municipalities. Intergovernmental transfers to municipalities grew by 16% over the period 2013 - 2016. Transferred funds are often earmarked. Revenue earmarking is a mechanism provided by the Federal Constitution created to ensure that each level of governments invest a minimum amount of the public budget in priority sectors, such as health and education.

With respect to own-source revenues, the "federative pact" is a principle which has always been invoked but has never really been formulated as such. It is based on the detailed text of the Constitution regarding the tax system, in which exclusive powers of taxation are assigned to each of the three spheres of government: specifically, important indirect taxes are assigned to the subnational levels of government. The constitutional text details a series of basic rules for the collection of subnational taxes, which ensure great autonomy for the levels of government addressed. It does the same with regards to the constitutional distribution of taxes, even specifying the percentages applicable, the limitations of the use of the resources in question, and in some cases detailed criteria for their apportionment.

TAX REVENUE. In 2016, subnational tax corresponded to 10% of GDP, of which 8.1% corresponded to state-levied taxes and 0.9% to taxes collected at the municipal level. Over the period 2013-2016 the Brazilian municipalities experienced a significant growth of 19% in the collection of their own revenues. States and municipal own-revenue collection have grown less than inflation since 2014 as a result of the economic crisis and the deepening of inter-state fiscal competition, which led to an increase in state revenue waivers. At the state level, most of the revenue is collected through a Tax on the Circulation of Goods (ICMS) – similar to VAT – which represents 82% of states' tax revenue. States also collect a Tax on the Ownership of Motor Vehicles (IPVA) and a Tax on Transmission "*Causa Mortis*" and Donation (ITCMD). At the municipal level, three main taxes are collected: The Tax on Service of Any Nature, (Brazilian acronym, ISS), the Tax on Urban Property and Land (IPTU)and the Tax on the Inter-Real Transmission of Goods and Real Estate and related rights (ITBI), in addition to fees and contributions.

There has been a debate on an overall fiscal reform within the Brazilian National Congress for years. One of the proposals is the implementation of a pure tax on consumption, which would mean not burdening exports and investments and could be distributed according to the so-called destination principle. A similar reform was implemented regarding the Tax on Service collected by Municipalities, but is currently interrupted by a preliminary injunction of the Federal Supreme Court.

GRANTS AND SUBSIDIES. Grants and subsidies can be divided into two main types: compulsory transfers and voluntary transfers. The 1988 Federal Constitution implemented major reforms with a tax assignment clearly defined in its text along with a formula-based granting system. Accordingly, most grants are shared according to non-discretionary constitutional rules. In FY 2017, for instance, 94% of the grants received by the states were compulsory, and only 6% were discretionary voluntary transfers.

Voluntary transfers are the financial resources passed on by the Union to the States, Federal District and Municipalities as a result of the conclusion of agreements, adjustments or other similar instruments whose purpose is to carry out works and / or services of common interest. Such transfers also take the form of cooperation aid or financial assistance which does not derive from legal or constitutional mandates nor from those destined to the Unified Health System.

Compulsory transfers are determined by the Constitution. Theses Constitutional Financing Funds constitute the portion of the federal revenues collected by the Union and passed on to the States, the Federal District and the Municipalities. The apportionment of income from tax collection among the federated entities represents a fundamental mechanism to alleviate regional inequalities, in the search to promote the socioeconomic balance between States and Municipalities. Among the main transfers of the Union to the States, the Federal District and the Municipalities provided for in the Constitution are: The Participation Fund of the States and the Federal District (FPE); the Municipal Participation Fund (FPM); the Export Compensation Fund for Industrialized Products (FPEX); the Fund for the Maintenance and Development of Basic Education and the Appreciation of Education Professionals (Fundeb); and the Tax on Rural Territorial Property (ITR). In 2016, these transfers accounted for more than three quarters of the municipal budgets in 82% of cases. In the period from 2013 to 2016, intergovernmental transfers to municipalities grew by 16%.

BRAZIL

FEDERAL COUNTRY

Three Regional Financing Funds are provided for in the Constitution (article 159) which states that 3% of the inflow of income taxes (IR) and tax on industrialized goods (IPI) are intended to support the private sectors of the North, Northeast and Midwest (including municipalities of the state of Minas Gerais and Santa Catarina) administrative regions. The administration of the funds is under the Ministry of National Integration while operations are managed by Regional Deliberative Councils of Superintendence and Regional Banks.

OTHER REVENUES. In FY 2016, tariffs and fees corresponded to 1.4% of subnational revenues, making up 1.6% of states' and 1.2% of municipal budgets, respectively. Fees may be created by the three spheres of government. At the municipal level, the most important fees comprise license fees, charges related to public lighting and cleaning fees. In 2016, states also received royalties coming from the exploitation of natural resources (oil – including pre-salt-, gas, minerals and water). In addition, both states and municipalities received return on investment, rents and dividends paid on public properties and state-controlled companies.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.			% GDP			% GENERAL GOVERNMENT DEBT			% SNG DEBT		
	SNG	State	Local	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total outstanding debt	**1 884**	1 722	163	**12.5%**	11.4%	1.1%	**17.8%**	16.3%	1.5%	**100%**	91,4%	8,6%
Financial debt*	1 884	1 722	163	12.5%	11.4%	1.1%	17.8%	16.3%	1.5%	100%	91,4%	8,6%

* Currency and deposits, loans and bonds

FISCAL RULES. The Federal Constitution of 1988 establishes a fiscal "golden rule", prohibiting funding current expenditures with borrowed resources. After several defaults by subnational governments and debt renegotiations through the 80's and 90's, the federal government created a system of debt control in which, on the one hand, SNGs have to commit to a Fiscal Adjustment Program (FAP) in the return for the bailout. On the other hand, a Fiscal Responsibility Law was enacted in 2000, in order to prevent states and municipalities from running excessive budget deficits that could threaten macro-economic stability. It introduced debt and personnel spending constraints at the state level. In 2017, the FAP was reformulated so that its goals and regulations match those of the Fiscal Responsibility Law.

DEBT. The Fiscal Responsibility Law sets nonbinding ceilings for state and municipal debt. Binding constraints regarding SNGs' borrowing were agreed individually with the federal government during the 1996-97 debt restructuring process. Until 2009, SNGs could only borrow under the FAP rules, which were made more flexible by discretionary authorizations from the federal treasury for certain states. In 2012 the federal government loosened the rating requirements for loans to SNGs. Consequently, subnational borrowing levels increased between 2009 and 2017, reaching approximately 10% of GDP for states and 1% for municipalities, although individual SNGs' debt to revenues ratios vary greatly. States make the bulk of SNG total debt, accounting for 91% of total debt stock. 23 out of 27 states are part of the FAP, which implies they negotiate their fiscal objectives annually.

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Lead responsible: UCLG
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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO // Brazilian Institute of Geography and Statistics (IBGE) // Institute of Apply Economy Research (IPEA).
Fiscal data: Secretary of the National Treasury // Central Bank of Brazil.
Other sources of information: Ana Luisa Fernandes and Priscilla Santana (2018) Reforms of fiscal relations in Brazil: Main issues, challenges, and reforms (draft) at 14th Annual Meeting of the Network on Fiscal Relations Across Levels of Government // Confederação Nacional de Municípios (2017) Desenvolvimento Rural Local. Coletânea Gestão Pública Municipal, vol. 1 Finanças Municipais, gestão 2017-2020 // Ter-Minassian, T., and L. de Mello (2016) Intergovernmental Fiscal Cooperation: International Experiences and Possible Lessons for Brazil, Inter-American Development Bank // OECD (2013) Territorial reviews: Brazil 2013 // Celso Santos Carvalho and Anaclaudia Rossbach (org.) (2010) The City Statute: A commentary - Cities Alliance and Ministry of Cities //

CHILE

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: CHILEAN PESO (CLP)

POPULATION AND GEOGRAPHY

Area: 756 096 km²
Population: 18.522 million inhabitants (2017), an increase of 0.89% per year (2010-15)
Density: 24 inhabitants / km²
Urban population: 74.5% of national population
Urban population growth: 0.9% (2017 vs 2016)
Capital city: Santiago (36.1% of national population)

ECONOMIC DATA

GDP: 444.8 billion (current PPP international dollars), i.e. 24 635 dollars per inhabitant (2017)
Real GDP growth: 1.5% (2017 vs 2016)
Unemployment rate: 7% (2017)
Foreign direct investment, net inflows (FDI): 6 419 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 21.6% of GDP (2017)
HDI: 0.843 (very high), rank 44 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Chile is a representative democratic republic. The President of Chile is at the same time head of state and head of government. Legislative power is vested in both the government and the bicameral National Congress (*Congreso Nacional*), which consists of the Senate (*Senado*, upper house) and the Chamber of Deputies (*Cámara de Diputados*, lower house). Following an election reform in 2015, which replaced the binomial system with a more proportional one, the Chamber of Deputies grew in size to 155 members from the previous 120, while the Senate increased its membership from 38 to 43, and will grow to 50 in 2021.

The 1980 Constitution has been reformed several times since the restoration of democracy in the country in 1990, evolving towards increasing decentralisation. The Constitution defines the Republic of Chile as a unitary, democratic and presidential state whose administration is functionally and territorially decentralised and deconcentrated (article 3 of the Constitution).

In 1992, two organic constitutional laws were adopted, one creating a “mixed” regional government system (both deconcentrated and decentralised) with their own legal status and assets and another law on municipalities reinstating municipal elections at universal suffrage of mayors and municipal councillors and restoring municipal autonomy. In 1999, a new constitutional law extended municipal powers and responsibilities in the field of economic development, environment, planning, equal opportunities, etc. The Chilean government has made decentralisation a priority since the late 2000s and in 2009, there was a new push towards a decentralisation agenda. In fact, regional councillors have been elected directly by citizens since a constitutional reform went into effect. The reform also created a democratically-elected body to manage regional development. The first direct elections took place in 2013 and regional councillors took office on March 2014. The 2014-2018 presidential programme set up a Presidential Advisory Commission for Decentralisation and Regional Development and defined a Decentralisation Agenda. However, its implementation has remained partial. In 2017, a law transforming the “mixed” regional system into a full self-government system was adopted, establishing the direct election of the regional executive (governors) by popular vote every four years. In 2018, a law transferring responsibilities from the national government to the new self-governing regions was adopted. A law reforming the funding system should follow.

Today, communes are governed by a mayor and a municipal council, elected directly for a renewable period of four years. At the regional level, the regional government is still led by the regional intendant, appointed by the President of the Republic. However, elections are to be held for the first time ever IN 2020 to elect regional governors. The deliberative power is in the hands of a regional council, whose members (from 14 to 34 depending on the population) have been directly elected, every four years, since 2014.

Several ministers deal with subnational governments. In particular, the Sub-secretariat for Regional and Administrative Development (SUBDERE) of the Ministry of Interior and Public Security has a special role to collect, process and disseminate information related to municipal financial management, personnel administration and service provision, through the *Sistema Nacional de Información* Municipal (SINIM). Ministerial Regional Secretaries (SEREMIS) are deconcentrated entities making up the regional cabinet. National public agencies have also developed links with subnational government, such as the Chilean Economic Development Agency (*Corporacion de Fomento de la Producción* - CORFO). Policy design and implementation are still largely defined from the centre by sectoral ministries and public agencies in a top-down process, and the fragmentation of territorial policies across those various ministries and agencies calls for a more integrated and co-ordinated approach. A relevant step towards this integration has been introduced by the Law No. 21.074 in 2018, which created the Interministerial Commission for City, Housing and Territory, gathering twelve sectoral ministries for cross-cutting coordination on territorial policies and issues.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	345 municipalities *(comunas)*		16 regions *(regiones)*	
	Average municipal size: 53 688 inhabitants			
	345		16	361

OVERALL DESCRIPTION. Chile is a unitary country with a two-tier system of subnational government. The subnational organisation is defined in Chapter XIV of the 1980 Constitution, entitled “Government and Interior State Administration”. Article 110 provides that the territory of the Republic shall be divided into regions, provinces and comunas (managed by municipalities).

MUNICIPAL LEVEL. The 1992 Organic Law of Municipalities (Law no. 18.695) established municipal autonomy. Whereas Chilean municipalities have limited powers and resources, a municipal reform has been in effect since 2013 with the aim of transferring new powers to the 345 municipalities. It provides them with the tools, capacities, financial resources and legitimacy to improve their autonomy and performance. In this sense, law no. 20.922 (Plantas Law), passed in May 2016, gave more freedom and flexibility to the mayor to manage municipal staff according to municipal needs in terms of workforce and qualifications. Municipalities are large compared to the OECD average (9 700 inhabitants). However, Chile is not the only Latin America with big municipalities. Elsewhere in the region, municipalities tend to be quite large, ranging from around 18 500 inhabitants in Peru to 75 000 inhabitants in Ecuador. Regarding the number of municipalities by population size category, Chile also ranks high among OECD countries for having very few small municipalities, i.e. fewer than 2 000 inhabitants (5% vs 28% in the OECD). By contrast, 48% of Chilean municipalities have more than 20 000 inhabitants, which is significantly higher than the OECD average of 30%.

REGIONAL LEVEL. Administrative regions were created in 1974 based on 25 provinces: 12 regions were designed originally, with the addition of the Metropolitan Region of Santiago in 1976; in 2007, two new regions were created from the division of other regions, and the last region, Nuble, was created in September 2018. Administrative regions became self-governing entities with the introduction of law no. 20.990 of January 2017, and the first regional elections are to take place in 2020. Prior to the reform, regions were mixed entities with a regional executive (the intendant - *Intendente*) who had previously been appointed by the President of the Republic, and a regional council (*consejo regional* or CORE) chaired by the regional governor. Chile is also divided into 54 provinces for administrative purposes. Regions range from 111 200 inhabitants in the Aysén, Region to 7.565 million inhabitants in the Metropolitan Region of Santiago, while the average regional demographic size is around 1.240 million inhabitants. Chile has among the highest levels of territorial disparities in the OECD, with a concentration of high-value economic activities in few regions due to the importance of mining-intensive activities. Between 2000 and 2013, 69% of GDP growth and most labour productivity growth were generated in Santiago.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

According to law no. 18.695 (LOCMUN), municipalities have many statutory competences, both exclusive functions (6) and non-exclusive responsibilities (in 13 areas), which are uniform across all municipalities. New tasks are regularly given to municipalities in various areas; however, service delivery is mainly carried out by deconcentrated state territorial entities, state-managed private concessions, and partially by subnational governments. This complex system of shared responsibilities is raising growing concerns and calls for restructuring. In November 2017, the New Public Education Law (*Ley de Nueva Educación Pública*) recentralised the administration and management of public schools, transferring the competences from municipalities to the Ministry of Education, through a network of 70 Local Education Services (*Servicios Locales de Educacion*), to be implemented completely by 2030. Regional government responsibilities, defined in the Organic Constitutional Law No. 19.175 on Government and Regional Administration, remain limited. They include approving the regional development plan and regional investments funded by the National Fund for Regional Development, social and cultural development, and the promotion of productive activities. With the adoption of the Law No. 21.074 in 2018, functions of the regional governments are extended in areas related to territorial planning, promotion of economic development, and social and cultural development and infrastructure and housing. This transfer of responsibilities should be completed by 2020. This Law also enables regional governments to ask for further competences to be transferred to them. This Law also gives the possibility for the transfer of further competences from the central level to regional governments, during an experimental period between 2018 and 2022.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONAL LEVEL	MUNICIPAL LEVEL
1. General public services	Internal administration; Municipal advice	Internal administration
2. Public order and safety		Citizen safety (shared)
3. Economic affairs/transports	Regional development; Rural roads; Land management	Local development; Tourism; Local transport regulation; Traffic regulations (shared); Economic development
4. Environmental protection		
5. Housing and community amenities	Regional Planning; Inter-municipal plan (shared)	Municipal zoning plan; Urbanism and construction; Social housing (shared)
6. Health		Basic public health; Hygiene services; Sanitary infrastructure (shared)
7. Recreation, culture & religion	Social and cultural development	Culture (shared)
8. Education		Primary and secondary education (shared)
9. Social protection		

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: municipalities. The local finance data available for Chile does not yet include regions, as they are still mixed entities (half devolved and half elected) with no autonomous budget (as of 2016).	SNA 2008	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. Chilean SNGs are constrained in terms of staff resources and public services management. Policy design and implementation are still largely defined by the centre in a top-down process. Chilean municipalities have been constrained by the structural mismatch between their spending obligations and the amounts of revenue allocated to them, and therefore have developed relatively high levels of floating and temporary pension debt, which should be addressed for ensuring financial sustainability in the long term. Since 2008, there have been efforts to implement information systems and reduce the technology gap at the municipal level, and auditing of municipal accounts was performed by the Comptroller General's Office. SUBDERE is the national body responsible for promoting regional and local development, including the administration of funds such as the FNDR (*Fondo Nacional de Desarrollo Regional* - National Fund for Regional Development) and FCM (*Fondo Común Municipal* - Municipal Common Fund).

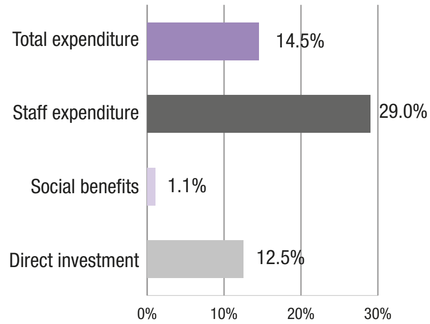
CHILE

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**846**	**3.7%**	**100%**
Inc. current expenditure	776	3.4%	91.6%
Staff expenditure	441	1.9%	52.1%
Intermediate consumption	221	1.0%	26.1%
Social expenditure	12	0.1%	1.4%
Subsidies and current transfers	102	0.4%	12.0%
Financial charges	0	0.0%	0.0%
Others	0	0.0%	0.0%
Incl. capital expenditure	71	0.3%	8.4%
Capital transfers	2	0.0%	0.2%
Direct investment (or GFCF)	69	0.3%	8.1%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. Chile ranks among OECD countries in which the weight of SNG spending in GDP and public expenditure is the lowest (alongside Greece and Ireland). Chilean local government expenditure represents 3.7% of GDP and 14.5% of total public expenditure in 2016, compared to OECD average of respectively 16% and 40%. Over half of expenditure is dedicated to staff expenditure, mainly in the education and health sectors, which increased since 2010.

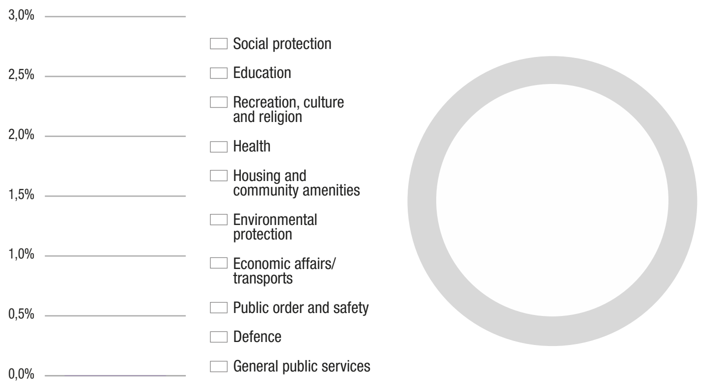
DIRECT INVESTMENT. The share of capital expenditure fell from 45% in 1990 to 8.4% in 2016, and direct investment is very limited, in SNG expenditure, GDP as well as total public investment Chile ranks last in the OECD as regards SNG involvement in public investment. SNG investment accounted for 0.3% of GDP and 12.5% of public investment, versus respectively 1.7% and 56.9% on average in the OECD. Investment accounted for 9.9% of SNG expenditure in the municipal sector, 3.2% in education and 1.6% in the health sector. This low level of local public investment, despite huge local needs, emphasises the extent to which public action is centralised, and the difficulties for municipalities to generate self-financing for investments.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Municipal budgets are structured in three main sectors: municipal services, education and health. The municipal sector (which encompasses internal management, municipal activities, community services, social programmes, recreational programmes and cultural programmes), accounted for 51% of the budget of communes, followed by education (32%) and healthcare (17%).

Spending related to education and basic public services are for the main part dedicated to staff expenditure. In those sectors, subsidies from the central government are often insufficient to cover the needs of many rural municipalities, which therefore have to supplement with their own local resources.

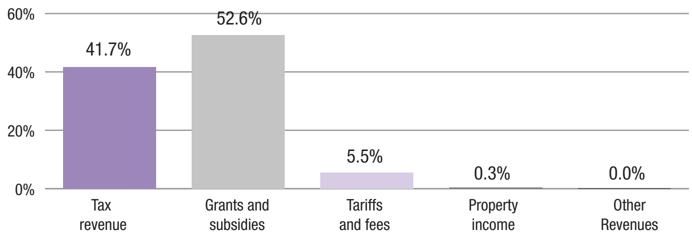
% GDP | % SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**861**	**3.7%**	**16.5%**
Tax revenue	359	1.6%	8.2%
Grants and subsidies	453	2.0%	
Tariffs and fees	47	0.2%	
Property income	2	0.0%	
Other revenues	0	0.0%	

% SNG REVENUE



OVERALL DESCRIPTION. Chilean municipalities receive revenues from grants from the central government, own-tax revenues and, to a lesser extent, tariffs and fees. Grants and subsidies represent a significant (and growing) share of subnational revenues (52.6%, compared to the OECD average of 37.2% in 2016), which reflects the high level of dependency of municipalities vis-a-vis the central government. Most of those grants are earmarked transfers to fund specific sectors. Local tax revenue are the second source of SNG revenue, accounting for 41.7% of SNG revenue, yet they represent a very small share of the GDP, well below the OECD average (1.6% vs 7.1% in 2016), and provide limited own-source revenue to municipalities.

TAX REVENUE. Although tax revenue represents a significant share of SNG revenue in Chile, it is significantly lower than the OECD average both in terms of share of GDP and general government tax revenue (respectively 1.6% and 8.2% versus 7.1% and 31.9% in 2016). Municipalities are only allowed to receive tax revenue, but this situation could change with the new system of regional financing based on own-source revenues. The most important tax is the property tax called the "territorial tax" (43.6% of municipal tax revenue in 2016 and 18.2% of SNG revenue), applicable at a fixed rate of the fiscal value of rural and urban land and buildings. It is more like a national tax – allocated to municipalities based on a distribution mechanism using the territorial distribution of the net value (after exemptions) of property wealth – rather than a genuine, local own-source tax. A significant share of the resource is re-distributed, via the FCM, in the name of redistributive principles. Municipalities cannot set the rate and the territorial tax includes a long and extremely precise list of total or partial exonerations that are provided by the central government and which substantially erode its effectiveness. In 2014, nearly two-thirds of all properties benefited from an exemption, 80% of which were agricultural properties. In 2019, it represented 0.7% of GDP to be compared with 1.1% in the OECD on average.

Other significant municipal taxes are business licences (26.2% of municipal tax revenue and 10.9% of municipal revenue) paid on commercial activities undertaken in the municipal area, and the motor vehicle tax (16.4% of municipal tax revenue and 6.8% of municipal revenue). Municipalities collect the business and vehicle tax, but the central government collects the property tax (municipalities remain responsible for assessing property value). The business tax is the only tax for which municipalities may vary the rate within a given range (from 2.5% to 5%).

GRANTS AND SUBSIDIES. In 1979, Chile implemented a large horizontal equalisation scheme, the Municipal Common Fund (FCM). The FCM's resources come from automatic contributions from municipalities via the transfer of a portion of their tax revenues (i.e. territorial tax, municipal business licenses, vehicle registration tax, and the tax on vehicle transfer and revenues from fines). Municipalities are net contributors when contributions are higher than the allocations they receive or are net receivers when allocations outweigh contributions. The FCM's mission is unequivocal: decrease inter-municipal inequalities and provide additional resources to municipalities with the lowest tax revenues so they can fulfil their basic competences. Funds are distributed to beneficiaries according to a formula based on criteria such as the population, property exemptions, poverty and local revenue. This mechanism has become a crucial part of how municipal budgets are financed, and redistributes revenue among municipalities on a massive scale – accounting for 29% of total municipal sector revenue and over 42% of their permanent own resources. The architecture of the fund is implicitly based on the two pillars underlying territorial inequalities, i.e. disparities in terms of charges (needs) and in terms of resources. The first category represents 35% of FCM funds and the second 65%. This implies that, in Chile, 35% of inter-municipal inequalities result from greater needs (because of higher costs for a given service) and the remaining 65% result from limited resources (due to weaker per capita tax bases). The FCM has been reformed several times but it is still subject to criticism, due to its lack of transparency, complexity and its counterproductive and disincentive effects (fundamentally encouraging "fiscal laziness" and increasing dependency). Today, the mechanism needs to be strengthened and renewed in order to combine solidarity and equity principles and economic efficiency.

Transfers to municipalities also include vertical transfers from the central government, composed mostly of earmarked transfers for health and education expenditure (delegated functions), and access to specific funds for social and investment programmes. These are expected to decrease in the coming years due to the reform recentralising education. Transfers to regions also include capital transfers from the National Fund for Regional Development (Fondo Nacional de Desarrollo Regional, FNDR), which aims at financing municipal investment approved by the region, but it remains scarce and lacks flexibility.

OTHER REVENUES. Because of regulatory limitations, Chilean municipalities rarely charge, directly or indirectly, for public services. When they do, contributions from users tend to be modest. Very few municipalities receive revenues from concessions since concession holders frequently operate in their territory but have a contract with the central government (e.g. ports, roads, mining, etc.). Likewise, revenues derived from property income are limited. The top ten municipalities account for more than half of revenue generated from their properties.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. The Constitutional Organic Law for municipalities states that municipal councils should not approve unbalanced budgets. However, the rule does not explicitly refer to the need to have a balanced budget at the end of the budget year (on an accrual basis). OECD recommendations to the Chilean government in this regard include the need to enhance the current budget balance rule, including clear-cut escape clauses in the case of exceptional circumstances, as well as an alert system to monitor unpaid balances and detect municipalities at high risk of non-compliance.

DEBT. SNG borrowing is prohibited in Chile 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 within limits, and others must apply to Congress for the ability to do so. Besides, SNGs hold a non-financial debt through their debt to suppliers (commercial debt), arrears and leasing contracts, or temporary pension debts. Monitoring of municipal arrears in Chile has improved; yet, according to SUBDERE, this floating debt accounts for around 1% of municipal revenues, and is concentrated in 80 municipalities.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: OECD
Last update: 02/ 2019

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Socio-economic indicators: OECD // World Bank // UNDP // UN Desa // ILO // Instituto Nacional de Estadísticas Compendio Estadístico, Instituto Nacional de Estadísticas 2018 (INE).
Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database), IMF-GFS.
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COLOMBIA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME   LOCAL CURRENCY: COLOMBIAN PESO (COP)

POPULATION AND GEOGRAPHY

Area: 1 141 748 km^2
Population: 49.292 million inhabitants (2017), an increase of 1.0% per year (2010-2015)
Density: 43 inhabitants / km^2
Urban population: 80.4% of national population
Urban population growth: 1.3 % (2017 vs 2016)
Capital city: Bogotá D.C. (21.5% of national population)

ECONOMIC DATA

GDP: 710.1 billion (current PPP international dollars), i.e. 14 406 dollars per inhabitant (2017)
Real GDP growth: 1.8% (2017 vs 2016)
Unemployment rate: 8.9% (2017)
Foreign direct investment, net inflows (FDI): 14 013 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 21.2% of GDP (2017)
HDI: 0.747 (high), rank 90

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Colombia is a presidential republic. The President is elected for four-year mandates as both Head of State and Head of Government. Colombia has a bicameral congress: the upper chamber, the Senate, has 102 members elected by the entire country; the lower chamber, the House of Representatives, comprises 172 representatives elected by territorial constituencies (*circunscripciones territoriales*) and three special constituencies. Territorial constituencies are formed by all departments and the capital district of Bogotá D.C. The special constituencies represent indigenous communities, Afro-Colombian communities and Colombian citizens living abroad. For the current legislative term (2014-2018), 161 of the House's 166 members are elected in territorial constituencies. Members of both houses are elected by popular vote for four-year terms. Local interests are strongly represented in the legislative power.

Colombia has experienced rapid changes linked to decentralisation reforms over the past three decades. The decentralisation process started in 1986 with Law No. 1 on the election of mayors by universal suffrage, and was strengthened by the 1991 Constitution, which defined the country as a unitary and decentralised republic and granted the principle of self-governance and autonomy to the SNGs. Despite a trend towards recentralisation between 2002 and 2010 through reforms related to the intergovernmental transfers, the National Royalties System (SGR) and the Land Planning and Management Law (LOOT Law) have made significant efforts to restore decentralisation since 2010. The 2011 LOOT Law in particular described the forms of possible territorial cooperation enabling land use, planning and territorial development across the country, and strengthened the national government's ability to coordinate decentralisation policies throughout the country. The Peace Agreement signed in 2016 seemingly reaffirmed the country's commitment to and interest in decentralisation.

Colombia has a two-tier local government structure enshrined in the 1991 Constitution, composed of departments and municipalities. In its fundamental principles, Article 1 states that "Colombia is a social state under the rule of law, organised in the form of a unitary republic, decentralised, with autonomy of its territorial units, democratic, participatory, and pluralistic, based on the respect of human dignity, the work and solidarity of the individuals who belong to it, and the prevalence of the general interest". A full chapter (title XI from article 285 to article 331) is dedicated to the "territorial organisation".

At both departmental and municipal levels of governments, the executive power is vested in the hand of governors and mayors, elected for single four-year terms by popular vote. Each department also has a departmental assembly (*asamblea departamental*), with members elected by universal suffrage, one for every 40 000 inhabitants, and each municipality has a municipal council, elected using the same electoral system that is used for departmental assemblies. The Capital District of Bogota is administered by a directly-elected Superior Mayor (*Alcalde mayor*) and a 45-member municipal council.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	1 101 municipalities (municipios)		32 departments *(departamentos)* and Capital District of Bogota	
	Average municipal size: 44 770 inhabitants			
	1 102		**33**	**1134**

OVERALL DESCRIPTION. Colombia has a two-tier local government structure, including at regional level, 32 departments (*departamentos*) and the Capital District of Bogota and 1 102 municipalities (*municipios*) at lower level.

REGIONAL LEVEL. The regional level is made up of 32 departments and of the Capital District of Bogota, which has a special constitutional status giving it the powers of both municipalities and departments. Departments are very diverse in terms of population size and area, ranging from 33 150 inhabitants (Vaupès in Colombian Amazon) to 5,750 million inhabitants in Antioquia and 8,255 million inhabitants in the Capital Distict of Bogotan while the average size amounted 1,223 million inhabitants (excluding the Capital District of Bogota). Departments have the power to establish municipal districts and to review the acts of the municipal governments to determine their constitutionality. Bogotá is subdivided into 20 localities (*localidades*) each with their own local administrative board of at least seven members and a local mayor appointed by the superior mayor from a list submitted by the local administrative board or JAL (*Junta Administrativa Locale*). Acute disparities across regions and urban areas persist despite the significant resources Colombia invests to promote regional development, in particular regarding access to infrastructure.

MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION. Among the 1 102 municipalities, seven 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. Bogota is the most populated city in the country, whereas the municipality of Jordan is the least populated, with 54 persons. Municipalities are large on average, especially compared to the OECD average in 2017 (9 700 inhabitants). Municipalities may be further subdivided into sub-districts known as *comunas* (within urban areas) and *corregimientos municipales* (in rural areas), which are administered by a JAL.

Colombia has a system to classify municipalities (and departments) which is considered as an important administrative tool for the central government to organise differentiated policies. Municipalities are classified into seven groups is based on their population and revenue base. 88% of municipalities are currently in the lowest category (class six) but 50% of the population lives in municipalities that are classified in the two highest classes (largest municipalities).

The Colombian government has provided a new legal basis for inter-municipal cooperation with the 2011 LOOT Law. However, in 2016 there were only 11 co-operative structures at the municipal level that had directly followed the LOOT. Another 14 arrangements were waiting to be accepted. In addition, law no. 1625 – passed in 2013 – set up six metropolitan areas that are legislated territorial jurisdictions (*Áreas Metropolitanas*). They have more administrative and fiscal autonomy than other urban regions and they can manage jointly some services of area-wide importance (e.g. transport).

INDIGENOUS TERRITORIES. The 1991 Constitution recognised Colombia as a multi-ethnic nation, giving indigenous territories (*resguardos*) a special status. There are currently 811 indigenous territories in Colombia, with an estimated population of around 1.5 million (3.4% of the national population). The land area covered by indigenous territories is nearly 30% and in some departments about 70%. A landmark decision in the autonomy of indigenous regions was the Decree 1953 of 2014. It enlarged the autonomy of the indigenous territories, allowing them manage directly the specific allocation of resources. In addition, while approximately 38% of the Colombian Amazon did not have a formally recognised local government, the Decreed 632 of April 2018 further strengthened the autonomy of indigenous peoples of Guainía, Vaupés and Amazonas, which are departments of Colombia's Amazon region.

The Constitution also sets the framework for the creation of administrative or planning regions that can result from the merger of several departments.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The 1991 Political Constitution and the laws No. 60 of 1993 and No. 115 of 1994 delineated the distribution of SNGs' competences related to public service delivery, social services, and public amenities among departments and Bogota (Laws 715/2001 and 1176/2007), and the municipalities and districts (Law 136/1994). In 2011, the LOOT contributed to clarify the rules for decentralisation by providing details about the division of responsibility between the central government and territorial entities. Yet the distribution of competencies across levels of government remains 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 coordination and intermediation with the municipalities. Municipalities 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), for which the central government determines universal coverage targets and quality standards. Only when a territorial administration reaches these targets and standards is it entitled to use the surplus resources in other areas of its own competence.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	DEPARTMENTS	MUNICIPALITIES
1. General public services	Passport issuance	Civil registers; Building permits; Management of municipal property and enterprises
2. Public order and safety	Risk and disaster management	
3. Economic affairs/transports	Rural development; Regional policies; Regional territorial planning; Traffic management	Promotion of social, economic and environmental development
4. Environmental protection	Environmental protection	Solid waste management; Sanitation
5. Housing and community amenities	Coordination and co-financing of water schemes	Territorial planning; Local infrastructure; Water supply; Housing
6. Health	Public health; Services for the uninsured poor population; Operation of the hospital network	Public health; Administration of the subsidised scheme; Services for the uninsured poor population
7. Recreation, culture & religion		Sport; Culture; Leisure
8. Education	Management of teacher and administrative personnel in basic and primary education	Early, primary and secondary education; Construction and upkeep of buildings; Canteens and extra-curricular activities; Payment of salaries
9. Social protection		

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: at the regional level: departments, universities, state government mixed funds and departments' institutes at the regional level; at the local level: municipalities (including Bogota, municipal foundations, municipal corporations, municipal centres, local government funds and local government associations.	SNA 2008	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. The 1991 Political Constitution and the laws No. 60 of 1993 and No. 115 of 1994 set the framework for fiscal decentralisation in the country and ruled on the distribution of resources among departments and municipalities. Regulations may be issued by Departments through ordinances (*ordenanzas*) and by municipalities through agreements (*acuerdos*). Colombia is one of the most decentralised unitary countries in Latin America, and SNGs have significant resources and spending responsibilities, yet fiscal decentralisation is vertically imbalanced, as SNGs have wide-ranging competences compared to limited fiscal autonomy, tending more towards a system of devolution rather than a decentralised one. Equalisation systems were introduced in 2011-2011 through the reform of the General System of Royalties (SGR) by introducing a sharing system across Departments.

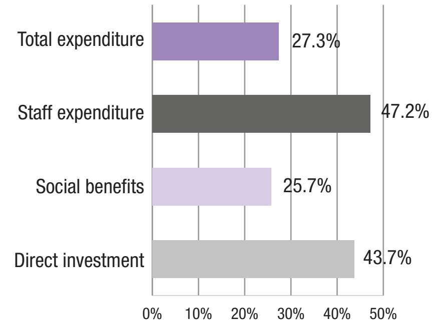
COLOMBIA

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**1 815**	**12.9%**	**100%**
Inc. current expenditure	1 589	11.3%	87.5%
Staff expenditure	560	4.0%	30.9%
Intermediate consumption	308	2.2%	17.0%
Social expenditure	471	3.4%	26.0%
Subsidies and current transfers	161	1.2%	8.9%
Financial charges	71	0.5%	3.9%
Others	16	0.1%	0.9%
Incl. capital expenditure	226	1.6%	12.5%
Capital transfers	0	0.0%	0.0%
Direct investment (or GFCF)	226	1.6%	12.5%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



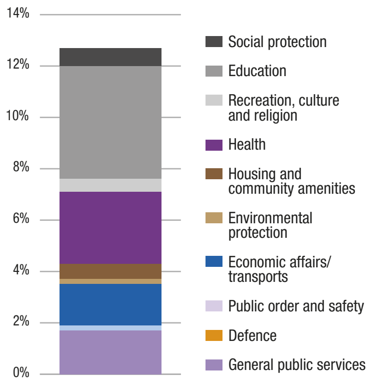
EXPENDITURE. SNG expenditure in Colombia is below the OECD average as both a share of GDP and share of public expenditure (respectively 16.2% and 40.4% in the OECD). Municipalities represent around two-thirds of expenditure against one-third for departments. Current expenditures represent around 88% of SNG total expenditure, as they include the payment of teachers and health staff, over which SNGs have no control. SNG spending autonomy is limited by the fact that SNGs have limited revenue sources. SNG may be considered "spending agents" on behalf of the central government, as most expenses are earmarked to three areas: education, health and water, and sanitation. Law 617 of 2000, modified by Law 1551 of 2012, defined seven categories of municipalities and five categories of departments to determine appropriate ceilings for current expenditures, according to demographic size and current own revenues. More financially autonomous SNGs have stricter current expenditures ceiling than smaller ones. On the other hand, capital expenditures are financed through limited tax revenue and royalties, which are volatile, based on international oil prices.

DIRECT INVESTMENT. SNGs accounted for 43.7% of general government direct investment in 2016, a significant figure that is still below the OECD average of (56.9% in 2016). Still, the role of SNGs in public investment has increased since the decentralisation reforms. SNGs invest, in particular, in local infrastructure projects such as schools, hospitals and local roads. Yet the infrastructure gap remains significant in Colombia, which affects access to transport infrastructure, education and housing, especially in rural communities. The 2014-2018 National Development Plan, and the local territorial plans for 2016-2019, enhanced the territorial approach to close these gaps. Additionally, investment financed via transfers from the central government has decreased since the 2000, whereas the royalties reform (SGR) in 2012 increased available resources to SNGs for investment. From 2012 to 2015, royalties financed around 10 000 approved projects amounting to around COP 21.2 trillion. Investment projects to be financed by the SGR system have to be approved by a collegiate body made up of public authorities and experts. In order to improve coordination of investments among different levels of government, Colombia has launched a model of "*Contratos Plans*" in 2011. These contracts are defined jointly by the national government, departments and municipalities to coordinate investment programmes in specific areas. The latest *Contrato Plans* have focused on supporting areas that have been affected by the conflict, and on areas with low economic, social and environmental circumstances.

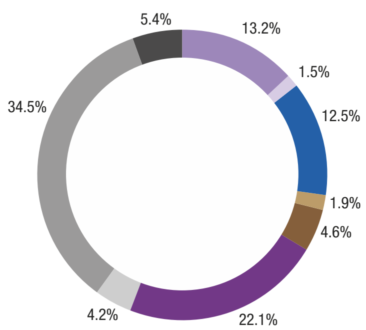
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

SNGs play a key role as public service providers, however most expenditures are earmarked by the central government. Education is the biggest budget item, accounting for 32.7% of SNG budget in 2016, as SNGs are responsible for almost half of total public spending in this sector. Indeed, SNGs are responsible for the management of educational services of pre-school, basic primary and secondary school and high schools. Departments are responsible for paying and training teachers, while municipalities are responsible for the construction and maintenance of school buildings. The number two budget item is health (20.6% of SNG budget and 33% of total public spending), for which they receive earmarked funding. Other important spending items are economic affairs and transport, general public services and housing and community amenities (water supply).

% GDP



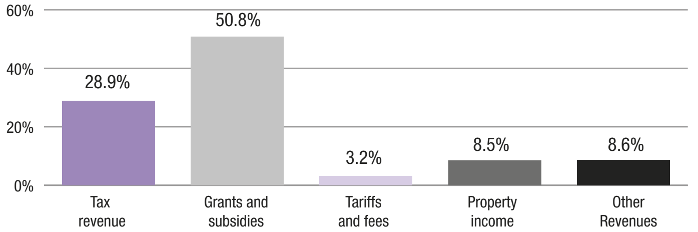
% SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**1 801**	**12.8%**	**30.2%**
Tax revenue	520	3.7%	21.2%
Grants and subsidies	914	6.5%	
Tariffs and fees	58	0.4%	
Property income	153	1.1%	
Other revenues	156	1.1%	

% SNG REVENUE



OVERALL DESCRIPTION. SNGs in Colombia depend heavily on intergovernmental transfers, which represented slightly more than half of their total revenue, above the OECD average (37.2% in 2016). Tax revenue accounted for less than 30% of SNG total revenue. Property income (including oil and mining royalties) is a significant source of revenue for SNGs.

TAX REVENUE. Tax revenues represent a limited share of GDP and of public tax revenue in Colombia, well below the OECD average (respectively 7.1% and 31.9% in 2016). SNGs have limited taxation autonomy and little room for manoeuvre over tax rates and bases. Several taxes are earmarked for specific use. Tax revenue represents around 29% of municipal revenues and around 20% of those of Departments. Departmental tax revenues include receipts from the excise taxes (beer, tobacco, liquor, i.e. 56% 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, 38% of municipal tax revenues), property tax (*Predial*, 34%) and a gasoline surtax (around 7%). Since 2016, Colombia has engaged in reforms to update and modernise its cadastral and land registries in order to improve the performance of the municipal property tax.On December 2016, a fiscal reform was approved by the Congress (Law No. 1819), which established limits for local taxes such as public lighting tax and cigarettes, and set up new rules to establish the territoriality of the ICA, created an online sales tax, among others.

GRANTS AND SUBSIDIES. The main central government transfer is the General Participation System (*Sistema General de Participaciones, SGP*). SGP funds are earmarked for the most part to current expenditures (labelled as “social investments” in Colombia), according to a formula based on a combination of population coverage, social equity and efficiency criteria. It benefits both departments (35% of the SGP) and municipalities (65% of the SGP). SGP links transfers with sectoral policies and aims to improve the decentralised provision of basic services throughout the country: education, health, and water supply and basic sanitation. Expenditure parameters have been defined for each of those three areas by the Organic Law 715 of 2001 on resources and competencies, modified by Law 1176 of 2007. Such a strict earmarking has a significant equalisation effect across jurisdictions; however, the allocation criteria has been criticised for not distinguishing between urban and rural areas, and for being too rigid. Other grants, coming from co-financing schemes and ministerial subsidies, are also earmarked and come with strings attached. For instance, the projects must fund specific sectors (e.g. road or urban infrastructure).

OTHER REVENUES. Tariffs and fees account for 3.2% of SNG revenue, a smaller percentage relative to the OECD average of 14.9%. The Constitution of 1991 defined the distribution of a property income resulting from the extraction of non-renewable resources, mainly coal and oil (royalties - collected by the central government) among Departments and municipalities.Until 2011, most royalties were directly allocated to resource-rich departments, whereas only 20% were transferred to the National Royalties Fund as a redistribution tool. A radical reform was introduced by the Law 1530/2012 that granted the reallocation of all royalties to all SNGs based on needs and population. The SGR fund is divided into six sub-funds, including two regional funds (Regional Development Fund and Regional Compensation Fund) and the Science, Technology and Innovation fund, which are all earmarked for investment projects only (50% of the SGR).

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**648**	**11.1%**	**15.0%**	**100%**
Financial debt*	96	1.6%	3.4%	14.8%

* Currency and deposits, loans and bonds

FISCAL RULES. The fiscal context of the 1990s at the subnational level required the central government to enact a set of fiscal discipline laws to address fiscal imbalances. In addition to rules applied to borrowing (cf. below), several laws were adopted to limit growth of current expenditure and establish a budgetary classification of the municipalities based on population and current incomes (Law 617/2000). In 2003, fiscal rules were again strengthened through a proper Law on Fiscal Transparency and Responsibility (Law 819/2003), which applies both to the national and SNGs, setting a budget balance rule and budget targets linked to debt and deficit ceilings at subnational levels.

DEBT. Borrowing is regulated by strict prudential rules, in particular the 1997 Traffic Light Law that classified SNGs according to liquidity and solvency indicators. In 2003, the law 819/2003 tightened borrowing restrictions. This required departments and large municipalities to obtain satisfactory credit ratings from international rating agencies before being able to borrow on the market. SNGs are allowed to take on debt if it is meant to finance capital expenditure (“golden rule”). SNG debt is below the OECD average (24.5% of GDP and 20.7% of public debt). The bulk of SNG debt is composed of insurance technical reserves (71%), whereas the financial debt and “other accounts payable” accounted for respectively 14.8% and 14.5% of total outstanding debt. Within financial debt, loans accounted for almost three-quarters of the debt stock while bonds represented a minor share (7%). In addition, debt is very concentrated in a few Departments and large municipalities.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: OECD
Last update: 02/ 2019

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Socio-economic indicators: OECD // World Bank // UNDP // UN Desa // ILO // DANE.
Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // IMF-GFS, Departamento Administrativo Nacional de Estadísticas.
Other sources of information: OECD (2019) Asymmetric decentralisation: Policy implications in Colombia // Bonet-Morón, J., Pérez-Valbuena, G. J., & Montero-Mestre, J. L. (2018) Las finanzas públicas territoriales en Colombia: dos décadas de cambio. Documentos de trabajo sobre economía regional y urbana // OECD (2017) OECD Economic Surveys: Colombia 2017// de la Maisonneuve, C. (2017) “Towards more inclusive growth in Colombia”, OECD Economics Department Working Papers // OECD (2016) Making the Most of Public Investment in Colombia: Working Effectively across Levels of Government // Sánchez, A. (2016) Revisión histórica del proceso de descentralización administrativa y sus restos en colombia, de 1985 a 2016. // Sánchez, P. A. (2014) Estructura de los ingresos territoriales en Colombia, Criterio Jurídico Garantista // OECD (2014) Territorial review of Colombia.

COSTA RICA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: COSTA RICA COLON (CRC)

POPULATION AND GEOGRAPHY

Area: 51 100 km^2
Population: 4.906 million inhabitants (2017), an increase of 1.1% per year (2010-2015)
Density: 96.0 inhabitants / km^2
Urban population: 78.5% of national population
Urban population growth: 2.1% (2017 vs 2016)
Capital city: San José (27.7% of national population)

ECONOMIC DATA

GDP: 84 billion (current PPP international dollars), i.e. 17 073 dollars per inhabitant (2017)
Real GDP growth: 3.3% (2017 vs 2016)
Unemployment rate: 8.1% (2017)
Foreign direct investment, net inflows (FDI): 2 856 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 17.1% of GDP (2017)
HDI: 0.794 (high), rank 63 (2017)
Poverty rate: 1.3% (2016)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Republic of Costa Rica is a unitary and democratic country with a presidential and representative regime. According to the 1949 Constitution, executive power is held by the President of the Republic elected by universal suffrage for a period of four years, with no direct re-election. The legislative branch consists of 57 national deputies elected in the provinces for a period of four years with no continuous re-election. Judicial power is exercised by the Supreme Court of Justice and its courts.

At subnational level, the territory is administratively divided into provinces, cantons and administrative districts. The seven provinces are deconcentrated units headed by a Governor appointed by central authorities. Municipalities are the only level of local self-government in the country (art 170 of the Constitution). Municipal governments (or cantons) are responsible for the administration of local interests and services in each canton. They are led by a mayor and a municipal council elected by universal suffrage every four years (Municipal Code, Law no 7794, 30 April 1998). Municipalities are divided into districts, which are administrative units with their own functional autonomy, attached to the respective municipality. The District Municipal Councils Law (Law no 8173, 7 December 2001) stipulates that each district council is made up of five councillors (síndicos) who are elected by popular vote for a four-year term.

As a result of reforms of the electoral chapter of the Municipal Code (in November 2007 and September 2009), from 2016 onwards, municipal elections at district and canton levels are unified and held two years after those of the Presidency and Vice-Presidencies of the Republic and members of the Legislative Assembly (art. 14 of the Municipal Code).

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	81 Municipalities *(Municipios - cantones)* + 1 municipality in creation for 2020			
	Average municipal size: 60 565 inhabitants			
	81			81

OVERALL DESCRIPTION. In accordance with the Political Constitution of 1949, the country is divided into seven provinces, which are subdivided into 81 municipalities and these, in turn, into 484 administrative districts (art.168).

DISTRICTS. Districts are administered by district councils responsible for managing local affairs as closely as possible to the people and contributing to the work of municipal councils at the cantonal level. There are as many district councils as there are districts in the corresponding canton. Each district is represented in the municipal council of the canton by a district councillor (*síndico titular*) with an advisory voice but without voting rights.

MUNICIPALITIES. Municipalities are headed by a mayor and a municipal council composed of councillors (*regidores*). The number of municipal councillors varies according to the population of the canton: the least populated municipalities have 5 councillors, and the cantons that comprise more than 8% of the total population have 13 councillors. Cantonal Institutional Coordination Councils (CCCI) were created by Act No. 8801 on the transfer of powers from the executive to the municipalities. CCCIs are responsible for policy coordination between the various cantonal public entities, and coordinate the development, implementation and supervision of local public policies. They are chaired by the mayor of each municipality. Municipalities are responsible for CCCIs' operating expenses.

At city level, the main cities are San José (339 581), Alajuela (302 074), Cartago (300 000), Desamparados (235 863), San Carlos (163,745) and Pérez Celedón (134 534). The 11 largest municipalities are home to 40% of the population.

In 1970, the national territory was divided into six planning regions for administrative purposes, namely the Central, Chorotega, Huetar Caribe, Huetar Norte and Central Pacific regions. Each is administered by a regional development council formed by representatives of the central government. According to Executive Decree 1068 of the Ministry of National Planning and Economic Policy, their role is to manage regional development and reduce inequality gaps.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Article 170 of the Constitution, Law no 8801 on transfer of competences and resources adopted in 2010 and the article 74 of the Municipal Code, provide that the following areas are the responsibility of sub-national governments: urban planning, treatment and adequate final disposal of ordinary waste, maintenance of parks and green areas, public lighting, street cleaning, land valuation, municipal police, libraries, sports and recreational facilities, and new municipal services to be established by law. The 2010 Law further states that the transfer of resources corresponding to transferred competences “shall be carried out gradually, at a rate of 1.5% of the ordinary revenue of the State budget according to special laws and cumulatively until completing at least 10%”. In 2015, Special Law No. 9329 transferred "full and exclusive responsibility for the cantonal road network" to the municipalities, the first of the corresponding new competences and resources to be transferred up to 10% of the State's budget.
Shared competencies include participation to national health programmes, environmental protection, management of social subventions, public order and local economic development.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPAL LEVEL
1. General public services	Buildings and public facilities
2. Public order and safety	Security, surveillance and monitoring, through the municipal police
3. Economic affairs/transports	Maintenance of cantonal roads; Construction and maintenance of public parks; Regulatory plan to organize the development of the canton; Local tourism
4. Environmental protection	Maintenance of municipal forest areas, parks and green spaces; Management and disposal of waste; Cleaning of public roads
5. Housing and community amenities	Municipal aqueducts (drinking water); Public lighting; Urban and land use planning
6. Health	
7. Recreation, culture & religion	Cantonal Committees for sports and recreation; Cultural centre; Municipal libraries
8. Education	
9. Social protection	Social protection for children and young people; Family support services

SUBNATIONAL GOVERNMENT FINANCE

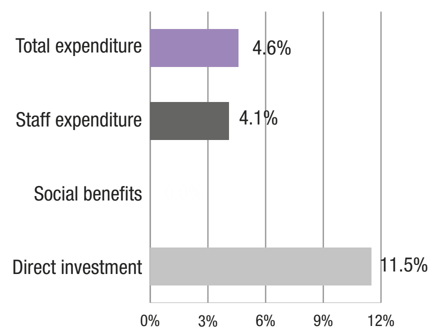
Scope of fiscal data: municipalities.	Ministry of Finance	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. The majority of subnational governments' revenues come from taxation and other sources of own income (property income and user tariffs and fees), while the share of central government transfers is particularly low. The municipal system is governed by the following laws and financial provisions: General Law no 6627 on Public Administration; Law no 8131 on Public and Financial Administration of the Republic and Public Budget; Law no 7494 on Administrative Contracting; Law no 7755 on Control of Specific Items Charged to the National Budget; General Law no 8292 on Internal Control; Organic Law no 6815 on the Office of the Attorney General of the Republic; and Organic Law no 7428 on the Office of the Comptroller General of the Republic.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**220**	**1.3%**	**100%**
Inc. current expenditure	174	1.1%	79.2%
Staff expenditure	77	0.5%	34.8%
Intermediate consumption	57	0.4%	26.1%
Social expenditure	10	0.1%	4.6%
Subsidies and current transfers	28	0.2%	12.6%
Financial charges	2	0.0%	1.1%
Others	0	0.0%	0.0%
Incl. capital expenditure	46	0.3%	20.8%
Capital transfers	4	0.0%	2.0%
Direct investment (or GFCF)	41	0.3%	18.8%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. Over the four-year period from 2014 to 2017, total municipal spending increased by 35%, with wages and salaries rising by 28%, followed by goods and services, which increased by 42%. Wages and salaries represent the highest current municipal expenditure with nearly 35% of total expenditures in 2016. From 2014 to 2017, spending on goods and services also accounted for a significant share of total spending (between 26% and 30%) followed by capital spending (between 20% and 25%). SNG's current social expenditure is particularly significant, with high municipal contributions to the Costa Rican Social Security Fund and the Popular and Municipal Development Bank (BPDC) and, to a lesser extent, to the Joint Institute for Social Assistance (IMAS), the Fund for Social Development and Family Allowances (FODESAF) and the National Training Institute (INA).

However, sub-national expenditures remain low in relation to GDP: Total SNG expenditure represents only 1.3% of GDP.

COSTA RICA

UNITARY COUNTRY

DIRECT INVESTMENT. About 21% of local governments' expenditure is devoted to capital expenditure, which represents 9% of general government's capital expenditure. Direct investment accounted for 18.8% of SNG total expenditures and 11.5% of total public expenditures in 2016.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

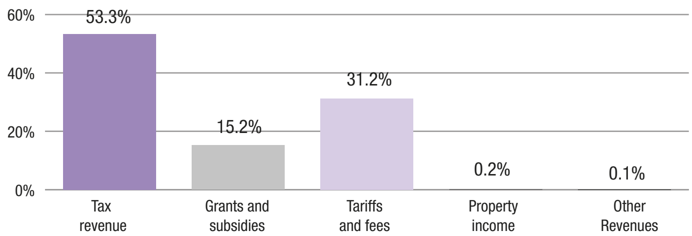
Municipal expenditure is directed to the following sectors which are assigned by law to municipalities: improvement of aqueducts and sewers, maintenance of cantonal roads, waste collection and transfers to other administrative entities, such as sports committees and education boards, among others. According to 2018 National Report, during the period 2015 to 2017, municipalities spent 38% of their total expenditure on general public services, 25.3% on economic affairs, 21% on housing and community amenities, 3.8% on sport, recreation and culture, 3.8% on social protection and 2.3% on education and health.

% GDP | % SNG EXPENDITURE

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**219**	**1.3%**	**5.4%**
Tax revenue	117	0.7%	3.2%
Grants and subsidies	33	0.2%	
Tariffs and fees	68	0.4%	
Property income	0.4	0.0%	
Other revenues	0.2	0.1%	

% SNG REVENUE



OVERALL DESCRIPTION. Costa Rica is the Central American country with the highest percentage of own revenue (tax and non-tax), which covers 85% of SNG budget but only accounts for a marginal share of GDP (about 1%). Municipal revenues derived from service fees are defined in the Municipal Code (art. 74): public lighting, street cleaning, separate collection, transportation, valorisation, treatment and final disposal of waste, maintenance of parks and green areas, municipal police services, and any other municipal urban or non-urban service established by law, such as patents or municipal licenses for the operation of profit-making activities or commerce.

Municipal revenues in the four-year period 2014-2017 increased by 26%: the main ones are municipal taxes and sales of community services that represent the main source of revenue for the functioning of municipalities.

TAX REVENUE. Municipal taxes include a property tax that accounts for 22.5% of municipal revenue and 0.3% of GDP as well as an excise tax that accounts for 25.2% of municipal revenue and 0.3% of GDP. Tax rates are set 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 to the Legislative Assembly.

GRANTS AND SUBSIDIES. According to the Constitution (art.170), the central government must transfer 10% of its ordinary revenues to local governments. These central government's transfers to municipalities are governed by the following laws:

- Law No. 7755 of 1998 on the Control of Specific Items regulates the allocation, distribution and use of funds allocated each year to cover local, communal or regional public needs. Specific items are granted on the basis of three criteria: the number of inhabitants (25%); the geographical area (25%); and the poverty index (50%).
- Law No. 8801 of 2010 on the Transfer of Competences from Central Government to Municipalities determines the powers and resources to be transferred to the municipalities. The criteria for the distribution of funds have been established 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.
- In addition, the implementation of Law no 9329 on the Transfers of Competences for the maintenance of the cantonal road network, adopted in 2015, has resulted in an increase of municipal revenues. These transfers represented 7% of total municipal revenues in 2016. The resources that support this responsibility (maintenance of roads) come from 22.3% of the collection of the single tax on fuels (law no 8114).

Most central government transfers are capital grants: they represent nearly 88% of total grants and subsidies and 13% of SNG revenue.

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 (31.5%) is twice that of central government transfers.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2017	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**38**	**0.2%**	**0.5%**	**100%**
Financial debt*	38	0.2%	0.5%	100%

* Currency and deposits, loans and bonds

FISCAL RULES. Every municipality must nominate an accountant or auditor who is responsible for overseeing the implementation of local government services or works and budgets, as well as the works assigned to them by the municipal council. The Office of the Comptroller General of the Republic is vested with the duty and power to examine, approve or disapprove the municipal budgets.

DEBT. Municipalities can only borrow to finance investment projects (golden rule). They can contract debt through the national banking system and the Institute for Municipal Development and Assistance (IFAM). IFAM is a public organisation established in 1970 to support municipal development, providing, among other activities, loans to the municipalities at preferential rates. Moreover, according to the 1998 Municipal Code, debt service is limited to 19% of current municipal revenues when originated by projects that do not generate sufficient funds to finance them. Municipal borrowing needs approval from the national legislature.

Municipal borrowing has gained importance in recent years. During the period 2014-2017, according to the Comptroller General of the Republic, 83% of local governments (67 out of 81 municipalities) incorporated loan resources from financial entities loans for an amount of CRC 58,401.8 million (149,136.4 million dollars PPP). Of this amount, approximately 70% was granted by Public Financial Institutions and 30% by Decentralized Non-Business Institutions, including IFAM.

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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data: Comptroller General of the Republic, Ministry of Finance, National Statistics and Census Insitute // Central Bank of Costa Rica, Institute for Municipal Development and Advisory Services (Costa Rica), World Bank data.
Other sources of information: Supreme Court of Elections of Costa Rica // Legislative Assembly of the Republic of Costa Rica // the Attorney General's Office // Ministry of National Planning and Economic Policy (Mideplan) // Informe Estado de la Nación (2018) // OECD (2015) Costa Rica: Good Governance, from Process to Results, OECD Public Governance Reviews // Gomez Sabaini, Juan & Jimenez, Juan (2011) El Financiamiento de los Gobiernos Subnacionales en América Latina (un análisis de casos).

DOMINICAN REPUBLIC

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: DOMINICAN PESO (DOP)

POPULATION AND GEOGRAPHY

Area: 48 670 km^2
Population: 10.767 million inhabitants (2017), an increase of 1.2% per year (2010-2015)
Density: 221 inhabitants / km^2
Urban population: 79.4% of national population
Urban population growth: 2.2% (2017 vs 2016)
Capital city: Santo Domingo (29.4% of national population)

ECONOMIC DATA

GDP: 172.6 billion (current PPP international dollars), i.e. 16 029 per inhabitant (2017)
Real GDP growth: 4.6% (2017 vs 2016)
Unemployment rate: 5.5% (2017)
Foreign direct investment, net inflows (FDI): 3 597 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 21.9 % of GDP (2017)
HDI: 0.736 (high), rank 94 (2017)
Poverty rate: 1.6% (2016)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

In accordance with the 2010 Constitution, the Dominican Republic is a unitary State with a democratic presidential regime and separation of powers. The Executive power is exercised by the President of the Republic, who is directly elected every four years and may be re-elected once. Legislative powers are vested in the Congress, which is composed of the Senate and the House of Deputies, whose members are also elected every four years. Elections to the Congress are set to take place two years after the general elections.

The country has a one-tiered subnational government structure, composed of 158 municipalities and the Santo Domingo National District, administered by a municipal council elected every four years (Art. 199). The 1994 political crisis brought about a Constitutional reform that mandated national and municipal elections to take place separately, leaving an interval of 2 years' time between them. However, last elections held in 2016 represented an exception to this Constitutional provision, and elections to congress, local and national governments were held simultaneously with violent outcomes. Next general and municipal elections are scheduled for February and May 2020, respectively.

The National District and Municipalities Act 176-07 adopted in 2007 defines the current legal framework for local governance and, together with the Constitution, outlines the organizational structure, responsibilities and resources of local governments. Since 2016, a consultation process has been underway to draft a "Local Administration and Territorial System Law", under the responsibility of a municipal review commission, which is still awaiting approval. In order to clarify the division of responsibilities between the various levels of government, several other bills are currently under consideration. These include the Solid Waste Management Act, the Land Use and Development Act and the Regionalisation Act.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	158 Municipalities *(municipios)* + Santo Domingo National District *(Distrito Nacional de Santo Domingo)*			
	Average municipal size: 65 000 inhabitants			
	159			159

OVERALL DESCRIPTION. The Dominican Republic has only one level of subnational government, composed of municipal governments at the lower level of local government. It is located on the island of Hispaniola, part of the Greater Antilles. The country is divided into 3 macro-regions, which are in turn divided into 10 regions. Regions are further divided into 31 provinces and the National District, which has a special administrative status. Provinces are themselves divided in 158 municipalities and 234 municipal districts.

MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION. Municipalities, municipal districts and the city of Santo Domingo constitute the decentralized tier of government. They have their own revenue and budgetary autonomy and are endowed with normative, administrative and land use powers. However, several constraints hinder the execution of their duties, as they depend largely on central government transfers for the exercise of their powers.

There are great disparities among municipalities in terms of surface area, population density, the resources they manage and their technical capacities. The National District is home to 1 029 607 inhabitants while 144 municipalities have less than 10 000 inhabitants and only 4 municipalities have more than 300 000 inhabitants.

The Dominican Federation of Municipalities (FEDOMU) is the organization that promotes inter-municipal cooperation. Together with the Dominican Municipal League (LMD) and under the supervision of the Public Administration Ministry, FEDOMU promotes the implementation of the Public Administration Monitoring System (SISMAP), with the aim of helping to improve municipal governance systems. According to the National District and Municipalities Act, the role of LMD is to make recommendations to local governments. The LMD must not overlook or interfere with the activities of municipal councils (Art. 107).

INTERMEDIARY LEVEL. Provinces are administrative entities headed by an appointed governor who represents the executive branch at the provincial level. Together with the province of Santo Domingo, the National District forms the great Santo Domingo, where most of the population is concentrated. A large section of the population is also concentrated in provinces such as Santiago de los Caballeros, La Vega, San Cristobal, la Altagracia and Puerto Plata. According to a 2015 study, it was proposed that municipalities be clustered in 7 categories according to the number of inhabitants and population density.

REGIONS. Regions are territorial divisions that are designed to facilitate land use planning processes. Dominican Republic is divided into 3 macro-regions, namely the Northern (Cibao), Southeast and Southwest regions. Macro-regions are in turn divided into 10 "development" regions, as established by the 2004 710-04 Presidential Act.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The National District and Municipalities Act defines three types of competencies for municipalities: own, shared and delegated. A 2016 study on municipalities' competencies and typologies recognizes 24 major responsibilities organized in five blocks: 1) capacity to plan and implement plans related to land use planning, environmental and risk management, economic and social development; 2) regulation and management of public space, municipal works, roads and transport; 3) services shared with the central government (water and sanitation, health and public sanitation, education, recreation, culture, public safety, lighting); 4) exclusive services (waste management, cleaning and decoration, parks, cemeteries, regulation of food and food supply, fire prevention); and 5) competencies related to people and welfare (rights protection, social welfare, housing and animal care).

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPAL LEVEL
1. General public services	
2. Public order and safety	Municipal police; Urban signage; Civil fire fighters
3. Economic affairs/transports	Urban roads; Urban transports; Markets
4. Environmental protection	Parks and green public spaces; Waste management; Public space; Street cleaning
5. Housing and community amenities	Construction and Renovation; Public lighting; Urbanism; Urban development and housing; Cemeteries; Slaughterhouses; Repair and maintenance of sidewalks, streets, neighbourhood roads
6. Health	Preventive days, such as fumigation and vaccination in coordination with the Ministry of Public Health
7. Recreation, culture & religion	Sports; Libraries; Local museums; Cultural centres; Music groups
8. Education	Adult literacy days
9. Social protection	Social protection for children and young people; Family support services; Student aid; Assistance for the homeless

SUBNATIONAL GOVERNMENT FINANCE

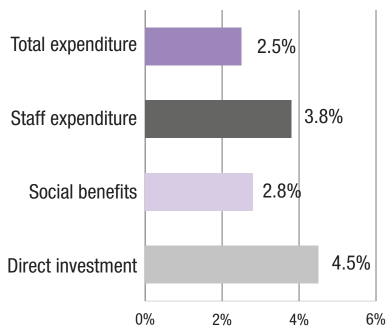
Scope of fiscal data: municipalities.	SNA 2008	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. Municipal finances in Dominican Republic largely rely on central government transfers of resources and to a lesser extent on direct revenue collection efforts by local governments. The Municipal Revenue Act 166-03 regulates the amount of central government transfers and provides for their allocation, although in practice, actual local government expenditure does not follow established guidelines. Two fundamental principles set out in the National District and Municipalities Act (Arts. 254 and 255) provide the framework for municipal finances (providing municipalities with sufficient resources and autonomy to establish, implement, manage, collect and control their taxes), but they are also not fully implemented.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2017	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**71**	**0.4%**	**100%**
Inc. current expenditure	57	0.4%	80.9%
Staff expenditure	29	0.2%	41.6%
Intermediate consumption	20	0.1%	27.9%
Social expenditure	4	0.0%	5.8%
Subsidies and current transfers	3	0.0%	4.7%
Financial charges	1	0.0%	0.9%
Others	0	0.0%	0.1%
Incl. capital expenditure	14	0.1%	19.1%
Capital transfers	0	0.0%	0.2%
Direct investment (or GFCF)	13	0.1%	18.9%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. Spending autonomy is curtailed by the high dependence on central government transfers. Although 40% of such transfers are earmarked for capital expenditure, current expenditure represented 80.9% of local expenditure in FY 2016/17 - at the expense of service provision and development investments. Expenditure devoted to compensation of employees represented 41.6% of local expenditure, which is also in breach of the 25% limit set by the Municipal Revenue Act (Article 10). Wages paid are below the minimum wage in the public sector (RD$5 117.00 or US$103.37 per month).

DOMINICAN REPUBLIC

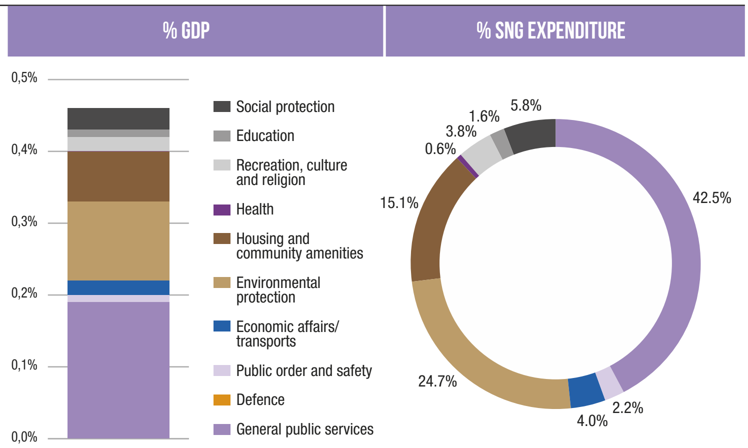
UNITARY COUNTRY

Local governments' spending is not in line with their responsibilities. According to Oxfam, social investment is one of the lowest in Latin America and the country is the third in the region to have benefited the least from economic growth to improve health and education, now with 50% of its population below the poverty line.

DIRECT INVESTMENT. Due to the conditionality of central government transfers, local governments' levels of direct investment are relatively high and are mainly oriented to the construction and repair of streets, sports fields, community halls, parks, squares and cemeteries. However, over the past ten years these investments have decreased significantly due to increased demand for services, higher prices for goods and services and higher operating costs. Moreover, central government transfers have remained the same over the past decade, requiring services to be financed from resources originally earmarked for the acquisition of equipment and the construction and repair of infrastructure, which limits the levels of direct investment by local governments. Most infrastructure work is carried out by the central government in the territories, reflecting the centralization of expenditure and investment.

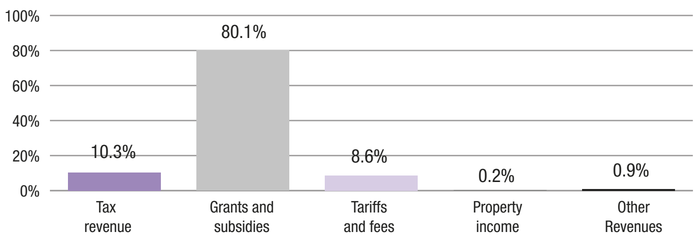
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Local expenditure is primarily devoted to general public services, followed by environmental protection and housing and community amenities. Local government spending on housing and infrastructure is relatively high compared to central government spending as investment in the construction and repair of local infrastructures also falls into this category, as is the case for sports fields, parks and squares, cemeteries, markets, sidewalks and containers. Local governments spend most of their income on compensation for employees, cleaning services, collection and disposal of solid waste, the latter being classified as environmental protection expenditure.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2017	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE
Total revenue	**90**	**0.6%**		
Tax revenue	9	0.1%	0.4%	
Grants and subsidies	72	0.4%		
Tariffs and fees	8	0.0%		
Property income	0	0.0%		
Other revenues	1	0.0%		



OVERALL DESCRIPTION. Dominican local governments do not have full control over their budgets, and their revenues rely mostly on earmarked transfers. Local governments received only $9.2 per inhabitant in tax revenue, and less than $8 in tariffs and fees in 2017, confirming their low capacities to collect tax. In addition, only few municipalities have an adequate tax base, whereas in the majority of inland municipalities, economic activities are carried out informally, which affects their tax base.

Municipal revenue is less than $90 per inhabitant, which is partly attributable to the fact that central government transfers consist of fixed amounts that decrease every year due to inflation. Although all municipalities and municipal districts are governed by the same tax rules, great differences appear when it comes to applying them. Larger municipalities as Santo Domingo Este and Santiago have the possibility of collecting significant amounts of taxes and fees (for solid waste collection, advertising, land use permits, transportation of materials, etc.) while medium and small municipalities lack of mechanisms or tax sources to properly collect such taxes.

Central government transfers are determined on the basis of population criteria. This favours the most populated municipalities and in turn increases disparities in tax collection capacities between the larger and the smaller municipalities. A proposal to enhance central government transfers to municipalities has been included in a project to revise the municipal law for the following taxes: tax on the circulation of motor vehicles; property tax; tax on the installation of new businesses or any productive establishment and tax on advertising in public spaces.

TAX REVENUE. Local governments don't have the authority to collect the type of taxes to which they are entitled. The main local taxes regulations apply to construction works; public performance; registration of mortgages, civil registry on operations of movable and immovable property, conditional sale of immovable property, tax on hotels, exploitation of natural resources and collection of electricity bills.

Both the 2010 Constitution and the National District and Municipalities Act hinder the creation of new taxes. For instance, the law states that city councils may not apply taxes that affect national taxes, inter-municipal trade or exports; they may not levy property located, or activities developed, income originated or expenses incurred outside the municipality territory, nor the exercise or transfer of goods, rights or obligations that were not created or were not to be fulfilled in that territory (Art. 274).

GRANTS AND SUBSIDIES. According to the Municipal Revenue Act 166-03, since 2005, the central government must transfer to municipalities 10% of the current revenue included in the general government budget (art. 3). However, this provision has not been respected and, since 2008, a fixed amount has been transferred each year instead. As of 2017, current grants accounted for 60% of total grants to SNG, compared to 40% for capital grants.

Transfers should be distributed proportionally among municipalities according to the number of inhabitants recorded in the last population and housing census. According to the Municipal Revenue Act, 25 per cent of the funds transferred must be used to cover staff costs, up to 31 per cent for the provision of services and operating expenses, 4 per cent for the development of gender, health and education projects and 40 per cent for capital investments. In addition to the regular transfers established by Act 166-03, the central government may, on an exceptional and discriminatory basis, make capital transfers to certain municipalities for infrastructure work or the purchase of equipment.

Article 6 of Law 166-03 provides that the Dominican Municipal League is entitled to receive 5% of the amount set to be transferred to the municipalities from the annual national budgets, in order to finance its operating expenses and meet its obligations.

OTHER REVENUES. Local governments, especially those of larger cities, collect a number of taxes and fees for solid waste collection, permits for use of public spaces, market services and slaughterhouses, among others. The fees and their respective tariffs are established through municipal ordinances prepared by the local administration and approved by the municipal council.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. In accordance with Article 233 of the Constitution, it is the duty of the national government to elaborate national budgets under the balanced budget rule, ensuring that expected revenues are sufficient to cover for expected expenses. However, the 2016 PEFA assessment for local governments in Dominican Republic points out that some of the financial reports at the local level are not available for assessment, thus complicating the evaluation of whether fiscal rules are complied with or not.

DEBT. With respect to borrowing, local governments must apply the provisions of Act 6-06 on Public Credit, which stipulates that all public entities must submit their applications for internal and external loans through the Directorate General of Public Credit. If deemed appropriate, the Directorate authorizes the processing of the loan by the National Congress, in charge of issuing the final approval. Most local governments do not have the power nor the autonomy to manage or contract loans. Over the years, borrowing has been mainly limited to Santo Domingo and the largest municipalities.

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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data: Statistics Dominican Republic
Other sources of information: Porto Augusto, Eguino Huáscar and Rosales, Walter (2017), Panorama de las finanzas municipales en América Central, IADB // PEFA (2016) República Dominicana Informe Final // Directorate-General for the Budget // FEDOMU – web portal // Ministerio de la Administración Pública – SISMAP // Study carried out by the Support Programme for Civil Society and Local Authorities - PASCAL, of the European Union.

ECUADOR

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: US DOLLARS (USD)

POPULATION AND GEOGRAPHY

Area: 256 370 km^2
Population: 16.625 million inhabitants (2017), an increase of 1.6% per year (2010 - 2015)
Density: 65 inhabitants / km^2
Urban population: 63.7% of national population (2017)
Urban population growth: 1.7% (2017 vs 2016)
Capital city: Quito (11% of national population)

ECONOMIC DATA

GDP: 193 billion (current PPP international dollars), i.e. 11 612 dollars per inhabitant (2017)
Real GDP growth: 2.4% (2017 vs 2016)
Unemployment rate: 3.8% (2017)
Foreign direct investment, net inflows (FDI): 618 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 25.4% of GDP (2017)
HDI: 0.752 (high), rank 86 (2017)
Poverty rate: 3.2% (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Ecuador is a unitary state organized as a republic with a division of powers, as provided for in the 2008 Constitution. Legislative power is vested in the National Assembly, whose members are elected for four-year terms. Executive power is held by the President, who is both head of government and head of state. Presidents are also elected for a four-year term and may be re-elected once. Judicial power is vested in the National Court, the rest of judicial courts and the traditional authorities of indigenous peoples in their territories.

Decentralization is acknowledged in the 2008 Constitution, which establishes a four-tiered decentralization system, divided into Decentralized Autonomous Governments (*Gobiernos Autónomos Decentralizados* - GAD) at the regional, provincial, municipal and parochial levels. Galapagos province is endowed with a special status, which is also the case for the autonomous metropolitan districts and indigenous and multicultural territorial jurisdictions (although no such territory has yet been created). The Constitution establishes that GADs may enjoy "political, administrative and financial autonomy" and that they will be "governed based on the principles of solidarity, subsidiarity, inter-territorial equity, inclusion and civil participation". Subnational elections are held concurrently every five years to elect GAD's local authorities. The last local elections took place in March 2019.

The 2008 Constitution also gave rise to the National Competences System (*Sistema Nacional de Competencias* - CNC) in charge of regulating the transfer of competences to the subnational levels and mediating in conflicts that such transfer may entail. The CNC facilitated the development of the National Decentralization Plan (*Plan Nacional de Descentralización* - PNDz) 2012-2015 in collaboration with local stakeholders. Following the evaluation of the PNDz, the Strategy for the Implementation of Decentralization (*Estrategia para la Implementación de la Descentralización*) 2017-2021 was elaborated. The PNDz also acknowledges the role of GADs in the elaboration and management of development plans.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	Municipalities *(Cantones / Municipios)*	Provinces *(Provincias)*		
	Average municipal size: 74 279 inhabitants			
	221	24		245

OVERALL DESCRIPTION. The 2008 Constitution determines that local self-governments in Ecuador comprise rural parish councils, municipal councils, metropolitan councils, provincial councils and regional councils. Due to environmental conservation, ethno-cultural and demographic reasons, the province of Galapagos, indigenous territories and autonomous metropolitan districts have a special status (Art. 242). The Organic Code of Territorial Organization, Autonomy and Decentralization (*Código Orgánico de Organización Territorial, Autonomía y Descentralización* - COOTAD) regulates the functioning of the different levels of subnational government.

The different territories are heterogeneous. The average territorial extension at the municipal level is just over 1200 km^2, although it ranges from cantons that exceed 19 000 km^2 to less than 100 km^2. According to the National Statistics Institute (INEC), in 2018, the two most populous cantons are the cities of Guayaquil and Quito with about 2.6 million inhabitants each, followed by Cuenca, with 600,000 inhabitants.

MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION. The 221 municipalities constitute the municipal level and include the metropolitan district of Quito. Municipalities are governed by a municipal council. Agglomerations of municipalities whose population is equal to or greater than 7% of the national population may form metropolitan districts. Municipal councils that integrate such districts need to elaborate an autonomy status and coordinate their workings with those of the province and region within which they are located (2008 Constitution, Art. 247).

The Association of Ecuadorian Municipalities, acknowledged by the 1996 Municipal Regime Act, is the national organization of local governments for the promotion of decentralized cooperation.

PARISHES. Municipalities are composed of about 1 500 rural and urban parishes, which constitute the sub-municipal level of local government. Parishes are administered by parish councils composed of members (*vocales*) and chaired by the member with the highest number of votes. Executive power is entrusted to a parochial government, which together with the parish council form the parish board (*junta parroquial*).

PROVINCES. There are 23 provinces plus the province of Galapagos, which has a special status and is headed by a government council. Provinces are administered by a provincial council which is made up of a prefect elected by universal suffrage, mayors or municipal councilors representing the cantons, and representatives elected from among the heads of rural parish boards (art. 252 of the Constitution). In the Amazonian territories, there is a specific integrated planning system in order to ensure the protection of ecosystems and traditional cultures.

REGIONS. The 2008 Constitution provides for the establishment of autonomous regions, specifying that two or more provinces with territorial continuity and a common population accounting for over 5% of the national population may constitute autonomous regions. Despite this provision, no region has yet been established.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

COOTAD details the competencies and functions of the GADs in promoting development and quality of life. The competencies to be exercised by local governments are classified as exclusive, concurrent, additional and residual. The transfer process is still underway and it is stated that it must be accompanied by the transfer of resources for which the National Competences System is responsible.

Regions, provinces, metropolitan districts and cantons have some degree of legislative competences within their jurisdiction, while rural parishes have regulatory powers (art. 240 of the Constitution). All GADs have executive powers. All levels of government are primarily responsible for planning the development of their territory and formulating plans and programs consistent with their competencies, including the management of international cooperation.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	PROVINCES	MUNICIPAL AND PAROCHIAL LEVELS
1. General public services		Supervise the execution of public services and works; Property registers
2. Public order and safety	Coordination with national police	Coordination with national police; Creation and coordination of civil security councils; Firefighting
3. Economic affairs /transports	Promote agricultural and other productive activities; Road networks and facilities in non-urban areas	Support to community productive activities; Articulate social and solidarity economy actors; Economic feasibility coordination with provinces; Promote economic development, regulate economic business and professional activities; Public transport; Marketplaces
4. Environmental protection	Environmental management; Watershed and micro-basin management; Hydraulic dredging and river cleaning; Forestry and reforestation; Irrigation systems management	Preservation of biodiversity and the environment; Forestry and reforestation; Environmental management; Sewerage, wastewater treatment, solid waste management; Sanitation; Environmental pollution; Regulate the use of beaches; Regulate and control the exploitation of arid and stony materials
5. Housing and community amenities	Housing (management); Urban and land use planning (in coordination with other levels);. Plans and programs for housing in rural areas	Land use planning; Urban development planning; Territorial planning; Management of physical infrastructure, facilities and public spaces; Construction regulations and control; Drinking water provision; Food services provision; Slaughterhouses; Cemeteries
6. Health		Facilities building and maintenance
7. Recreation, culture & religion	Cultural, arts, sports and recreational activities for the rural areas (in coordination with the parishes)	Cultural, arts, sports and recreational activities; Architectural, cultural and natural heritage
8. Education		Facilities building and maintenance
9. Social protection	Equity and inclusion; Citizen participation; Protection of children and youth	Equity and inclusion; Citizen participation; Protection of children and youth

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: 24 provinces and 221 municipalities (including the metropolitan district of Quito), rural parish governments and social security funds.	SNA 2008	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. The main legislative framework for the organization of subnational finance is enshrined in the 2008 Constitution and COOTAD. According to COOTAD, regional, provincial and municipal councils may levy taxes and tariffs and charge fees for their services (Articles 34, 47 and 55). Subnational finance in Ecuador plays a moderate role in the country's public finances. In FY 2016, local expenditure represented 13.4% of total expenditure, while local revenues amounted to 10.2% of total public revenue. Expenditure is mainly devoted to capital investment at the local level, while revenue available to local governments is defined in COOTAD.

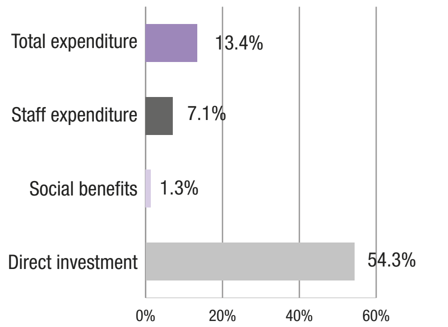
ECUADOR

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**630**	**5.6%**	**100%**
Inc. current expenditure	153	1.4%	24.3%
Staff expenditure	84	0.7%	13.3%
Intermediate consumption	30	0.3%	4.7%
Social expenditure	19	0.2%	3.1%
Subsidies and current transfers	10	0.1%	1.6%
Financial charges	10	0.1%	1.7%
Others	0	0.0%	0.0%
Incl. capital expenditure	476	4.2%	75.7%
Capital transfers	63	0.6%	10.0%
Direct investment (or GFCF)	414	3.7%	65.7%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. In FY 2016, local government expenditures represented 5.6% of Ecuador's GDP, which can be interpreted as being a moderately high percentage given that total general government expenditure represents 41.7% of GDP. Current expenditure accounts for 24.3% of local expenditure, while capital expenditures accounts for 75.7%. Over the past 10 years, the highest level of public investment was recorded in 2013, decreased in 2014 and 2015 and then increased again in 2016 compared to 2015.

DIRECT INVESTMENT. Total direct investment at the local level accounts for 3.7% of GDP, which represents half of total direct investment of general government. Over the past ten years, local direct investment has grown steadily until 2014, when it began to slow down. In 2016, the bulk of direct investment was devoted to construction, followed by investment in equipment and machinery.

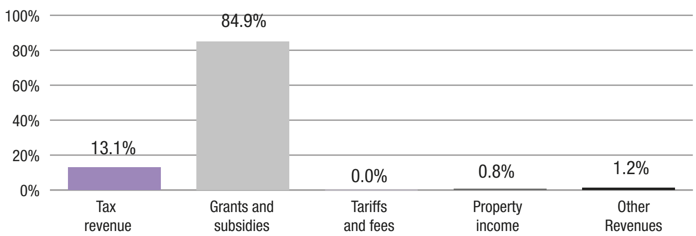
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

% GDP | % SNG EXPENDITURE

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**422**	**3.8%**	**10.2%**
Tax revenue	55	0.5 %	3.3%
Grants and subsidies	358	3.2%	
Tariffs and fees	0	0.0%	
Property income	3	0.0%	
Other revenues	5	0.0%	

% SNG REVENUE



OVERALL DESCRIPTION. Subnational governments revenues come from the generation of own resources, transfers from the national budget and borrowings. Own source revenue comes from taxes, fees, special improvement contributions, investment income, fines, and sale of goods, services and non-financial assets, investment recovery, raffles, sweepstakes and other sources.

The income of rural parishes comes from the administration of infrastructure and public space. Rural parishes can also receive income delegates from other levels of government or international cooperation, donations and self-managed activities. Provincial governments have the power to collect special contributions for road maintenance applied to vehicle registration.

The main source of financial income for subnational governments is central government transfers, which accounted for 84.9% of total income in FY 2016, an amount that increased compared to 2015 and represents 3.2% of GDP.

TAX REVENUE. According to OECD Statistics, locally raised taxes correspond to 3.3% of all taxes raised in the country and 13.1% of local government revenues in FY 2016. As mentioned above, regional, provincial and municipal councils may levy taxes in their jurisdiction. Rural parishes don't have the authority to collect taxes unless under the authority of other levels of government. Provincial GADs benefit from 0.001% of the *alcabalas* tax (a tax on real estate transactions), collected at the municipal level.

Municipal taxes may be levied on urban property, rural property, vehicles, license plates and patents, public shows, utilities, the transfer of urban properties and its surplus value, gambling and 1.5 per thousand on total assets.

GRANTS AND SUBSIDIES. In FY 2016, transfers from the central government were the largest source of revenue for local governments, accounting for 84.9% of the total revenue collected. COOTAD distinguishes three categories of grants:

Grants from permanent and non-permanent national revenues. Article 192 of COOTAD provides that local governments may receive 21% of permanent national revenues and 10% of non-permanent revenues. Of this amount, 27% is transferred to provincial councils, 67% to municipal councils and metropolitan districts and 6% to parish councils, in accordance to the competencies transferred to each local government. These resources are distributed to each GAD on the basis of a model of territorial equity in the provision of public goods and services. This model classifies the amount to be transferred into two parts:

- Amount A, corresponding to the transfers that by law were assigned to the GAD in 2010;
- Amount B, allocated on the basis of a distribution formula that includes seven criteria: population size; density of population; unmet basic needs, prioritized and depending on the population living in the territory of each GAD; achievements in improving standards of living; fiscal discipline; administrative discipline; and compliance with the objectives and targets of the National Development Plan and the GAD development plan. These criteria are weighted to determine the amount to be allocated to each territory. During the period 2014-2017, a progressive weighting was established to reduce the annual weight assigned to "unmet basic needs" and increase the variables "improvement of living standards" and "fiscal discipline". Amount B has increased significantly over the last years.

Grants intended to finance the exercise of new competences. Local governments may also receive funds in order to carry out new responsibilities in the fields of irrigation and drainage (competence transferred to provincial GAD); transit, road transport and road safety (transferred to municipal and metropolitan GAD); and international cooperation (transferred to all GAD).

Transfers as compensation for the exploitation of natural resources. Finally, subnational governments receive transfers as compensation for the exploitation of natural resources in the GAD territories in accordance with Act no 10 of 2003 on the Amazonian Regional Eco-development Fund and Act no 47 of 1989 on allocations to the provinces for sale of INECEL energy.

OTHER REVENUES. Local governments can raise revenue from the sale of goods and services and contributions for extraordinary development actions, fees and fines. They may also earn income from participating in the exploitation of natural resources and from financial funds. Local governments may obtain revenues from tariffs for water provision, waste management, administrative services and the issuance of planning licenses among other services.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. Article 286 of the Constitution provides that public finances must be managed in a sustainable, responsible and transparent manner at all levels of government. In addition, the Code of Organic Planning and Public Finance (COPF) adopted in 2010 stipulates that permanent expenditure must be financed exclusively from permanent revenue (art. 81).

DEBT. No data available. GADs may contract debt in order to finance infrastructure investment programs and projects that generate sufficient returns in the medium and long term to repay the debt. Rural parochial GADs may be financed with funds from the State Bank in accordance with its founding law (COOTAD, art. 211). Capital expenses cannot only be financed by debt except in cases provided for in the Constitution (health, education and justice). GADs can only incur debt up to a ratio of 200% of the debt to local revenues. In addition, financial charges from debt service may not exceed 25% of local revenues for the fiscal year. The Ministry of Finance analyses debt sustainability based on payment capacity. In the case where debt can be contracted, the process remains under the responsibility of the Under-Secretary of Public Finance who will authorize the issuance of bonds or provide the sovereign guarantee.

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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data: Ministerio de Economía y Finanzas // Instituto Nacional de Estadísticas y Censos (INEC)
Other sources of information: Cassou, J. et al (2016) Descentralización, finanzas subnacionales y ecualización fiscal en Ecuador. Banco Interamericano de Desarrollo // CNC (2016) Estrategia de Implementación de la Descentralización 2016-2017. Ecuador: Quito // Secretaría Nacional de Planificación y Desarrollo (2014) Modelo de Equidad Territorial en la Provisión de Bienes y Servicios Públicos. Análisis de las transferencias a los gobiernos autónomos descentralizados en el período 2011 – 2013 // Galarza, C. (2013) Descentralización y autonomía fiscal en el Ecuador: bases teóricas y tensiones jurídicas en Revista Foro // Nagua, J. S. (2013) El estado de la descentralización fiscal en el Ecuador. Foro Revista de Derecho // Chávez, Vallejo, G. & Montaña J. (2011) Desarrollo y Proyectos de Inversión Pública, 3. Finanzas Públicas para Gobiernos Autónomos Descentralizados in Constitución para servidores públicos, Quito: Editorial Instituto de Altos Estudios Nacionales Planificación.

EL SALVADOR

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: US DOLLAR (USD)

POPULATION AND GEOGRAPHY

Area: 21 040 km^2
Population: 6.378 million inhabitants (2017), an increase of 0.5% per year (2017 vs 2016)
Density: 303 inhabitants / km^2
Urban population: 71.3% of national population
Urban population growth: 1.6% (2017 vs 2016)
Capital city: San Salvador (17.4% of national population)

ECONOMIC DATA

GDP: 51.1 billion (current PPP international dollars), i.e. 8 006 dollars per inhabitant (2017)
Real GDP growth: 2.3% (2017 vs 2016)
Unemployment rate: 4.5% (2017)
Foreign direct investment, net inflows (FDI): 330.9 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 15.5% of GDP (2017)
HDI: 0.674 (medium), rank 121 (2017)
Poverty rate: 2.2% (2016)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Following the approval of the 1983 Constitution, El Salvador was established as a unitary democratic republic with a pluralistic political system in which power is split between the executive, legislative and judicial branches (Art. 86). The president is the head of the executive power and of the Armed Forces and is elected every five years (the last elections took place in February 2019). Legislative power at the national level is vested in the National Assembly, which is composed of deputies elected every 3 years. Judicial power is entrusted to the Supreme Court of Justice, whose members are elected by the National Assembly, judicial courts and the Public Ministry. It is headed by the Republic's Attorney General who is elected every 3 years by the National Assembly.

The Constitution was the first step in El Salvador's decentralization process. It states that local governments in El Salvador are economically, technically and administratively autonomous (Art. 203). Local governments are regulated by a Municipal Code and ruled by the municipal councils, whose members are elected every 3 years (Art. 202); the last elections were held in March 2018. Municipal Councils have the legislative power to regulate local tax issues. In order to articulate the devolution of power, the Constitution also entailed the creation of the Municipal Development Institute (ISDEM) in 1987 and the Social and Economic Development Fund (FODES) in 1988. ISDEM is in charge of distributing to the municipalities the funds transferred monthly by the central government to FODES, which, from 2012, are set to correspond to 8% of the country's net current revenues. The central State is represented at the local level by 14 departments, deconcentrated entities, each headed by a governor appointed by the President.

Legislative efforts towards devolution have recently been made. In 2011, the Land Use and Territorial Development Law was passed, which requires local governments to create local development plans and provides for the creation of the National Council for Territorial Development to regulate local development – the Council was established in 2017. Moreover, the National Government's 2014-2019 five-year plan advances the need to correct territorial imbalances and further promote local development and cooperation. With this aim, the plan calls upon the National Planning Agency, the Ministry of Governance and the Corporation of Salvadorian Municipalities (COMURES) to create a National System of Cooperation for Territorial Development.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	Municipality *(Municipalidad)*			
	Average municipal size: 24 343 inhabitants			
	262			262

OVERALL DESCRIPTION. El Salvador has a single-tier subnational government system, composed of municipalities (*municipios*) at the local level. In addition, there are deconcentrated entities of the central state, the departments (*departamentos*), at the intermediate level. In 2018, there were 14 departments and 262 municipalities, of which 233 have a population of 50 000 or less. The 11 most populous municipalities represent 30% of the country's total population.

MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION. The Constitution provides that local authorities are represented by municipal councils (*concejos municipales*), composed of the mayor, a trustee and two or more councillors depending on the size of the population (art. 202).

El Salvador's municipalities consist of a group of sub-municipal governing bodies, the cantons, which are in turn agglomerations of villages (*caseríos*). El Salvador's largest municipalities are San Salvador (1 223 000 inhabitants), Sana Ana (245 000 inhabitants), Soyapango (241 000 inhabitants) and San Miguel (241 000 inhabitants).

The Corporation of Salvadorian Municipalities (COMURES) is the key actor that promotes inter-municipal cooperation in the country. The Corporation organizes an annual National Congress of Municipalities and represents local governments in the National Council for Territorial Development. In addition, the Constitution (art. 207) and the 1986 Municipal Code (art. 12) provide for the possibility for municipalities to form specific collaborative entities to carry out public works or provide services of common interest.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Local governments' responsibilities are outlined in the Municipal Code and were expanded as a result of the 2015 Code's revision. This revision also incorporated the 2011 Land Use and Territorial Development Law's requirement for local governments to elaborate and implement local development plans. Under the current legal framework, municipalities are responsible for the elaboration of such plans, for the provision of public services, for the control and regulation of individuals' activities and for the promotion of their inhabitants' activities.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPAL LEVEL
1. General public services	Civil registration
2. Public order and safety	Public order and security; Local Police
3. Economic affairs/transports	Foster tourism; Promotion of economic activity; Capacity building and job creation; Regulation of local economic activity; Construction and operation of public transport terminals; Regulation of local transport
4. Environmental protection	Promotion of health programmes via environmental cleaning and illnesses prevention; Regulation of touristic exploitation of natural spaces; Waste management
5. Housing and community amenities	Regulation of public space use
6. Health	Health promotion, primary healthcare services
7. Recreation, culture & religion	Promotion of sports, recreation, sciences and art; Funding of sports centres and hiring of personnel; Facilities' construction and management; Organization of local fairs and festivities
8. Education	Promotion of higher education and gender equality programs
9. Social protection	Promotion and funding of social housing programmes; Planning, construction and maintenance of facilities for the provision of basic social services

SUBNATIONAL GOVERNMENT FINANCE

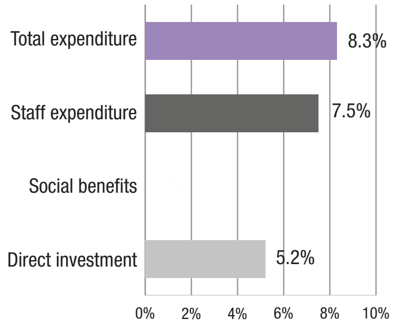
Scope of fiscal data: Municipalities.	SNA Other	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. The main law regulating fiscal activity in El Salvador is the 2000 Fiscal Code (*Código Tributario*). At the local level, Article 204 of the Constitution provides that local governments regulate local tax and tariffs and elaborate local budgets. Such fiscal responsibilities are regulated by the General Municipal Fiscal Law (LGTM), the Municipal Code and the law regulating the Social and Economic Development Fund (FODES). Municipalities' capacity to contract debt is regulated under the Municipal Debt Act.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**151**	**2.0%**	**100%**
Inc. current expenditure	150	2.0%	99.6%
Staff expenditure	64	0.8%	42.2%
Intermediate consumption	38	0.5%	25.2%
Social expenditure	0	0.0%	0.0%
Subsidies and current transfers	6	0.1%	3.8%
Financial charges	14	0.2%	9.2%
Others	29	0.4%	19.2%
Incl. capital expenditure	1	0.0%	0.6%
Capital transfers			
Direct investment (or GFCF)	1	0.0%	0.6%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. Municipal expenditures are mainly devoted to basic daily operational expenditures. This is particularly true for small towns with a narrower tax base and fewer resources. According to the IDB 2017 report on the state of finances in the region, although the share of Salvadorian local government expenditure in public expenditure declined from 9.6% to 8.3% between 2015 and 2016, these levels remain within the Central American average, reflecting the country's fiscal decentralization process.

DIRECT INVESTMENT. According to available data, only 0.6% of subnational governments expenditure is spent on capital expenditure, which corresponds to approximately 0.01% of GDP and 5.2% of total public investment.

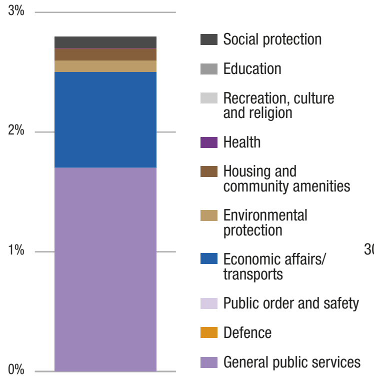
EL SALVADOR

UNITARY COUNTRY

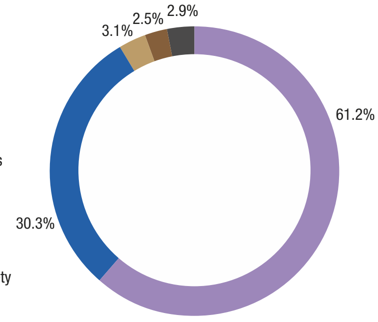
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

More than 60% of the expenses of sub-national governments are devoted to general public services. The remaining third is mainly dedicated to Economic Affairs and the transport sector (road infrastructure in particular), with very little intervention by municipalities in sectors such as health, environment, water and electricity.

% GDP



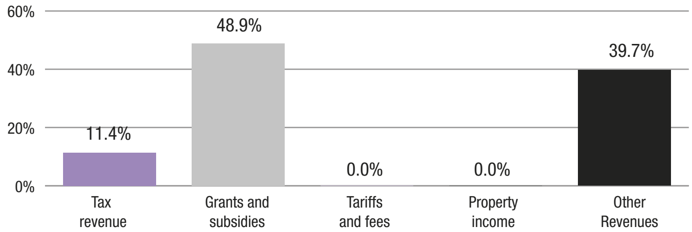
% SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**243**	**3.2%**	**12.3%**
Tax revenue	28	0.4%	2.0%
Grants and subsidies	119	1.5%	
Tariffs and fees	0	0.0%	
Property income	0	0.0%	
Other revenues	96	1.3%	

% SNG REVENUE



OVERALL DESCRIPTION. The sources of revenue of the sub-national administration are defined in the Municipal Code (art. 63) as including local taxes, royalties, licences, special contributions, interest earned on municipal credits, proceeds from the provision of services, grants and loans, revenue from municipal assets and the amount allocated to the FODES which corresponds to the municipality. In order to regulate the transfers to be distributed by FODES, the FODES Act was introduced in 1988. Since then, the law has been amended to increase the fixed share of national revenues to be transferred to local authorities from an initial 1% to 8% today.

The main sources of revenue for municipalities are transfers, followed by fees, licenses and local taxes. The ability to generate revenue varies considerably from one municipality to another. According to an analysis of Salvadorian municipal finances conducted in 2016, over the period 2006-2015, transfers accounted for an average of 55% of local revenues. 97% of these transfers were made by the Salvadorian government, 90% of which were made by FODES.

Finally, under the General Municipal Fiscal Law, municipal councils are responsible for creating, modifying or eliminating sources of tax revenue, which include local taxes, municipal service fees and special contributions.

TAX REVENUE. The General Municipal Fiscal Law specifies that local authorities are responsible for regulating local taxes, royalties, licences and special contributions, which together constitute municipal taxation (art. 1). Local taxes are defined as taxes levied by the local government without having to provide a particular service in exchange (art. 13). They apply to the regulation of commercial economic activity (bars, hotels, rural activities, industry), lotteries, road management and billboards, as well as the provision of certain other private services.

In 2016, property taxes represented the largest source of local tax revenue, accounting for 94.2% of local tax revenues and 10.7% of total local revenues but only 0.3% of GDP. The second source of tax revenue is sales tax, which represents 5.8% of local tax and 0.7% of total local revenue.

GRANTS AND SUBSIDIES. In 2016, grants represent 49% of SNG income, of which transfers from FODES are the key element. The amount to be transferred to each municipality is determined according to population, poverty and territorial extension criteria and its use is conditioned. According to the 2012 amendment to the FODES law, municipalities can use up to 25% of the funds allocated for current expenditure and up to 75% for development projects, which means that 25% of FODES funds are classified as current grants and 75% as capital grants. However, current municipal deficits lead local governments to use more than 25% of transfers to cover their current expenses. In addition, ISDEM reports that funds are not transferred in a timely manner by the central government, contributing to municipalities increasing their receivables and falling behind in the payment of their debts.

OTHER REVENUES. The main source of additional revenue for local governments are sales of goods and services (namely charges for the provision of some municipal services that are not categorized as fees, followed by premiums and fees related to non-life insurance and fines, penalties and forfeits. Municipal fees are generated through the provision of an individualized service to a citizen (General Municipal Fiscal Law, Art 14.). These fees may be charged by Salvadorian municipalities for access to public spaces, public lightning, sanitation and waste management, paving and municipal administrative services, such as the issuance of identity documents, visas or birth certificates. Finally, special contributions are defined as an extraordinary source of revenue for local governments derived from public works or specific activities carried out for the profit of the municipality (General Municipal Fiscal Code, Art. 6).

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2017	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**625**	**5.3%**	**7.4%**	**100%**
Financial debt*	464	4.0%	7.0%	74.3%

* Currency and deposits, loans and bonds

FISCAL RULES. Local borrowing is regulated by the 2005 Municipal Borrowing Act (*Ley Regulatoria de Endeudamiento Público Municipal*). Municipalities are allowed to contract debt to finance income-generating activities or to invest in social or economic infrastructure as part of local development plans. The Ministry of Finance, through the National Tax Office, maintains a municipal debt register and categorizes it biannually. The Local debt level is set at a maximum debt-to-operational income ratio of 1.7. Municipalities may also contract short term debt with the approval of the municipal council and up to a limit of 0.6 times municipalities' operating income. If the municipality fails to service its debt obligations, the Ministry of Finance can intervene and service this debt by debiting it from the municipality's share of FODES. Local governments are required to submit an annual report stating the current state of contracted debt to the National Tax Office, which must then submit an annual report on municipal indebtedness to the Legislative Assembly.

DEBT. According to the 2017 National Tax Office report, municipal debt increased by 2.3% over the previous year. The report also indicates that municipal debt has followed this upward trend since 2012. Members of the National Assembly, the National Tax Office, and several mayors, including the newly elected Mayor of San Salvador, have expressed concern about the trend in municipal debt levels. In 2016, local government debt accounted for 5.3% of GDP and 7.4% of general government debt. It is made up of financial debt (around 74% of total outstanding debt) and other accounts payable i.e. debt to suppliers and arrears (26%). In 2016, loans accounted for 93% of financial debt and bonds the remaining part (7%).

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Fiscal data: World Bank Statistics // IMF-GFS // OECD Revenue Statistics
Other sources of information: IDB (2017) IBD Panorama de las finanzas locales en América Central // Ministerio de Hacienda, Evolución de la Descentralización y desarrollo local en El Salvador, Boletín Presupuestario nº3 Julio - Septiembre 2010 // J. Alfaro, A. Díaz Fuentes (2016) Análisis de las finanzas públicas de El Salvador // Ministerio de Hacienda (2017), Informe anual sobre la situación del endeudamiento público municipal.

GUATEMALA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: GUATEMALAN QUETZAL (GTQ)

POPULATION AND GEOGRAPHY

Area: 108 890 km²
Population: 16.914 million inhabitants (2017), a decrease of 2% per year (2010-2015)
Density: 155 inhabitants / km²
Urban population: 50.7 % of national population (2017)
Urban population growth: 2.7% (2017 vs 2016)
Capital city: Guatemala City (16.8% of national population, 2015)

ECONOMIC DATA

GDP: 137.9 billion (current PPP international dollars), i.e. 8 150 per inhabitant (2017)
Real GDP growth: 2.8 % (2017 vs. 2016)
Unemployment rate: 2.7 % (2017)
Foreign direct investment, net inflows (FDI): 1 034.8 (BoP, current USD millons, 2017)
Gross Fixed Capital Formation (GFCF): 12.3 % of GDP (2017)
HDI: 0.650 (medium), rank 127 (2017)
Poverty rate: 8.7 (2014)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Republic of Guatemala is a unitary country with a presidential system and a classic model of division of powers. Members of Parliament (single-chamber) and the Executive are elected by universal suffrage, for periods of 4 years. Members of Parliament may be re-elected, unlike the Executive. The Supreme Court of Judicial Power is elected by Parliament. In 1996, Guatemala signed a National Peace Agreement that put an end to a 36 year-long internal armed conflict. One of the main objectives was the recognition of the indigenous people's rights, which represent about 45 % of the population.

The 1985 Constitution states that the territory is divided into departments and municipalities (Art. 224). However, municipalities constitute the only level of sub-national government. The Constitution (art 253-255), the Decentralization Act (Decree 14-2002), the Municipal Code (Decree 12-2002) and the Urban and Rural Development Councils Act (April 2002) establish the current legal framework for decentralization. Although other laws restrict the extent of decentralization, the above-mentioned laws recognize municipal governments' autonomy.

Local governments have the capacity to elect their own authorities (councillors and mayors) and to regulate and mobilize their own resources for service delivery and planning. Local elections are to be celebrated on the same day as general elections. Local governments are governed by a local council, comprised of the mayor, trustees (síndicos) and councillors, all directly elected for a four-year term and eligible for re-election (Constitution, Art. 254)

The Decentralization Act recognizes Guatemala's multi-ethnic, multicultural and multilingual structure. The Municipal Code recognizes the specific organizational arrangements and powers of indigenous communities, as well as the need to consult them on matters that are of interest to them. The Decentralization Act (arts. 17-19) and the Municipal Code (arts. 60-66) both recognize the principle of citizen participation. However, it was not until 2017 that the national government presented the National Decentralization Agenda (ANDE). Placed under the responsibility of the Executive Coordination Secretariat of the Presidency (SCEP) responsible for steering and overseeing the decentralization process, the ANDE specifies the institutional reforms and political objectives to be achieved in terms of decentralization by 2032.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	Municipality *(Municipalidad)*			
	Average municipal size: 49 700 inhabitants			
	340			340

OVERALL DESCRIPTION. Guatemala's territorial organisation comprises 8 regions, 22 departments and 340 municipalities, the latter being the only decentralized tier of government in the country.

DEPARTMENTS AND REGIONS. Departments are deconcentrated entities and, for planning and development purposes, are clustered into regions. The most populated department is the department of Guatemala, which represents 21.4% of the total population, followed by the department of Huehuetenango (7.9%) and the department of Alta Verapaz (7.7%). On the other hand, the least populated departments are El Progreso, Zacapa and Baja Verapaz.

Both regions and departments have regional and departmental councils chaired respectively by a president and a governor, appointed by the central government. The Regional Council for Urban and Rural Development includes the governors and a representative of the municipalities of each department of the region. The Departmental Council includes all the mayors of the Department, as well as representatives from the public and private sectors. A National Council for Urban and Rural Development coordinates the regional and departmental councils (arts. 225 and 226).

MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION. 71% of municipalities have a population size of less than 50 000 inhabitants. The most populated municipalities are Guatemala City, Villa Nueva and Mixco, while the least populated municipalities are Santa María Visitación, Santa Catarina Barahona and San Marcos la Laguna.

The Municipal Code recognizes the possibility of developing different forms of inter-municipal cooperation for service delivery and development purposes (Art. 49-51). The role of the National Institute of Municipal Development (INFOM), which formerly exercised oversight over municipalities, is limited with respect to assisting municipalities in borrowing and project implementation.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

According to the Municipal Code, municipalities are responsible for promoting economic, social, cultural, environmental activities to ensure the quality of life of their communities (Art. 67). Their competences include own and delegated responsibilities. Own competences are the same for all municipalities and are mandatory: they include water supply, sewerage, street lighting, public markets, cemeteries, public spaces, road maintenance, building permits, public transport, waste collection, and environmental and natural resources management. Delegated competences are competences devolved by the central government through agreements (which must be accepted by the municipality), within the framework of Decentralization Act. When a function is delegated to a local authority, the central government must provide financial resources to cover for its cost. Delegated competences vary from one municipality to another and they may include pre and primary education or healthcare among other services. Municipalities can provide these services directly or through inter-municipal agreements or partnerships with the private sector.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPAL LEVEL
1. General public services	Internal administration; Civil registration; Building permissions; Cemeteries
2. Public order and safety	Municipal police; Designation of judicial and extrajudicial agents
3. Economic affairs/transports	Local roads (maintenance and construction); Regulation of the transport of passengers and cargo and central stations
4. Environmental protection	Treatment and disposal of solid waste and sewerage; Street cleaning; Management of parks, gardens and public spaces; Management of the local environment and natural resources
5. Housing and community amenities	Construction and renovation of housing; Supply of drinking water and street lightning; Urban planning and urban development
6. Health	Sanitary control standards in markets and food and beverage activities; Regulate and control public markets and slaughterhouses; Management and administration of popular municipal pharmacies
7. Recreation, culture & religion	Management of municipal libraries
8. Education	Management of pre- and primary schools, as well as literacy and bilingual education programs (delegated)
9. Social protection	Popular municipal pharmacies

SUBNATIONAL GOVERNMENT FINANCE

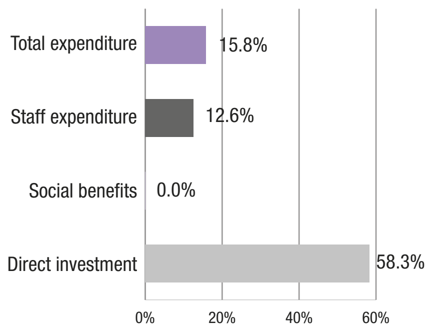
Scope of fiscal data: municipalities.	SNA 1993	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. Subnational government finance is regulated by the 1997 Budget Act (*Ley Orgánica del Presupuesto*), enacted in accordance with the provisions contained of Article 238 of the Constitution, which establishes how budgets should be elaborated, executed and monitored. According to Article 16 of the 2002 Decentralization Act, municipalities may be assisted by the Ministry of Finance and the Secretariat for Planning in order to comply with the provisions of the Budget Act. In 2015, Guatemala's local government revenues amounted to 1.9% of GDP, while its expenditure amounted to 2.3% of GDP and represented 15% and 15.8% of general government revenues and expenditures respectively.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2015	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**179**	**2.3%**	**100%**
Inc. current expenditure	130	1.7%	72.8%
Staff expenditure	47	0.6%	26.0%
Intermediate consumption	67	0.9%	37.2%
Social expenditure	0	0.0%	0.0%
Subsidies and current transfers	4	0.0%	2.0%
Financial charges	13	0.2%	7.5%
Others	0	0.0%	0.0%
Incl. capital expenditure	49	0.6%	27.2%
Capital transfers	3	0.0%	1.6%
Direct investment (or GFCF)	46	0.6%	25.7%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. Local government expenditure in Guatemala accounts for around 16 % of total public expenditure, one of the highest proportions in Central America. Two third of local expenditure is devoted to current expenditure, the rest to investments. The analysis of expenditure by region shows significant imbalances. For example, in 2015, about a quarter of local spending was concentrated in the metropolitan region, which is home to 22% of the population and less than one in 10 extremely poor people, while the Southwest region, which is home to 27% of the population and 30% of the country's poor, accounted for only 5.7% of public spending.

DIRECT INVESTMENT. Direct investment represents 25.7% of local expenditure, reflecting the fact that capital investment is a major function of local authorities. They represent a very large share of national public investment, according to international standards (for example, comparable to the average of OECD countries of 56.9% in 2016), although their share in GDP remains low (0.6% vs 1.7% in the OECD). Local governments' investments are mainly

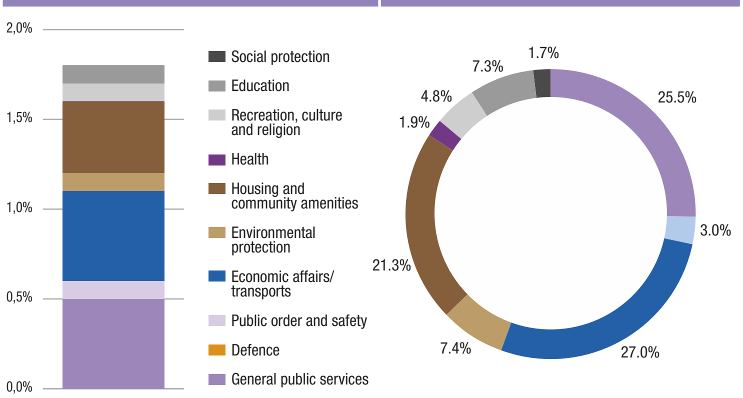
GUATEMALA

UNITARY COUNTRY

directed towards the construction and maintenance of public infrastructure (urban and rural roads, bridges, waterways, parks and green spaces) as well as land-related activities. There is an inversely proportional relationship between capital investment and municipal size: the share of local budgets allocated to capital investment increases as the size of municipalities decreases.

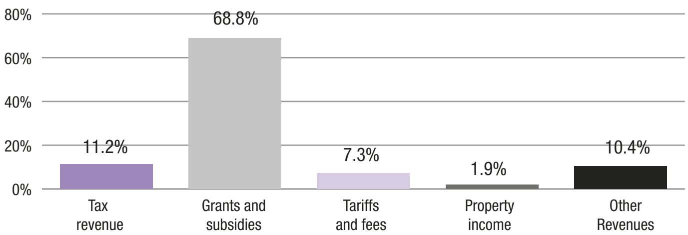
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Local government expenditure is concentrated in four sectors: public administration (civil registration), economic affairs (roads), environmental protection (waste management and sewerage) and cultural and recreation activities and infrastructures. The remaining local expenditure is devoted to water management and community development (housing and community amenities). Three of these sectors concentrate almost 60% of local expenditure (administrative functions, roads and transport, water management and community development). The role of local governments is very limited in the provision of education, health and social protection services.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2015	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**175**	**2.3%**	**13.5%**
Tax revenue	20	0.3%	2%
Grants and subsidies	121	1.6%	
Tariffs and fees	13	0.2%	
Property income	3	0.0%	
Other revenues	18	0.2%	



OVERALL DESCRIPTION. On average, sub-national governments received the equivalent of 13.5% of total government revenue in 2015. The main sources of sub-national revenue are transfers as provided for in the Constitution, shared taxes (in particular a percentage of VAT, resulting from the 1996 Peace Agreements - VAT-Paz), municipalities' own revenues (which may have fiscal and non-tax origins) and subsidies granted to cover decentralised responsibilities agreed with the national government.

Guatemala has a considerable vertical fiscal imbalance: in 2015, local government revenues represented 2% of general government revenues, while local expenditures represented 15.8% of general government expenditures. Central government transfers are intended to reduce this fiscal imbalance. According to a 2017 study by the Inter-American Development Bank on fiscal decentralization in Central America, this trend in fiscal imbalances is comparable to that of other countries in the region, such as El Salvador and Honduras.

Transfers account for more than two thirds of local government resources. They play an important role in equalisation: the Gini inequality coefficient of municipalities' own resources, which stands at 0.369, decreases to 0.160 with the addition of transfers.

TAX REVENUE. Guatemalan municipalities are responsible for the levying and collection of taxes entrusted to them by the central government. If local authorities are unable to collect taxes, they can ask the national government to carry out the task on their behalf.

The main sources of local governments' own revenue are taxes whose collection, administration and use have been transferred to them by the national government, including the Single Property Tax (*Impuesto Único Sobre Inmuebles* - IUSI), a tax for the maintenance of public spaces called "ornamental ticket" (*boleto de ornato*), and various indirect taxes on activities or others. 36 % of municipalities' own revenue is derived from local taxes.

Most of the tax revenue is generated by the IUSI, which accounts for 71% of local tax revenue and 7.9% of the total revenue of municipalities but only 0.2% of GDP. The remainder, namely sales taxes and ornamental tickets, represent about 10% of the municipalities' own revenues.

However, there is a territorial disparity in tax power. The main urban areas collect per capita incomes more than four times higher than those of medium-sized municipalities and more than five times higher than those of small municipalities.

GRANTS AND SUBSIDIES. Transfers represent almost 70% of local government revenue and include general purpose and capital expenditure transfers, although no data on transfers to local governments, broken down into earmarked and general purpose transfer categories, were found available. In accordance with the Constitution, 10% of the State's ordinary revenue is transferred to local authorities, 90% of which must be allocated to programmes and projects in the fields of education, health, infrastructure and public services (Article 257). The remaining 10% can be used to finance operating costs.

As defined in the 1996 Peace Agreements, local authorities also receive 12.5% of VAT revenues (shared taxation). 75% of these transfers are for investments in education, health, infrastructure and public services, while the remaining 25% can be used to cover current expenditure and pensions. Municipalities receive 50% of the tax levied on private vehicles and motorcycles and 20% of the tax on extra-urban transport and vehicles used for professional activities (for road construction and maintenance). Local authorities also receive 20% of the tax on boats (for water infrastructure and maintenance) and 30% of the air traffic tax (for the maintenance of electrical infrastructure). A portion of the profits made on oil is also transferred to municipalities (0.2 GTQ for each gallon sold of higher or regular gasoline in their jurisdiction, with the exception of Guatemala City where the tax is limited to 0.1 GTQ), and is earmarked for transportation and road infrastructure and maintenance.

According to the Municipal Code, all these funds are distributed according to a formula based on the size of the municipal population, the municipal own income per capita, in proportion to the number of villages and hamlets in each municipality (art. 119).

OTHER REVENUES. Other municipal revenues include service fees and charges (which represent 24% of own revenues) and revenues from the sale of assets. In contrast to taxes, municipalities have considerable autonomy in creating and charging fees for services. In total, these other sources of revenue represent 63% of local governments' own revenues. Non-tax revenues are collected through administrative fees, services, rents, income from municipal companies, concessions or inter-municipal cooperation and donors.
In addition, municipalities also receive 0.5% of the 1% royalty that is paid in exchange for mining - the other 0.5% being received by the state.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**1**	**0.0%**	**0.8%**	**100%**
Financial debt*	1	0.0%	0.8%	100%

* Currency and deposits, loans and bonds

FISCAL RULES. According to a 2016 IMF study, in Guatemala, there is no law on quantitative fiscal targets or fiscal responsibility that determines the requirements for fiscal collection objectives, budget deficits or expenditure ceilings. Nevertheless, following the 1996 Peace Agreements, it was agreed that tax collection should not represent less than 12% of GDP and that the budget deficit should not exceed 2% of GDP as implicit fiscal rules.

DEBT. According to the Municipal Code, municipalities may borrow from national banks without any approval from the central government, although the borrowing is limited to the repayment capacity (based on the balance between income and expenditure) and the duration of the mandates of local authorities (arts. 110-117). In practice, the loans are contracted through the National Institute for Municipal Development (INFOM). Municipalities need central government approval to borrow from international banks and issue bonds. They can use tax and transfer revenues as collateral.

Although regular reports on municipal debt are required, there is no standardized data. There is no national system and/or office to ensure detailed monitoring of municipal public debt. The Comptroller General (CGC) does not have a database on municipal debt and within the Ministry of Finance (MINFIN), the Public Credit Department has no mechanism to corroborate the information presented by the country's municipalities. According to data collected, the level of local debt is very low (0.01% of GDP and 0.8% of general government debt).

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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO // National Institute for Statistics.
Fiscal data: Guatemala's Finance and Economics Ministry // National Institute for Statistics (INE) // Central Bank of Guatemala.
Other sources of information: International Monetary Fund (2016) Guatemala: Fiscal Transparency Evaluation // Portal of municipal governments. Integrated financial administration system. Ministry of Public Finance // National Institute for Statistics // Porto Augusto, Eguino Huáscar and Rosales, Walter (2017) Panorama de las finanzas municipales en América Central, IADB

HONDURAS

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: HONDURAN LEMPIRA (HNL)

POPULATION AND GEOGRAPHY

Area: 112 490 km²
Population: 9.265 million inhabitants (2017), with an annual growth rate of 1.8 % (2010-2015)
Density: 82 inhabitants / km²
Urban population: 56.5 % of national population (2017)
Urban population growth: 2.9% (2017 vs 2016)
Capital city: Central District (Tegucigalpa-Comayagüela) (13.8% of national population)

ECONOMIC DATA

GDP: 46 billion (current PPP international dollars), i.e. 4 986 dollars per inhabitant (2017)
Real GDP growth: 4.8 % per year (2017 vs 2016)
Unemployment rate: 4.5% (2017)
Foreign direct investment, net inflows (FDI): 1 265 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 23.08 % of GDP (2017)
HDI: 0.617 (medium), rank 133 (2017)
Poverty rate: 16% (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Republic of Honduras is a unitary country with presidential government system. The President of the Republic is elected directly for four years. Legislative power is vested in the National Congress (unicameral) with 128 deputies elected by universal suffrage. The judiciary is formed by the Supreme Court of Justice, the courts of appeal and the courts.

The 1982 Constitution acknowledges municipalities as autonomous institutions governed by municipal councils (*corporaciones*), headed by a mayor and made up of municipal councillors (*regidores*), who are elected every four years. The last local elections took place in 2017, concurrently with general elections.

Effective decentralization was initiated in the 1990s as part of the State Reform and Modernisation Programme with the aim of ensuring political and administrative modernisation, as well as administrative and political decentralisation. In this context, the Municipalities Act was adopted in 1990 (Decree 134-90), but revised several times (last Decree 89-2015). According to the Municipalities Act, municipalities have the capacity to decide on their own administration, collect their own resources and decide on their own budget and local development plans (Arts. 12 and 13).

The current framework for decentralisation was further complemented by the Pact on Decentralisation and Local Development (2005), which is overseen by the Human Rights, Justice, Governance and Decentralization Secretary (SDHJGD), in charge of implementing national policies on decentralisation. In 2012, the National Policy for Decentralisation and Local Development was adopted to foster fiscal and political decentralisation by guaranteeing sustainable transfers from the central government to municipalities. This national policy was followed by the Law on Decentralisation adopted in 2016 to provide municipalities with greater autonomy in the management of local public services and budget execution. Yet in practice, Honduran local governments still lack the necessary capacity to effectively carry out their duties and manage their resources.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	Municipalities *(Municipalidades)*			
	Average municipal size: 31 090 inhabitants			
	298			298

OVERALL DESCRIPTION. The territory is divided into 18 departments, which are in turn divided into 298 municipalities. Municipalities are the only decentralized level of government in Honduras, while the central government is represented at the regional level in the departments.

Departments. They are administered by a governor appointed by the executive and assisted in its functions by a General Council. The Governor represents the executive power at departmental level and is responsible for monitoring the compliance of municipal policies with national policies.
The Law on Spatial Planning assigns a specific role to the departments for spatial development, coordination with local actors, evaluation and monitoring. It also refers to the possibility of creating departmental and democratic governments, based on popular consultation, with specific complementary powers and responsibilities to those of the national and municipal levels.

MUNICIPALITIES. The 298 municipalities include the central district, made up of the municipalities of Tegucigalpa and Comayagüela (art. 295 of the Constitution). The number of municipal councillors of each municipal council varies within a range of four to ten, depending on the municipal size. In Honduras, 271 municipalities (91%) have less than 50 000 inhabitants, while the 13 largest municipalities are home to 45% of the national population. In addition, the Municipalities Act provides for the sub-division of municipalities for administrative purpose into cities, villages and hamlets, and the sub-division of cities into districts and neighbourhoods (art. 17).

INTER-MUNICIPAL COOPERATION. Inter-municipal cooperation (*mancomunidad*) is entrenched in the Chapter II of the Municipalities Act. The municipalities with a positive vote of two thirds of the members of the municipal council may associate with each other or with other national or foreign entities, to better comply with their duties and attributions. These associations are governed by municipal agreements. The Association of Municipalities of Honduras (AHMON), created in 1962 to foster inter-municipal cooperation, currently identifies 45 inter-municipal associations across the country.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

According to the Municipalities Act, municipalities should ensure "the wellbeing of their population, promote their integral development and the preservation of the environment" (Art. 14). The SDHJGD divides municipalities into four categories according to their capacity to meet their assigned responsibilities: A (high capacity), B (intermediate capacity), C (low capacity) and D (very low capacity). According to the latest categorization (2015), only 23 municipalities have significant administrative capacity to assume greater responsibilities.

The Municipalities Act also establishes that local authorities must fulfil their responsibilities for the provision of services directly or through agreements with national or autonomous institutions or contracts with public or private entities. Municipalities that form part of a common urban area may create an association of municipalities for the provision of public services (Art. 16.b). Moreover, local authorities must promote community participation in local affairs.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPAL LEVEL
1. General public services	Internal administration
2. Public order and safety	Regulation of urban and interurban circulation; Fire-fighting services
3. Economic affairs/transports	Development and maintenance of urban and local roads, sidewalks and beaches, urban transportation; Development, management and maintenance of local electric distribution systems (in cooperation with the national corporation); Development and regulation of commercial and industrial activity; Promotion of tourism
4. Environmental protection	Waste and sewerage management and street cleaning; Protection of the environment, ecology and reforestation
5. Housing and community amenities	Municipality development plans, and coordination with national development plans Urban development, planning and regulations, land use; Drinking water supply, street lighting; Cemeteries
6. Health	Public health and wellbeing of the population; Control of public markets and slaughterhouses
7. Recreation, culture & religion	Control and regulation of public entertainment, including restaurants, bars, nightclubs, sale of alcohol; Culture and recreation, education and sports. Protection of heritage and local traditions
8. Education	Development of tourism, culture, leisure, education and sport activities
9. Social protection	Development of policies to support child, youth, elderly, persons with disabilities

SUBNATIONAL GOVERNMENT FINANCE

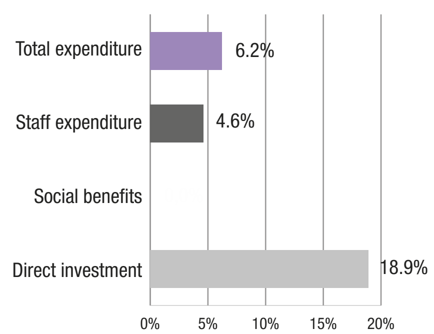
Scope of fiscal data: Municipalities.	SNA 1993	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. The Constitution, the Municipalities Act and the National Policy for Decentralisation and Local Development establish the fiscal framework and the main financial mechanisms for local government in Honduras. The degree of decentralisation of resources and expenditures is in line with the average of the Latin America region. In recent years, Honduras has experienced a re-concentration of resources and expenditure at the central level, with a 60% decrease in the contribution of local governments to total revenues between 2005 and 2015, and a 49% decrease in total expenditures over the same period.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2014	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**89**	**2.2%**	**100%**
Inc. current expenditure	52	1.3%	58.0%
Staff expenditure	24	0.6%	26.4%
Intermediate consumption	9	0.2%	10.0%
Social expenditure	0	0.0%	0.0%
Subsidies and current transfers	4	0.1%	4.1%
Financial charges	16	0.4%	17.4%
Others	0	0.0%	0.0%
Incl. capital expenditure	37	0.9%	42.0%
Capital transfers	8	0.2%	9.0%
Direct investment (or GFCF)	29	0.7%	33.0%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. According to a 2017 IADB report, local governments' contribution to public expenditures in Honduras is close to the regional average. However, local governments' share in public expenditure and GDP has declined over the last decade (from 13.6% of total public expenditure and 3.7% of GDP in 2005 to less than 7% and almost 2% in 2014, respectively). Current expenditure represents about 58% of the local governments' budget (of which 17.4% corresponds to financial charges) – according to the law, current expenditure must be between 40% and 65% of municipal budgets depending on the amount of local revenue.

HONDURAS

UNITARY COUNTRY

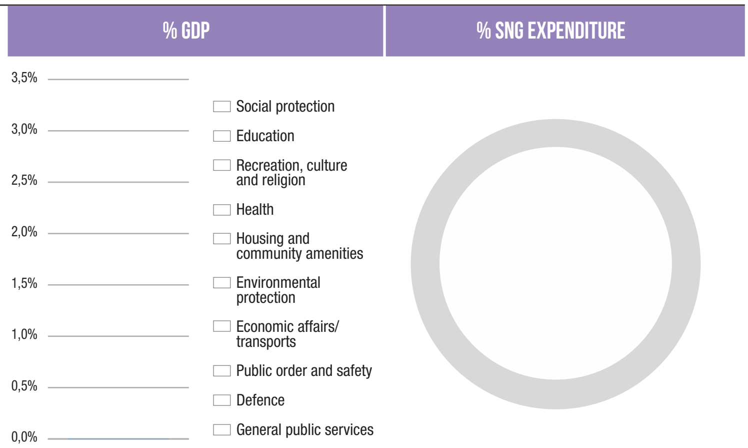
DIRECT INVESTMENT. Direct investment by municipalities accounts for one-third of total sub-national government spending. They constitute a relatively significant share of national public investment (19% in 2014) - noting that total national public investment represents barely 3.8% of GDP in 2014.
The conditions for intergovernmental transfers stipulate that 69% of transfers from the state to municipalities must be devoted to capital investments (although in practice, many municipalities allocate these transfers to operating expenses).

In general, investments are concentrated in large urban areas. However, an IADB study points out that the share of small municipalities (less than 5 000 inhabitants) in public investment was higher than that of large municipalities (more than 500.000 inhabitants) with percentages of 58.3% and 5.7% respectively of total SNG expenditures in 2014.

In 2015, the Commission for the Promotion of Public-Private Alliances (COALIANZA) was established. The idea was to promote an alternative to supplement the financial resources allocated to municipalities for project implementation. Within the framework of these alliances, local investments are mainly devoted to hydraulic infrastructures (drinking water and irrigation), markets and terminals.

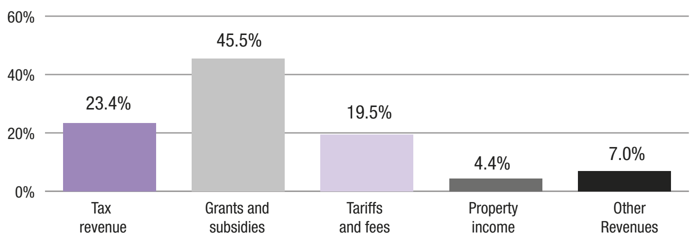
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

There is a lack of concise data at the municipal level on expenditures by economic function. The central government is responsible for the management and financing of the main social services, such as health or education. The Municipalities Act defines minimum percentages of central government grants to be allocated to programmes for children and young people (1%), support for women and the fight against gender-based violence (2%), or the development of social infrastructure projects (13%). Municipalities may use up to 15% of the grants for administrative expenses, with the exception of municipalities with own revenues of less than 500 000 lempiras (around $20 000), which may devote up to 30% of their budget to cover these expenses.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2014	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**104**	**2.5%**	**8.1%**
Tax revenue	24	0.6%	3.0%
Grants and subsidies	47	1.2%	
Tariffs and fees	20	0.5%	
Property income	5	0.1%	
Other revenues	7	0.2%	



OVERALL DESCRIPTION. The central government of Honduras has committed to increasing the share of revenue transferred to local authorities from 5% in 2010 to 20% by 2017 and 40% by 2038. In 2013, the share of local revenues in total general government revenues was 11.8%, but by 2014 it had fallen to 8.1%. Per capita own resources increase with municipal size while transfers decrease with population size.
Municipal revenues have different sources: transfers (accounting for 45.5% of SNG total revenues in 2014), tax revenues (23.4%) and non-tax revenues (30.9%).

TAX REVENUE. The Municipalities Act sets that municipalities cannot approve or change taxes. The Act further establishes in its article 91 (following the 2009 amendment) that 11% of central tax revenue must be transferred to municipalities.

In addition, municipalities receive revenue from local taxes. These local taxes represent about 43% of local own revenues in 2014. They mainly include the tax on industry, commerce, and service; the tax on extraction and exploitation of livestock resources; the property tax and the personal income tax. In the case of personal income and sales taxes, these taxes are collected directly by the municipalities but their base is shared with the central government. The base for these main tax categories is highly related with population density, which is why small municipalities are highly dependent on block grants as an almost exclusive source of revenue. Property tax represented 12% of local own revenues in 2014; municipalities don't have the power to change its base. Other sources of tax revenue include the tax on natural resource extraction (including mining) and communication, as well as taxes over billiard and controlled products.

GRANTS AND SUBSIDIES. According to the Municipalities Act, the central government shall allocate a percentage of general government's annual tax revenue to municipalities each year in the form of monthly advance, of which 15% is earmarked for administrative expenditures, 13% for operation and maintenance of social infrastructure, 2% for social development and gender-based violence prevention, 1% for child and youth protection programs and the remainder for public investment (69%). The percentage of general government's tax revenue to be allocated as grants to municipalities grew at an annual rate of 1%, from 7% in 2010 to 11% in 2014.

The transfer's allocation is based on criteria specified in the Municipalities Act, which states that 50% of the transfers must be distributed equally between municipalities, 20% according to the share of population and 30% according to the share of population living below the poverty line (art. 91).

Although Article 91 of the Municipalities Act was revised in 2009 to increase the equalization effect of the transfer (by focusing on the share of poverty in the population), this transfer generates horizontal inequalities, by providing a fixed amount to each municipality regardless of its wealth and size. This current transfer system benefits small municipalities that receive 10 times more per capita than the amount received by the most populous municipalities.

OTHER REVENUES. Non-tax revenues represent 52% of local own revenues. Local fees are related to the provision of direct and indirect municipal services, rental of municipal property or assets, building, penalties, fines and improvement taxes, which are contributions paid to municipalities by the potential beneficiaries of the municipal works until the municipality has partially or totally recovered its investment.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**67**	**1.4%**	**7.7%**	**100%**
Financial debt*	41	0.9%	6.6%	62%

* Currency and deposits, loans and bonds

FISCAL RULES. The Mayor is in charge of formulating and elaborating the programme budget every year before submitting the draft budget to the municipal council for approval. The approved budget must be then presented to the Ministry of the Interior and Justice. Local governments must prepare a balanced budget which covers both current and capital expenditures.

DEBT. The Municipalities Act allows municipalities to enter into loans and other financial transactions with any national institution (Art. 87). Municipal debt is limited to 20% of the regular revenues of municipalities and loans may be used for authorized purposes only. Nonetheless, a World Bank report pointed out that in 2010, 28 local governments took out new loans in excess of the 20 percent of revenue ceiling.

In 2016, SNG debt amounted to 1.4% of GDP and 7.7% of general government debt. The financial debt accounted for 62% of SNG debt while the "other accounts payable" category (debt to suppliers and arrears) amounted to 38% of SNG debt, reflecting the difficulties of Honduran municipalities in dealing with their financial obligations. The financial debt was entirely made up of loans, although municipalities may issue bonds to finance works and services, with the authorization of the Ministry of Finance and Public Credit and after obtaining the prior approval of the Board of Directors of the Central Bank of Honduras. When loans are granted by foreign entities, the procedures set out in Law 41 on public credit must be followed.

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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data: Secretary of Finance of Honduras (SEFIN; Central Bank of Honduras // IMF-GFS.
Other sources of information: Asociación de Municipios de Honduras (AHMON) – web portal // Instituto de Acceso a la Información Pública – Portal Único de Transparencia; Porto, Augusto // Eguino, Huáscar and Rosales, Walter (November 2017) Panorama de las finanzas municipales en América Central, IADB // Secretaría de Derechos Humanos, Justicia, Gobernación y Descentralización (2015). Categorización Municipal en Honduras // Secretaría de Gobernación; FOSDEH (2017) El proceso de descentralización, ¿Política de Estado o Política de Gobierno? // Sethi, Geeta et al. (2013) Public expenditures for decentralized governance in Honduras: towards restoring fiscal consolidation. Public Expenditure Review (PER), World Bank Group.

JAMAICA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: JAMAICAN DOLLAR (JMD)

POPULATION AND GEOGRAPHY

Area: 10 990 km^2
Population: 2.890 million inhabitants (2017), an increase of 0.4% per year (2010-2015)
Density: 263 inhabitants / km^2
Urban population: 55.4% of national population (2017 vs 2016)
Urban population growth: 0.8% (2017 vs 2016)
Capital city: Kingston (20.3% of national population)

ECONOMIC DATA

GDP: 26.0 billion (current PPP international dollars), i.e. 8 995 dollars per inhabitant (2017)
Real GDP growth: 0.5% (2017 vs 2016)
Unemployment rate: 12.5% (2017)
Foreign direct investment, net inflows (FDI): 888 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 22% of GDP (2017)
HDI: 0.732 (high), rank 97 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

As a member of the Commonwealth realm, Jamaica is a parliamentary democracy and a unitary constitutional monarchy, whose official head of state, Queen Elizabeth II, is represented at the national level by the Governor General. The Governor General is appointed by the Queen, for no fixed term, on the advice of the Jamaican Prime Minister. Jamaica has a bicameral parliamentary system in place, made up of the Senate and the House of Representatives. The House of Representatives is composed of 63 members, elected via universal suffrage to five-year terms in single-seat constituencies. The incumbent Governor General appoints both the leader of the majority, who becomes Prime Minister, and the leader of the opposition. The 21 senators are appointed by the Governor General for five years as well. 13 of them are appointed on the recommendation of the Prime Minister and the remaining eight on the recommendation of the leader of the opposition. The Prime Minister, as the head of government, also appoints her cabinet, composed of at least 11 members from both houses (no more than four Ministers can be appointed from the Senate). The executive powers are vested in the Prime Minister and the cabinet.

The local government democratic system is acknowledged in the Constitutional Amendment on Local Government of 2015. The 2016 Local Governance Act, on the other hand, is the key regulation of local governments. It is one of the "three strategic laws" heralded by the Ministry of Local Government and Community Development Local, alongside the Local Government Financing and Financial Management Bill and the Local Government Unified Service and Employment Bill. The legislative reform repeals, moreover, the 1887 Parish Councils Act and the 1923 Kingston and St. Andrew Corporation Act, which were still in force. Indeed, the first formal system of local government in Jamaica was established as early as 1663, mirroring the system in place then in England. This system was abolished, over 200 years later, and replaced by parochial boards ('parish councils' since the 1887 Parish Council Act).

The 2016 legislation establishes the new governance framework based on the principles of participatory local governance and local self-management. The 2016 Local Governance Act also repealed the 2003 Municipalities Act, incorporating its contents. Consequently, there have been several significant legislative changes and reforms vis-à-vis municipal corporations and parishes. According to the Local Governance Act, a Parish development committees (PDC) is established in each municipal jurisdiction as a mechanism for community involvement in the preparation and implementation of parish development plans. A Committee is composed of representatives of civil society, community-based organizations, local private sector, local government and deconcentrated central government agencies. It oversees reforms and compliance to the regulations that govern the organization, structure, powers, administration and financing of local governments.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	12 parishes 1 Municipal Council 1 Municipal Corporation			
	Average municipal size: 206 450 inhabitants			
	14			14

OVERALL DESCRIPTION. Jamaica has a single level of sub-national government formed by 14 local governments. The main form of local government is the parish. There are 12 parishes and two municipalities, including the 1 second tier municipal council (the Portmore Municipal Council) within the parish of St. Catherine, and a Municipal Corporation of Kingston and St. Andrew Corporation (KASC). The country is further divided into three historic counties, Cornwall, Middlesex, and Surrey, with no administrative relevance.

PARISHES. All parishes have both political and administrative bodies. The political branch includes councilors, elected for four-year mandates and led by an indirectly elected mayor. At their request, large districts within the largest parishes can be acknowledged by the local government and establish a Council sub-committee, comprising Councilors from Electoral Divisions, under the authority of the mayor. The administrative branch is headed by a manager, advising and implementing the policies of the Council.

MUNICIPAL CORPORATION AND MUNICIPAL COUNCIL. The parishes of Kingston, the capital city, and St. Andrew were merged into a single Municipal Corporation, the Kingston and St. Andrew Corporation. This is the country's largest local government, with 40 elected councilors. As with Parishes, the Corporation's mayor is too indirectly elected.

The Municipal Act of 2003, established the second-tier status of municipal council. The Portmore Municipal Council, was then created. The municipal population, by law, must be of at least 50 000 inhabitants and its establishment cannot have any adverse effect on the neighboring parishes. Since recent reforms and the entry into force of the 2016 legislation, the Municipal Council is made up of 13 elected representatives, including a mayor directly elected via universal suffrage.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Recent reforms have renewed the scope, structure, functions and autonomy of local governments in Jamaica. In particular, competences and scope of action were expanded to include sustainable development plans. The establishment of sectoral committees within the local government has allowed for clearer definition of competences and distribution of tasks within the administration (Part III of the Local Governance Act 2016). The law requires, specifically, the existence of permanent committees to support poorer population, and provisions to increase the accountability and transparency of local finance. Additional extraordinary committees can also be created.

The adoption of the 2016 Local Government (Unified Service and Employment) Act entails the creation of a unified management system for all local government employees. The Services Commission within local administration is in charge of human resources oversight. On the other hand, several competences are still controlled by the central government via five agencies of the Ministry of Local Government and Community Development: the Fire Brigade; the National Solid Waste Management Authority; the Board of Supervision; the Office for Disaster Preparedness and Emergency Management; and the Social Development Commission. Due to increased vulnerability to climate change and disaster risk, a National Building Code and a new Building Act are being debated in the parliament, and the role of municipal corporations will be defined accordingly.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPAL LEVEL
1. General public services	Internal administration; Parish public bodies; Civil status register
2. Public order and safety	Civil protection; Civic order
3. Economic affairs/transports	Parochial roads; Markets; Parking; Issuing of trade licenses
4. Environmental protection	Waste management
5. Housing and community amenities	Urban and land-use planning; Public lightning; Traffic; Settlement location; Supply of drinking water
6. Health	Primary healthcare (infirmaries); Municipal enforcement and regulation of health-related issues
7. Recreation, culture & religion	Promotion, management of municipal libraries and other cultural institutions; Monument protection; Promotion of sports
8. Education	Pre-primary and primary education; Kindergartens; Elementary education
9. Social protection	Social services including family benefits (since 2004) through municipal social assistance centers

SUBNATIONAL GOVERNMENT FINANCE

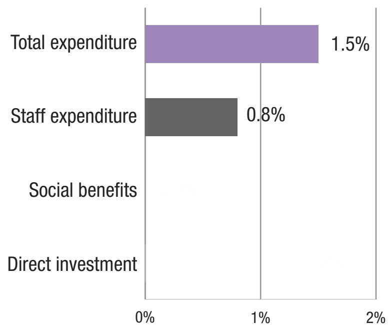
Scope of fiscal data: parishes, Municipal Council and Municipal Corporation.	SNA 1993	Availability of fiscal data: **Low**	Quality/reliability of fiscal data : **Low**

GENERAL INTRODUCTION. The Local Government Finance and Financial Management Act of 2016 repeals various previous regulations (including the Parochial Rates and Finance Act) and establishes funding and financial management of local governments. This reform led to a formalization of the budget process and all the procurement procedures. Local authorities are now responsible for the elaboration of operational budgets, which are submitted to the Prime Minister for approval every April; and for the elaboration of a strategic plan and budget, submitted for approval every four years. The 2016 Act calls for local governments to promote citizen participation in budgetary drafts. It also improves the existing accounting and financial management standards by adopting the International Public Sector Accounting Standards. To foster accountability and transparency, all local governments adopted the Local Public Accounts Committees (LPACs) and homogeneous Financial Management System.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**38**	**0.43%**	**100%**
Inc. current expenditure			
Staff expenditure	7	0.08%	18.1%
Intermediate consumption			
Social expenditure			
Subsidies and current transfers			
Financial charges			
Others			
Incl. capital expenditure			
Capital transfers			
Direct investment (or GFCF)			

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



JAMAICA

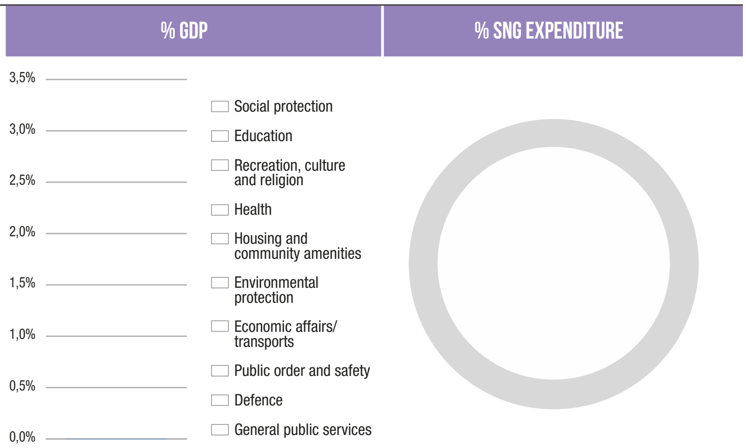
UNITARY COUNTRY

EXPENDITURE. Local governments spend most of their revenue in "programmes" for service provision (72% of total SNG expenditure). The remaining resources are devoted to staff wages and other administrative costs (18.1% and 9.9%, respectively). The Local Government (Unified Service and Employment) Bill of 2016 provides a renewed framework for local human resource management. It repeals the corresponding articles of the Parish Councils (Unified Services) Act, and both the Municipal Service Commission Act, and the Poor Relief Officers (Unified Service) Act of 1964.Since the reform, local budgets must be aligned to central government's and are required to adopt a full cost-recovery approach to current and capital budgets. As per the "Special Discretionary Relief", local governments also make recommendations to the Ministry of Finance on granting this tax exemption.

DIRECT INVESTMENT. Since 2016, local councils have had to present their budgeted annual capital expenditures. The cost of improvement projects, approved by local councils in accordance with the 1914 Local Improvement Act, must be recovered through temporary fees. In addition, formally, the funds collected within the Parochial Revenue Fund or Equalization Fund (see below) can be mobilized for specific projects approved by both the local council and the line ministry.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

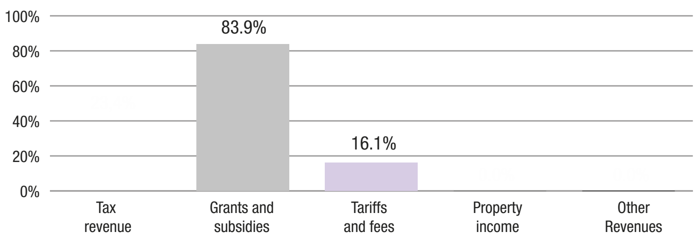
The larger share of expenditure (72%) is allocated to service provision, including parish's road management (40.5%), water (6.1%) and other services (25.5%), such as maintenance and expansion of street lighting, collection and disposal of solid waste, community infrastructure and civil improvements and repairs to fire stations.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**55**	**0.6%**	**2.2%**
Tax revenue			
Grants and subsidies	46	0.5%	
Tariffs and fees	9	0.1%	
Property income			
Other revenues			

% SNG REVENUE



OVERALL DESCRIPTION. In Jamaica, local governments generally still lack the required revenues to provide basic services to their citizens, although tax collection mechanisms are improving. In 2016, local governments spent 55 dollars PPP per capita (0.6% of GDP). The Local Government Finance and Financial Management Act of 2016 is the result of the reform on local government finance, establishing new rules for revenue mobilization. Intergovernmental transfers based on the shared taxes and earmarked transfer for devolved duties are still the primary source of revenue (83.9%). Local governments are also the ultimate receivers of property taxes collected centrally. This tax is transferred to local governments as part of a tax-sharing scheme: amounts are therefore not included as tax revenue but are treated as grants. Revenue from the property taxes represents the largest source of funding for local governments (64.5% of SNG revenue). Since 2016, parishes and the municipal corporation gained additional leeway in the collection of tariffs and fees, the remaining part of their revenue. Local governments receive grants for welfare-related expenses from the General Assistance and Specific Grant, on a non-conditional basis.

TAX REVENUE. In Jamaica, the Local Government Finance and Financial Management Act of 2016 replaces all previous legislation relating to property tax. The new legal framework maintains the tax-sharing scheme in which the total amount of property taxes is funneled into the Parochial Revenue Fund (PRF), managed by a public officer designated, in turn, by the Ministry of Finance. Within this scheme, the property tax remains the main source of revenue of local government (64.5%). The 2016 act also maintains the three types of financial aid, namely the Statutory Relief, the Agricultural De-Rating, and the Special Discretionary Relief. The property tax is gauged on the unimproved value of the land. Due to a change of land valuation in 2017, the tax rates were reduced accordingly (from 1.5%-2.0% down to 0.8%-1.3% rates).

These funds are allocated by the Ministry of Local Government and Community Development directly to the parish in which the property is located. Facing a rather low level of compliance from taxpayers (51% in 2012), local governments, in partnership with the national government, have been tried (successfully, so far) to improve tax collection (up by 48% in 2013) with the implementation of mobile tax collection units and civic campaigns. Local governments have no other tax revenue. While accounting for 100% of local tax revenue, the property tax amounted to 64.5% of local revenue and 0.4% of GDP.

GRANTS AND SUBSIDIES. The PRF receives two-thirds of its funds from property taxes, and the rest from the motor vehicle license duty, on behalf of local governments. Funds are managed by a public officer designated for that purpose by the Minister. According to a 2016 PEFA Assessment, the Tax authority charges an administration fee of 2.5% of the collected property taxes. Out of the remaining revenue, 90% is divided among parish councils, based on the original locality the tax was collected. The last 10% feeds the Equalization Fund, which is available to any Parish in accordance with specific, urgent necessities. Since 2012, access to the Equalization Fund – which has to be granted formally by the Ministry of Finance – has increased.
General Assistance Grants cover salaries, technical services and administration costs of the parishes. These grants are defined according to historical series adjusted for inflation annually across the board. Specific grants are meant to cover the cost of service provision for welfare-related expenses. According to the 2016 PEFA, the funds from the Equalization Fund are still fully accountable through a transparent set of rules (even though this type of funding specifically does not reach 10% of total transfers).

OTHER REVENUES. Due to increased room for manoeuvre of local governments on tariffs and fees, they have identified other viable sources of revenue. In 2016, before the legislative reforms, tariffs and fees accounted for 16% of SNG revenue. The reform establishes that other revenues should include fees on economic activities such as shop fees and licenses, vending fees/license, market fees, leases, building and subdivision fees, transportation center leases, parking fees and fines, cemeteries, barbers and hairdressers, trade license, slaughterhouses and butcher's license; but also on services such as water rate, burial inspection, public amenities, place of amusement.

In accordance with the Local Government Act of 2016, local governments have the power to collect fees on services performed on behalf of any line ministry or government agency. Temporary fees can be collected on public works and improvements projects approved by the local council, and currently being implemented in the parish jurisdiction for the benefit of the local inhabitants.

Moreover, according to the Road Traffic Act, 25% of the motor vehicle license, collected on behalf of local governments, is directly transferred to the respective parish. The remaining 75% of license duties is redistributed between each parish, according to the share of parochial roads under the parish's responsibility.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. Since 2016, local governments' accounts have followed an accrual system on the basis of the International Public Sector Accounting Standards. Jamaica has since been a regional advocate, in the Caribbean, for the adoption of such Standards. In 2018, the auditor general's department annual report included a chapter on Municipal corporations.

According to the current legal framework, local governments must submit to the Ministry of Finance a budgeted financial statement, estimates of budget operations, and a capital budget for the following year. In addition, legislation requires a financial plan for the following four years. Budget rules include a full cost-recovery approach, implying no public services can cause deficit, and public consultation on the budgets. Local governments must establish and maintain a general fund to receive all allocated funds.

DEBT. In Jamaica, the authority to raise loans is a sole prerogative of the Ministries. Local governments may, nonetheless, request the Ministry's approval to contract debt. This power has never been used so far. According to current regulation, bonds are guaranteed by the Ministry of Finance, and debt obligations must be in accordance to the conditions formerly established in the Financial Administration and Audit Act, the Public Bodies Management and Accountability Act, and the Public Debt Management Act of 2012. Loans raised during the financial year cannot (1) exceed either the main repayment due that financial year or (b) the amount of the fiscal deficit, or (c) any of the pre-funding amounts.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: UCLG
Last update: 02/ 2019

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Socio-economic indicators: World Ban // UNDP // UN Desa // ILO.
Fiscal data: Ministry of Finance and the Public Service, Estimates of Revenue and Expenditure for the year ending March 2017 // Statistical Institute of Jamaica, National Accounts // World Bank statistics database
Other sources of information: Commonwealth Local Government Forum (2018), Commonwealth Local Government Handbook. Country Profile 2017-18 // Ministry of Local Government & Community Development, Local Government (Financing and Financial Management) Bill 2015 // Ministry of Local Government & Community Development, Local Government (Unified Service and Employment) Bill 2015 // Ministry of Local Government & Community Development, Local Governance Bill 2015 // Ministry of Industry, Investment and Commerce, National Investment Policy Statement // National Development Plan "Vision 2030 Jamaica; UNACTD, World Investment Report 2018 on Investment and New Industrial Policies // Lincoln Institute (2016) Towards Property Tax Compliance: A Case Study of Attitudes Toward Paying Property Taxes in Jamaica Working Paper WP16TB1.

MEXICO

FEDERAL COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME LOCAL CURRENCY: MEXICAN PESO (MXN)

POPULATION AND GEOGRAPHY

Area: 1 964 380 km^2
Population: 123.518 million inhabitants (2017), an increase of 1.4% per year (2010-2015)
Density: 63 inhabitants / km^2
Urban population: 79.9% of national population
Urban population growth: 1.6% (2017 vs 2016)
Capital city: Mexico City (17.5% of national population)

ECONOMIC DATA

GDP: 2 360.3 billion (current PPP international dollars), i.e. 18 274 dollars per inhabitant (2017)
Real GDP growth: 2.0% (2017 vs 2016)
Unemployment rate: 3.4% (2017)
Foreign direct investment, net inflows (FDI): 32 127 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 22.3% of GDP (2017)
HDI: 0.774 (high), rank 74 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Mexico, officially the “United Mexican States”, is a federal presidential representative democratic republic in a multiparty system, composed of 32 federal states. The Political Constitution of the United Mexican States, approved in 1917 and revised several times, defines the federal system.

At the federal level, the head of the executive branch is the President of the Republic, directly elected for a six-year term, who is both head of state and head of government. The bicameral parliament, the Congress of the Union, is composed of an upper chamber, the Senate (*Cámara de Senadores*), and a lower house, the Chamber of Deputies (*Cámara de Diputados*), with 500 members elected for a three-year term. State governments are represented in the Senate. Two senators for each of the 32 states are elected under the principle of relative majority and one senator for each of the 32 states is assigned under the principle of first minority. The 128 Senators serve six-year terms, concurrently with the term of the President of Mexico.

At the state level, the country is divided into 32 states, each of them composed of municipalities. States are defined in the Constitution as being free, sovereign, autonomous and independent from one another. Each state has its own constitution, and can enact its own laws, as long as they do not contradict the national constitution. They also have their own judiciary branch, as well as civil and penal codes. The division of powers in states is similar to that of the national level, but with a unicameral legislature, i.e. the state congress (*Congreso del Estado*) which is composed of deputies, elected by universal suffrage for a three-year mandate. The state governor or gobernadores (except for Mexico City, which has a head of government) is directly elected by universal suffrage for a single six-year term as head of the executive branch.

At the local level, municipal autonomy is recognised by the constitutional reforms of 1983 and 1993. It is now enshrined in Article 115 of the federal Constitution as well as in the constitutions and legislation of each state. In particular, detailed provisions concerning the internal political organisation, municipal powers and responsibilities, inter-municipal cooperation, and local finance are included in Article 115 of the Constitution. These provisions are then detailed by each state constitution to which municipalities belong. Each municipality is headed by a mayor (presidente municipal) elected by direct universal suffrage, with the support of the municipal council (*ayuntamientos*). The municipal council consists of a *cabildo* (chairman) with a síndico and several regidores. Councillors are elected every three years while the mayor’s mandate may vary across states.

The elections, which took place on 1 July 2018, were the largest in Mexico’s history and the first to be held under the reformed electoral code enacted in 2014. The reform enables elected officials to serve consecutive terms in office for the first time since the establishment of democracy in Mexico. Before this reform a second term was prohibited. Now deputies, senators, state deputies, local council members, and mayors are permitted to run for re-election and serve a second term. The National Electoral Institute coordinated with state governments to align state and local elections with federal elections for the presidency and Congress. More than 3 400 representatives were elected in July 2018, including the governorships of eight states including the head of government for Mexico City and municipal councillors.

Mexico has experienced several phases of federalisation and decentralisation. The country was definitively established as a federal government in 1857, yet the fiscal agreements enacted in the 1920s and 1930s - and the rise of the Institutional Revolutionary Party - steered the country towards a highly-centralised political and fiscal model. Then in the 1980s, a series of reforms put the topic of decentralisation back on the agenda. First, the introduction of the National System of Fiscal Coordination (*Sistema Nacional de Coordinación Fiscal*, SNCF) in 1980 reorganised the whole intergovernmental fiscal system. It was followed by constitutional changes in 1983 that further decentralised functions and resources to subnational governments. In this respect, new responsibilities were further transferred to the states, basic education in 1992 and healthcare in 1996. An important reform of the National System of Fiscal Co-ordination was carried out in 1998 to strengthen fiscal decentralisation. Almost 10 years after, in 2007, a new fiscal reform provided the states with more taxing powers, while the incentives embedded in the formulas for the distribution of federal transfers were simplified and improved. Over the current decade, new important changes were made to the Mexican multi-level governance system. These changes affected the election of governors, state deputies, municipal councillors and mayors, and the legal status of the federal District of Mexico. In 2014-15, the fiscal framework was modified.

Vertical coordination is ensured by the Parliament, in particular through the role of the Senate. However, the Senate has limited power: its consent is not necessary for the approval of federal laws and it cannot veto federal laws. In addition, they do not have the same power over budgetary discussions: revenue is approved by both chambers while expenditure is approved only by the Chamber of Deputies. There are few other vertical coordination mechanisms. The National Institute for Federalism and Municipal Development (INAFED), within the Ministry of Interior (*Secretaría de Gobernación*, SEGOB), aims to coordinate the actions of the three levels of government to design and implement public policies and programmes to strengthen intergovernmental relations, and contribute to the development of states and municipalities. It provides technical advice to local governments, training to local public employees and serves as a source of information on municipal finance. There are also numerous sectoral councils imposed by sectoral laws (health, education, sport, etc.) involving representatives of the federation and states.

Horizontal coordination between the states takes place through the National Conference of Governors (*Conferencia Nacional de Gobernadores*, CONAGO). This forum for governors is responsible for defining a common agenda, fostering dialogue and strengthening the federal pact. At local level, the National Conference of Municipalities of Mexico (*Conferencia Nacional de Municipios de México*, CONAMM) serves as a national forum for dialogue among municipalities and groups the three main municipal associations in the country: the National Association of Mayors (*Asociación Nacional de Alcaldes*, ANAC); the National Federation of Municipalities of Mexico (*Federación Nacional de Municipios de México*, FENAMM); and the Association of Local Authorities of Mexico (*Asociación de Autoridades Locales de México*, AALMAC).

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	2 479 municipalities *(municipios)*		32 states including Mexico City *(estados)*	
	Average municipal size: 5 010 inhabitants			
	2 479		**32**	**2 511**

OVERALL DESCRIPTION. Mexico is a federal country that includes 32 federal states, and 2 479 municipalities governed by state legislation.

REGIONAL LEVEL. The upper level of subnational government in Mexico consists of 32 states. Mexico City, previously considered a Federal District, became the 32nd state of the federation in January 2016. Called CDMX, Mexico City has its own constitution, enacted in 2017, and it now has autonomy in terms of its political and administrative structure. The executive power is exercised by the head of government, who is elected by universal suffrage while the legislative branch is in the hands of the Congress of Mexico City.

Mexican states are very diverse. While the average population size is around 3.86 million inhabitants (as of 2017), the least populated state counts 748 000 inhabitants (Colima) and the most populated 17.36 million inhabitants (state of Mexico). After the State of Mexico, three states have between 8 and 9 million inhabitants: Jalisco, Veracruz and Mexico City (now a state). Economic and social disparities are particularly high at the regional level. GDP per capita in Mexico City – the country's second richest region after Campeche (where natural resources significantly contribute to the economy) – was more than five times higher than in Chiapas in 2016. Even when resource-rich regions such as Campeche or Tabasco are excluded, regional economic disparities in Mexico remain larger than in any other OECD country. However, regional disparities as expressed by GDP per capita (regions in the top and bottom 20% on the wealth scale) have slightly decreased in Mexico over the last 16 years.

MUNICIPAL LEVEL. The lower-tier of subnational government in Mexico comprises 2 479 municipalities (*municipios*). Following the transformation of the Federal District of Mexico into an autonomous entity in 2016, the 16 boroughs (*delegaciones*) of the new State became municipalities in July 2018, date of the local elections.

Municipalities vary greatly in terms of size and capacity, in particular in terms of staff capacity. The biggest gap is between rural and urban municipalities (236 of them), with the latter concentrating the largest share of the population. Urbanisation in most states took off during the 1960s and 1970s, yet there remains some states with low levels of urbanisation. The average size of Mexican municipalities is among the largest within the OECD (almost 50 000 inhabitants vs 9 700 on average in the OECD). The median size (12 730 inhabitants) is also large by international comparison. In 2016, only 28% of municipalities have fewer than 5 000 inhabitants (vs 44% in the OECD), while 37% have more than 20 000 inhabitants (vs 30% in the OECD). This situation is, however, quite common in Latin America where municipalities are quite large on average.

However, large municipalities are sub-divided into smaller sub-municipal entities, called urban or rural localities (*localidades*). Although they can have an auxiliary presidency and council (*presidencia auxiliar* and *junta auxiliary*) they are not self-governing entities but depend on the municipality in which they are located. Some municipalities also have an internal administration called boroughs, or delegaciones, whose leaders are appointed by the municipal president.

Municipalities have had the right to enter into inter-municipal associations since 1999. Around one-quarter of municipalities have formalised inter-municipal agreements for the joint supply of public services such as water and sewage, public security and public transport.

There are in total 33 metropolitan areas with more than 500 000 inhabitants in Mexico. They concentrate 56% of the national population (in line with the OECD average of 55%), with an average population growth rate of 2.5% throughout the country, and account for 63% of national GDP. The General Law on Human Settlements (LGAH) has been the main regulation governing the management of metropolitan areas in Mexico since the mid-1970s. It provides the legal basis for the establishment of institutions of inter-municipal and inter-regional co-operation and enables the creation of metropolitan agencies and urban metropolitan commissions for co-operation and co-ordination. Most metropolitan areas in Mexico are covered by metropolitan arrangements. They were created in response to financial incentives from the federal government, which allocates since 2008 special funds for officially-recognised metropolitan areas (with a "Metropolitan Development Council). Disbursed through the Metropolitan Fund, these incentives are used to finance studies, plans, evaluations, programmes, projects, and infrastructure works that prove to be viable and sustainable. However, few metropolitan areas have metropolitan commissions that include the three levels of government and the broader civil society. States can also be involved in the promotion of metropolitan governance arrangements, which is the case for the state of Jalisco with the Guadalajara metropolitan area; the state of Nuevo León with the Monterrey metropolitan area; the state of Hidalgo.

MEXICO

FEDERAL COUNTRY

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Article 124 of the constitution establishes that: "The powers that are not expressly given by this Constitution to federal functionaries are understood as reserved to the States". The reality is however more complex and powers are defined as follows: powers given to the federation (money, foreign affairs, defence, tax, macroeconomic policy, research and development, control of natural resources, etc.), powers given in an explicit or tacit way, to states, powers prohibited to the federation, powers prohibited both absolutely (art. 117) or relatively (art. 118) to states; coincident powers, coexisting powers, aid powers and finally, powers given by the jurisprudence of the Nation's Supreme Court of Justice. Given this, the federation's remit seems considerably vast. The allocation of responsibilities across levels of government in Mexico is blurry, resulting in overlap between federal and state responsibilities. This poses several multi-level governance challenges.

In particular, states were devolved shared responsibilities with the federal state in several areas, i.e. primary education in 1992 then healthcare in 1996. They also have joint responsibilities with the federal government including poverty alleviation, social protection and water management (since 1983), and in the field of economic affairs. They have a predominant role in spatial planning, the territorial coordination of urban areas, regional transport, municipal affairs, etc.

In the case of municipalities, the Constitution explicitly defines their functions and powers. The Constitution empowers them with responsibilities related to local matters and the delivery of public services such as local roads and transport, urban planning and development, public safety, and utilities (water distribution, waste). Municipalities are jointly responsible, with the federal and state governments, for school buildings and implementation of social programmes; and the Constitution enables them to develop, adopt, and manage zoning and municipal urban development plans. Municipalities can delegate some responsibilities to the state by agreement (water, urbanism, road, tax collection).

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	STATES	MUNICIPAL LEVEL (GENERAL SCHEME)
1. General public services	Supervision of municipal affairs	Construction permits, cadastres
2. Public order and safety	State public order and safety (state and special police)	Local order and safety (municipal police); Emergency fire
3. Economic affairs /transports	Roads (state roads, rural road development, maintenance of federal secondary roads); Regional transport and transit; Some airports; Agriculture, rural development and tourism (shared); Economic affairs and industrial policies (shared)	Local roads and public transport; Municipal transit; Local markets; Slaughterhouses; Local fairs
4. Environmental protection	Protection of environment (shared); National parks (shared); Own state environmental standards	Waste management; Drainage; Waste water; Public Parks and gardens; Protection of environment (shared); Local parks; Local use permits
5. Housing and community amenities	Spatial planning; Water management and co-financing of water infrastructure (shared)	Urban development plans; Water distribution; Street lighting; Cemeteries
6. Health	Healthcare (shared): organisation and operation of healthcare services for the uninsured population; Primary care for the rural and urban poor; Health services; Administration and maintenance of hospitals for primary care; Preventive and reproductive care	
7. Recreation, culture & religion	Culture (public libraries) and recreation	Culture and recreation; Local exhibitions and festivals; Maintenance of monuments
8. Education	Primary and secondary education (shared); State universities; Adult education programmes; Indigenous and special education; School-lunch programmes	School buildings construction and maintenance (shared)
9. Social protection	Poverty alleviation (shared); Social protection (shared) including food assistance for the poor	Implementation of social infrastructure programmes (shared)

SUBNATIONAL, STATE AND LOCAL GOVERNMENT FINANCE

Scope of fiscal data: at the regional level, states, including Mexico City; at the municipal level, municipalities.	SNA 2008	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. Despite its federal structure and the strong decentralisation process, Mexico remains a centralised country in many respects. Large spending areas are delegated and controlled by the federal government, which takes most of the strategic decisions regarding the country's development. Decentralisation at the local level is very limited. Moreover, the subnational financing system is rife with vertical imbalances; states and municipalities are heavily dependent on federal transfers; and subnational debt continues to increase.

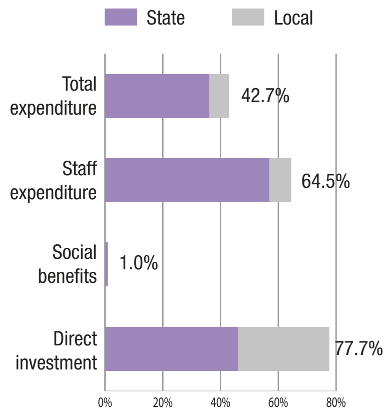
The National Fiscal Coordination System (SNCF), created in 1980, defines and regulates the country's intergovernmental fiscal relations. Under this system, states accept to yield part of their tax powers to the federation, through a Coordination Convention with the federal government. In exchange, they receive a share of federal. The Fiscal Coordination Law (*Ley de Coordinacion Fiscal*) as well as the Laws on General Public Debt and on General Government Accounting set the framework for subnational finance. The 1997 Fiscal Coordination Law determines the distribution of the General Participation Fund among the 32 states and the municipalities, based on several criteria. It was revised in 2007 and 2013 to improve the system and strengthen fiscal decentralisation. In 2014-2015, a new fiscal reform, part of Pacto Por Mexico, aimed to improve the tax system, strengthen the fiscal responsibility framework and overhaul rules for states and municipal debt.

The Fiscal Coordination Law created the National Reunion of Fiscal Civil Servants, which includes the Treasury and Public Credit Secretariat, and the Treasury head of the states' governments. The reunion, ordered by the law, must meet at least once a year to consider how to improve the national fiscal coordination system. The *Centro de Estudios de las Finanzas Públicas* (CEFP), established in 1998, also provide objective, non-partisan, and timely analysis to Congress on public finances, including intergovernmental transfers from the federal budget to states.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2015	DOLLARS PPP / INH.			% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT EXPENDITURE		
	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total expenditure	2 161	1 818	344	12.1%	10.1%	1.9%	100%	100%	100%
Inc. current expenditure	1 820	1 580	240	10.1%	8.8%	1.3%	84.2%	86.9%	70%
Staff expenditure	1 052	926	126	5.9%	5.2%	0.7%	48.7%	51.0%	37%
Intermediate consumption	288	211	77	1.6%	1.2%	0.4%	13.3%	11.6%	22%
Social expenditure	5	4	1	0.0%	0.0%	0.0%	0.2%	0.2%	0%
Subsidies and current transfers	439	407	32	2.4%	2.3%	0.2%	20.3%	22.4%	9%
Financial charges	28	25	3	0.2%	0.1%	0.0%	1.3%	1.4%	1%
Others	8	7	1	0.0%	0.0%	0.0%	0.4%	0.4%	0%
Incl. capital expenditure	342	238	104	1.9%	1.3%	0.6%	15.8%	13.1%	30%
Capital transfers	86	86	0	0.5%	0.5%	0.0%	4.0%	4.7%	0%
Direct investment (or GFCF)	255	151	104	1.4%	0.8%	0.6%	11.8%	8.3%	30%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. Mexico's subnational governments are responsible for a significant share of public expenditure compared to their limited own-source revenue and low fiscal autonomy. The share of SNGs in total public spending increased sharply from 10% of public spending in 1990 to 50.6% in 2013, and decreased recently to reach 42.7% of public spending in 2015 (below the OECD average for federal countries of 50%). The share of Mexican SNG expenditure in GDP also remains below the OECD average for federal countries (12% vs 19.2%), and municipalities in particular have a quite limited spending role. 83% of SNG expenditures originated from the state governments in 2016, compared to 17% from the municipal level, and the share of municipal expenditure in total public spending is among the lowest of OECD federal countries (6.8%). The largest part of SNG spending is allocated to staff expenditure. SNGs are key public employers at the national level, and are responsible for 65% of public staff expenditure. This is particularly the case for states, which accounted for 57% of total public staff spending while municipalities accounted for less than 8%. Staff expenditure accounted for 51% of total state expenditure, which is high by international comparison (36% in the OECD and 38% of OECD federations).

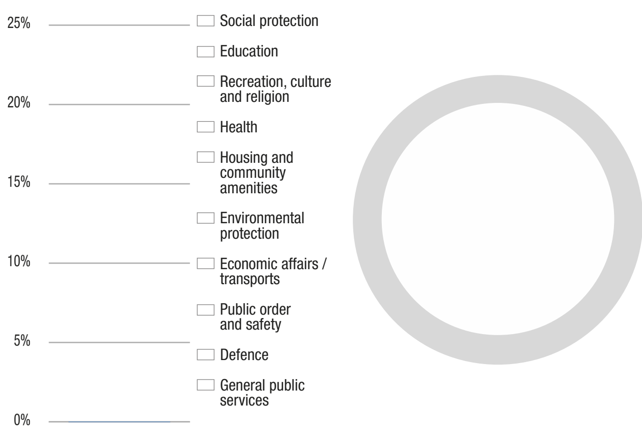
DIRECT INVESTMENT. Mexican SNGs account for a big share of total public investment, significantly above the OECD average (50.7%), especially above the average of OECD federal countries (62.3% in 2016). In 2016, state governments were responsible for 53% of total SNG investment, against 47% for municipalities. However, direct investment represents a much larger share of local expenditure for municipalities (29.5% of municipal expenditure) than for state governments (6.8% of state expenditure). Yet, remit overlap between the three levels of government undermines the effectiveness of public investment. Investments at the metropolitan and municipal scales are often decided at the state level, and as a result, many local government projects are discarded. Likewise, due to vertical fiscal imbalances, states have contracted significant amounts of subnational debt in recent years to finance public investments and infrastructure. Mexico's National Development Plan 2013-2018 stressed the need to involve all levels of governments in fostering national development. Mexico's subnational investment strategy also needs to take into account the fact that 1) each state has a diverse investment profile, and 2) urban, rural and mixed areas have different infrastructure needs.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

	% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT		
	SNG	State	Local	SNG	State	Local
Total expenditure						
1. General public services						
2. Defence						
3. Security and public order						
4. Economic affairs / transports						
5. Environmental protection						
6. Housing and community amenities						
7. Health						
8. Recreation, culture and religion						
9. Education						
10. Social protection						

SNG EXPENDITURE AS A % GDP

% OF TOTAL SNG EXPENDITURE



MEXICO

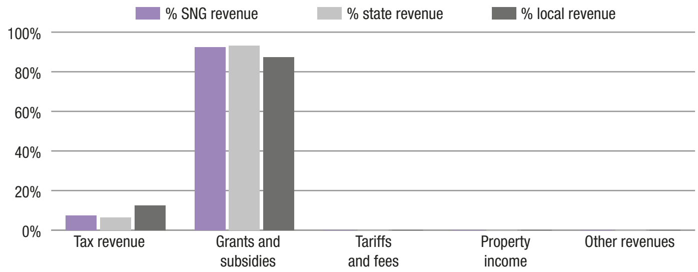
FEDERAL COUNTRY

Mexican states carry out the majority of subnational spending (83%) 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, including teachers. Most of the funds allocated to these sectors come from transfers from the federal government, calculated based on previous budgets, and are primarily earmarked for current and staff expenditure. In the health sector, state governments also contribute to the financing of public hospitals, together with the Mexican government, and allocate 50% of the total resources of the national health insurance programme (*Seguro Popular*, adopted in 2004). These resources are earmarked to salary payments, purchase of pharmaceuticals and outsourcing services. Staff compensation swallows up 90% of states' spending on education. Municipal spending (16% of SNG spending) is much more limited, and concentrated in the provision of local services, local equipment and maintenance of school buildings.

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2015	% GDP			% GENERAL GOVERNMENT (SAME REVENUE CATEGORY)		
	SNG	State	Local	SNG	State	Local
Total revenue	12.4%	10.4%	2.0%	53.6%	45.0%	8.6%
Tax revenue	0.9%	0.7%	0.2%	6.7%	4.9%	1.8%
Grants and subsidies	11.4%	9.7%	1.7%			
Tariffs and fees	0.0%	0.0%	0.0%			
Property income	0.0%	0.0%	0.0%			
Other revenues	0.0%	0.0%	0.0%			

% SUBNATIONAL, STATE AND LOCAL GOVERNMENT REVENUE



OVERALL DESCRIPTION. The System of Fiscal Coordination determines the intergovernmental financing scheme and established the types of own resources that can be levied by state and municipal governments. The resources of SNGs comprise tax revenues, earmarked transfers and matching transfers and other own-source revenues.

Mexican SNGs, both states and municipalities, are mainly funded through grants (92.4% of total SNG revenue in 2015, the highest share among OECD countries), whereas the share of taxes in SNG revenue is the lowest of all OECD federal and unitary countries (except Estonia), leading to strong vertical imbalance. Municipal governments, which receive transfers from both the state and federal levels, are allowed to collect only minor taxes and small fees. The 2013 fiscal reform modified the guidelines on the Transfer Fund for Municipalities (FFM) to encourage municipalities to increase collection of property taxes in a more efficient way. This is to be done in collaboration with states by using economies of scale and the states' existing tax collection capacities.

TAX REVENUE. Mexico has the smallest share of SNG tax in SNG revenue and GDP within the OECD federal countries (8.8% of GDP and 47.5% of SNG revenues on average), and stands well below the OECD overall (respectively 7.1% of GDP and 44.6% of SNG revenues in 2016). It also has the second-lowest share of SNG tax revenue in public tax revenue within OECD federal countries (42.2% in OECD federations), after Austria. Reforms passed in 2007 and 2013 introduced new taxes for the states, transferred the power of the vehicle tax and increased incentives for SNGs to increase tax revenues. States, and later municipalities, were allowed to charge income tax on the payrolls of their administrative staff. However, states and municipalities are reluctant to use their taxation power. State and municipalities are autonomous in setting their own tax rates and bases on the property tax, vehicle tax and payroll tax. Tax sharing arrangements between the federal government and SNGs do not exist.

The major source of tax revenue for states comes from the payroll tax (57% of state tax revenue in 2015, and 3.6% of total state revenue). The tax rate of the payroll tax varies from 1% to 3% in the state of Mexico. It is followed by the tax on motor vehicles (16% of state tax revenue), a share of the property tax (11.5%), and a tax on financial and capital transactions and property purchases (6.7%). Other minor taxes for state governments include a lodging tax, a tax on industrial activities, and a gambling tax. The collection rates vary across states, and can be hampered by high level of informality, low institutional capacity coupled with a small tax base and low rates for taxes and fees. Due to low collection rates, some states have significant room to increase their fiscal revenues.

Municipalities derive the bulk of their tax revenues (63%) from the property tax (impuesto predial), over which they have little control as rates are set by the state congress. On average, the property tax represents 6% of the total revenue of Mexican municipalities. Yet in practice only Mexico City and a few other big municipalities effectively collect the property tax, due to low enforcement in the update of cadastres and urban development plans in other municipalities. The property tax collected by both states and municipalities accounts for only 0.2% of GDP, one of the lowest levels in the OECD and less than the average of 1.1% of GDP in 2016. The Fiscal Federalism law in 2014 introduced an incentive for municipalities that transfer the administration of the property tax to the state government, in the form of access to special transfer funds (for municipalities and for states). Other tax revenues for municipalities include a share of the tax on financial and capital transactions (24.6% of municipal revenue), a public entertainment tax, a lottery tax, and a tax on commercial activities.

GRANTS AND SUBSIDIES. Under the fiscal coordination system, states agree to yield part of their tax powers (on income, consumption, production and services) to the federation in exchange for contributions from the federal funds. As a result, Mexican states and municipalities are heavily dependent on federal transfers, well above the OECD average (37.2% in 2016) and the average for federal countries in the OECD (31.5%).

Therefore, the system of intergovernmental transfers combines revenue sharing (non-earmarked) transfers (*participaciones*), a myriad of earmarked transfers (*aportaciones*), and some matching transfers (*convenios*). Both participaciones and aportaciones account for about 80% of total federal transfers (27% of the federal budget).

A public finance reform bill passed in 2007 ushered in a host of changes in the allocation formulas of transfers. According to the revenue-sharing grant scheme, called the General Participation Scheme (*Fondo General de Participaciones*), 20% of federal tax revenues are to be allocated to the states as unconditional transfers based on different demographic, fiscal and compensatory criteria, which are defined in the Fiscal Coordination Law (branch 28 of the Federal Expenditure Budget). The states are then required to transfer 20% of the Fund to municipalities, to be redistributed according to local criteria with substantial discretion (see below).

The second-largest category of transfers is comprised of the aportaciones (branch 33), including funds earmarked for financing basic education, healthcare services, public safety, adult and vocational education, and transfers. The aportaciones, through the Social Infrastructure Fund, have an 'equalisation' mission. However, these transfers remain, oftentimes, unpredictable and do not directly reach state governments, which may lead to increasing disparities across regions in terms of quality of the health system. Similarly, difficulties in tax collection at the federal level may lead to delays in transfers to state governments and therefore to underspending of resources. Finally, states also receive matching transfers from federal ministries and agencies for co-financed projects.

Overall, most transfers to the states come from earmarked funds (approximately 62% of transfers), which limits their autonomy and the autonomy of municipal governments within their jurisdiction. Finally, non-earmarked (28%) transfers are highly volatile. Regarding the fact that non-earmarked transfers may be subject to variations due to the economic situation at the national level, the *Fondo de Estabilization de Ingresos de las Etidades Federativas* (FEIEF) is also used to mitigate such fluctuations and provide additional revenues to federated entities when grants from the federal governments are reduced in times of fiscal stress.

While poverty and inequality remain high in Mexico by international comparison, in particular at the regional and local levels, there is no explicit equalisation framework unlike other federal countries (except the US). The overall distribution of transfers is not particularly equalising. However, some earmarked funds (e.g. the Social Infrastructure Fund) have an equalisation purpose that seek to improve services in the poorest states and municipalities.

At local level, since 2007, in addition to their share of 20% of FGP, municipalities receive, via the states, an additional share of federal revenue via the Municipal Support Fund *(Fondo de Fomento Municipal)*. This is allocated on the basis of the collection of the municipal residential property tax and water fees. They also receive earmarked and non-earmarked grants from their state. Federal government funding for metropolitan areas is channelled through a Metropolitan Fund (*Fondo Metropolitano*). The resources from the Fund are not earmarked, and are generally spent on investments in transport infrastructure, maintenance and expansion of sewage and parks, etc. For the Fund to be operational, it is required to create a Metropolitan Development Council that receives the funds.

OTHER REVENUES. Other sources of revenue received by Mexican SNGs comprise charges for services such as civil registry, public property registry, certificates, construction licences and permits, and water services fees. Taken together, they generate relatively little revenue for municipalities. Other revenue sources include fines, penalties and donations. Several states are considering the use of congestion charges to increase local revenues for infrastructure projects while dealing with traffic and environmental challenges. They are also considering supporting local governments in increasing revenue from municipal services. Overall, revenues derived from local public services and property income are very limited, and well below OECD averages.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.			% GDP			% GENERAL GOVERNMENT DEBT			% SNG DEBT		
	SNG	State	Local	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total outstanding debt												
Financial debt*												

* Currency and deposits, loans and bonds

FISCAL RULES. The Federal Budget and Fiscal Responsibility Law (FRL), approved in 2013, strengthened Mexico's fiscal rule by building a stronger, structural balance rule by adding a current expenditure cap to the previous fiscal rules. In 2016, the Law on Financial Discipline of the States and Municipalities went further to address the subnational deficit, debt limits and expenditure control. In May 2015, the Mexican Congress passed a series of governance reforms to enhance public sector accountability, integrity and transparency, which led to the creation of the National Anti-Corruption System and the National Transparency System. The reforms also provided a legislative foundation for the National Auditing System (*Sistema Nacional de Fiscalización*, or SNF). The *Auditoria Superior de la Federación* (ASF) was empowered to audit subnational governments in 2012. However, the ASF has low enforcement powers and limited capacity to apply sanctions. The Mexican auditing system for subnational government is complex compared to other countries' "single audit" approach. There are also overlap risks, and the ASF's findings are limited.

DEBT. According to national sources, the debt levels of states and municipalities remain well below the OECD average regarding its share of GDP in 2017 (3% vs 24.5%), but its rapid increase since 2008, and especially since 2013, led to cautious adjustments. The 2016 Law on Financial Discipline of the States and Municipalities made constitutional changes to impose stricter controls of SNG debt, based on revenue and debt levels, and created a system of alerts as well as a single debt registry to monitor SNG debt. Depending on the category assigned to its debt ("sustainable", "under review" or "high"), each SNG's annual debt level is now limited to a percentage of the revenue available to it. Mexican SNGs can only borrow to finance productive investments (the "Golden Rule") and have access to four sources of long-term financing: private commercial banks, the national development bank, loans guaranteed by own-source revenues or based on future transfers, and bonds issued on the Mexican securities market. In the last 15 years (2002-2017), Mexico SNG debt registered a rapid growth (+6.3% per year on average).

Some 75% of SNG debt is composed of credit loans and is distributed heterogeneously among all subnational governments. While all municipalities account for approximately 7% of total subnational debt, 50.5% of the debt is concentrated in five states. State governments account for 85.3% of overall SNG debt.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: OECD
Last update: 02/ 2019

www.sng-wofi.org

Socio-economic indicators: OECD // World Bank // UNDP // UN Desa // ILO // INEGI.
Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // Instituto Nacional para el Federalismo y el Desarrollo Municipal (INAFED).
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NICARAGUA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: NICARAGUAN CORDOBA (NIO)

POPULATION AND GEOGRAPHY

Area: 130 370 km^2
Population: 6.217 million inhabitants (2017), with an annual growth rate of 1.2 % (2010-2015)
Density: 48 inhabitants / km^2
Urban population: 58.3% of national population (2017)
Urban population growth: 1.5% (2017 vs 2016)
Capital city: Managua (16.9 % of national population)

ECONOMIC DATA

GDP: 36.3 billion (current PPP international dollars), i.e. 5 842 dollars per inhabitant (2017)
Real GDP growth: 4.9% (2017 vs 2016)
Unemployment rate: 4.4% (2017)
Foreign direct investment, net inflows (FDI): 896.6 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 28.1 % of GDP (2017)
HDI: 0.658 (medium), rank 124 (2017)
Poverty rate: 3.2% (2014)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Republic of Nicaragua is a unitary country with a Presidential regime, as stipulated in the article 9 of the 1987 Constitution. The President of the Republic is elected by universal suffrage for a 5-year period. The parliament -the National Assembly- is unicameral and composed of 90 members elected by universal suffrage for five years through a proportional representation system. Of these 90 members, 70 are elected in the departments and autonomous regions. The Judicial Branch is represented by the Supreme Court of Justice, whose members are elected by the National Assembly on the proposal of the President. He also chooses the President of the Supreme Court of Justice.

The national territory is administratively divided into the autonomous regions of the Atlantic Coast, departments and municipalities. The legal framework for local governments is governed by the Constitution, Law no 28 on Autonomous Status of the Caribbean Regions of 1987 and Law of Municipalities no 40 of 1988. The Constitution acknowledges the municipality as the basic unit of the country's political division (Art. 176) and guarantees its political, administrative and financial autonomy (art 177). Local authorities – mayor, deputy mayor and councillors – are elected by universal suffrage for five years. The Constitution also recognizes specific rights and autonomy for the regions of the Atlantic coast, which host a majority of indigenous and ethnic communities - Miskito, Mayans or Sums, Creoles, Garifonas and Mestizos - who can adopt their own forms of organization according to their traditions and cultures (Arts. 89-90, 180-181).

The decentralization process was initiated during the late 1980's as part of the reforms to contribute to the country's peace process and democratization. The main laws on legal framework for municipalities were revised in 2003 and 2013: the Municipalities Act (40 and 261, revised in 2012-2013), the Municipal Budget Regime Act (376, 2013), the Budget Transfers to Municipalities Act (nº 466-2003 and 850-2013) and the Citizen's Participation Act (nº 475, 2003). The Nicaraguan Institute for Municipal Development (INIFOM) was created in 1990 to support, assist, coordinate and supervise municipalities.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	153 municipalities *(municipalidades)*		Autonomous Regions of the North and South Caribbean Coast *(Gobiernos Regionales Autónomos de la Costa Caribe Norte y Sur)*	
	Average municipal size: 40 100 inhabitants			
	153		2	155

OVERALL DESCRIPTION. The national territory is divided into two autonomous regions, fifteen departments (for administrative purposes) and 153 municipalities.

REGIONAL LEVEL. The two regions of the Atlantic Coast – namely the North Caribbean Coast Autonomous Region and South Caribbean Coast Autonomous Region, often referred to as RACCN and RACCS respectively – have a specific autonomous status, with a regional coordinator representing the President of the Republic and a regional autonomous council. Regional councils are composed of 45 members elected for a five-year term. The regional councils must reflect the diversity of ethnic communities living in the respective autonomous region. The regional coordinator and the regional autonomous council together form an Executive Board (Law no 28 on Autonomous Status of the Caribbean Regions of 1987). Each autonomous region is divided into municipalities for administrative purposes, which are organized by the corresponding regional councils according to their traditions.

AT THE INTERMEDIATE LEVEL. Departments do not have executive or legislative functions.

MUNICIPAL LEVEL. Municipalities are administered by a municipal council with deliberative, normative and administrative powers. The council is chaired by a Mayor. Municipal councillors are elected by proportional representation. The number of municipal councillors is determined by the municipalities' population: in municipalities of less than thirty thousand inhabitants, the municipal council consists of seventeen councillors; while in municipalities of more than two hundred thousand inhabitants, the municipal council is composed of fifty councillors. The appointment of mayors and deputy-mayor must be based on the principle of gender equality. The Municipalities Act also provides for the establishment of complementary mechanisms to strengthen popular participation at the local level.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The Municipal Budget Regime Act no 376 of 2001 establishes eight categories of municipalities depending on their annual current income. Municipalities included in categories A to D, with budgets of over 2.5 million Cordobas (approx. $75,000 – current US dollars), can fulfil all the competencies defined by the Municipalities Act: basic services provision, administrative and permit services, urban and land use planning, promotion of culture and recreational activities and environmental protection. Municipalities in categories E to H (with a budget of less than 2.5 million Cordobas) are exempt from providing water, sanitation and electricity services, as well as roads and public transports (art. 10). In addition, municipalities may build partnerships with other public or private institutions and establish inter-municipal associations for the provision of services (with the approval of Parliament) (art 9 and 12 of the Municipalities Act).

As established by Act no. 28 of 1987 on the Autonomous Status of the Caribbean Regions, the autonomous regions are mainly responsible for basic services delivery (health, education, culture, transport), urban and land use planning, implementation of regional development plans, environment protection and preservation of traditional culture. There is no legal framework in these regions that establishes a hierarchy between the region and municipalities, which sometimes lead to jurisdictional conflicts between the two levels of government.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONS	MUNICIPAL LEVEL
1. General public services	Public building and equipment	Civil register
2. Public order and safety	Fire prevention/firefighting	Municipal committees for disasters
3. Economic affairs/transports	Regional networks, roads, airports, regional ports, regional train transportation;Agriculture and rural development; Support to local firms;Tourism; Participation in the elaboration and implementation of national development plans at regional level; Promotion of regional development plans and regional markets	Development of local roads, bridges; Promotion and regulation of public transport and terminals; fluvial ports; Tourism development; Livestock management (registration, sales certificates); Distribution of electricity; Control of public markets, slaughterhouses
4. Environmental protection	Preservation of natural resources; Protection of agricultural land and water resources; Coastal waters; Climate change policies	Waste management; Street cleaning; Sewerage and waste water treatment; Protection of the environment and natural resources; Control of forest exploitation; Creation of ecological parks; Maintenance of green spaces
5. Housing and community amenities	Construction/upgrading, management of settlements	Control of building regulations and urban design; Urban planning management and land use; Declaration of urban public utility and unused land; Construction and maintenance of roads; Drinkable water; Cemeteries.
6. Health	Hospital	Construction and maintenance of health centres; Preventive health campaigns
7. Recreation, culture & religion	Development and protection of traditional cultures and communities' heritage; Regional museums; Cultural heritage	Promotion of culture, sport and leisure activities; Protection of the cultural identity of the municipality fostering arts and folklore in cultural venues, i.e. museums, monuments, art festivals, libraries
8. Education	Primary and secondary enrolment	
9. Social protection	Assistance to elderly and disabled people (service provisions)	Support of community work for social purposes

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: Municipalities.	SNA Other	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. The Municipalities Act of 1988, the Municipal Budget Regime Act of 2001 and the Budget Transfers to Municipalities Act of 2003 constitute the pillars of the Nicaraguan fiscal decentralization process. An Inter-American Development Bank study considers that Nicaragua experienced a greater level of decentralization compared to the rest of the Central American region. Local revenues and expenditure represented around 4% of GDP over the past seven years (except in 2016, when they declined and then rose again in 2017). Financial data are provided for municipalities only.

Regarding autonomous regions, Act no. 28 of 1987 on the Autonomous Status of the Caribbean Regions specifies that regional councils may establish regional taxes according to the laws that govern the matter and prepare, in coordination with the Ministry of Finance and Public Credit, the budget of their autonomous region for the financing of regional projects.

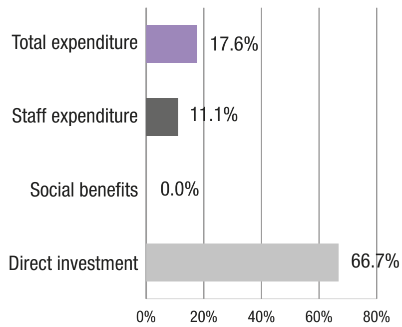
NICARAGUA

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2015	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**224**	**4.2%**	**100%**
Inc. current expenditure	91	1.7%	40.4%
Staff expenditure	42	0.8%	18.9%
Intermediate consumption	19	0.4%	8.6%
Social expenditure	0	0.0%	0.0%
Subsidies and current transfers	4	0.1%	1.9%
Financial charges	24	0.5%	10.9%
Others	0	0.0%	0.8%
Incl. capital expenditure	132	2.5%	58.8%
Capital transfers	4	0.1%	1.6%
Direct investment (or GFCF)	128	2.4%	57.2%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



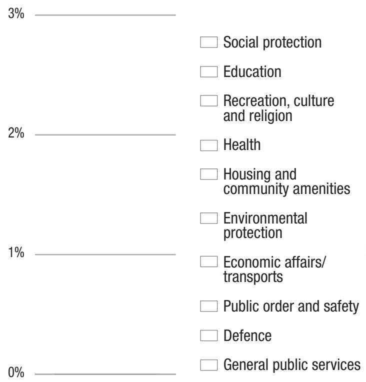
EXPENDITURE. Between 2011 and 2015, Nicaraguan municipalities have increased their share of total public expenditure, following an opposite trend compared to the other Central American countries. But this share decreased slightly in 2016 (from an average of 4% of GDP to 1.6%) and increased again in 2017 (3.9%). The percentage of local budgets in goods and services seems limited (8.6%). But if the portion of municipal budget that goes to capital expenditure is added, Nicaraguan municipalities have spent about 60% of their budgets on the provision of goods and services and infrastructure over the past six years. Indeed, part of the expenditure on goods and services is allocated to direct investment, promoted by municipal laws that require municipalities to dedicate a significant percentage of their budget to direct investment (see below). Over the past seven years, municipalities have spent around 20% of their expenditure on staff costs. Article 17 of the Municipal Budget Regime Act sets limits for staff expenditure: less than 20% of municipal budget for municipalities A to D, 20% to 30% for categories E to G, and less than 40% for category H. The majority of municipalities, with exception of those with a budget higher than 10 million Cordobas (approx. $300 000 – current US dollars), like Managua and the main municipalities of the departments, considered as category B, need national support to ensure their regular functions.

DIRECT INVESTMENT. According to the Municipalities Act (art. 52) and the Municipal Budget Regime Act (art. 19), a percentage of current annual income must be spent on infrastructure and maintenance depending on the size and budget of each municipality. The municipality of Managua shall invest at least 40% of its budget. For the other municipalities, this percentage vary between 10% and 30% of their budget depending on their annual income (Law 376, art 19). The percentage of municipal budgets devoted to direct investment is in fact much higher (57%) and accounts for a major share of national direct public investment (over 65% and 2.4% of GDP). However, the amounts invested are relatively limited (USD 101 PPP per capita on average between 2011 and 2016).

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

There are no precise data at municipal level on expenditure by economic function. Acts 466 and 850 on budgetary transfers to the municipalities (art. 12), made mandatory the following percentage of capital grants for investments by sector: 5% devoted to health, 5% to education, 5% to environment, 7% to water and sanitation. However, considering the main projects and investments implemented by municipalities over the period 2014-2016, priorities focus on roads and transport infrastructure (30%), institutional capacity (11%) and water, sanitation and storm sewer systems (12.3%), followed by culture and sport (9.4%), education (5.7%), parks and green spaces (5%), housing (4.7%), economic development (4.5%), social assistance to vulnerable people (4.7%), health (3%) and the environment (2.6%).

% GDP

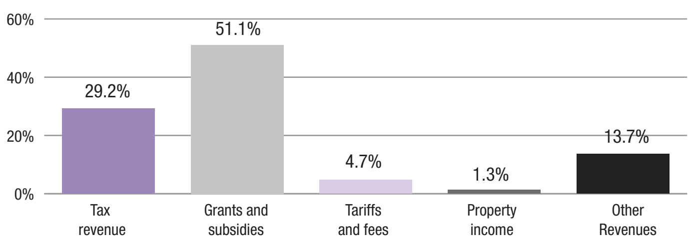


% SNG EXPENDITURE

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2015	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**232**	**4.4%**	**16.7%**
Tax revenue	68	1.3%	5.7%
Grants and subsidies	118	2.2%	
Tariffs and fees	11	0.2%	
Property income	3	0.1%	
Other revenues	32	0.6%	

% SNG REVENUE



OVERALL DESCRIPTION. Nicaraguan municipalities have one of the highest rate of local own revenues (including taxes, duties, fees, royalties and property income) in the Central American region. The municipal revenue-to-GDP ratio remained relatively stable between 2011 and 2015 (around 4.2%). But in 2016, local revenues fell to 2.4% of GDP and increased again in 2017 to 3.9% of GDP. Throughout this period, transfers accounted for about 50% of local budgets. Local own revenues contributed to about 37% of municipal budgets. In the previous decade, local own resources accounted for the bulk of Nicaraguan municipalities' local revenues (about 70 to 80 per cent between 2000 and 2004), while grants and subsidies accounted for less than 30 per cent. Overall, the efficiency of own revenue collection (the difference between planned and actual revenue) varies within a range of 60 to 70% depending on the category of municipality.

Regarding the autonomous regions, although Act no. 28 on the Autonomous Status of the Caribbean Regions clearly states that the regional councils may elaborate budget proposals comprising a tax plan (Plan de Arbitrios) and a special development fund, neither of the two regions has yet done so.

TAX REVENUE. Local taxes are regulated by national legislation, but each local authority can propose its own rates for local taxes to Parliament each year. The main taxes are: the sales tax paid monthly for the sale of goods or services (70% of local tax revenues), the registration or licensing tax relating to the annual registration of business activities in the municipality (17% of local tax revenues), the property tax (15% of local tax revenues, 4.5% of local revenue and 0.2% of GDP).

Other taxes include: the rolling tax for vehicle circulation, the tax on construction or improvement of buildings (except for family housing), the tax on the social capital of commercial or civil entities (it is levied based on subscribed capital), the tax on public entertainment and collective taxes, which are transferred by the Ministry of Finance (forestry tax, mining, energy distribution, etc.).

Tax revenues per capita range from 500 Cordobas (around $5 PPP) per capita in Managua to 8 Cordobas ($0.1) in the poorest municipalities, but the majority of municipalities collect about 240 Cordobas ($2.4) (average per capita collection 2014-2016).

GRANTS AND SUBSIDIES. Over the past decade, the percentage of national grants has increased from about 20% of local revenues to almost 40% (50% for special and external subsidies). The Budget Transfers Acts (No. 466, 2003 and No. 850, 2013) define the amounts of the national budget to be granted to municipalities (initially 4%, increased by 0.5% per year if GDP increases by 1%, to reach 10% of the national budget in 2010). However, by 2015, subsidies accounted for about 8.5% of total national revenues. The law (art. 12) has made mandatory the percentage of capital grants allocated to investments by sector, i.e. health, education, environment, water and sanitation (municipalities D to G can use part of the subsidies for staff expenditure). Amounts are allocated according to different criteria: tax inequalities (revenue collection / population), efficiency in property tax collection, population, efficiency in grant implementation. The specific amount for each municipality will be calculated by a National Commission on Transfers. A 2017 IADB study points out that the distribution of grants benefits small municipalities that receive, per capita, four times the amount received by Managua and seven times more than medium-sized municipalities.

Autonomous regions mostly rely on central government transfers. These transfers are mostly capital transfers earmarked for public investment in the Atlantic Coast region.

OTHER REVENUES. Fees may be levied for the use of public domain and service. Fees for the use of public property include: land use, extraction of products (wood, sand, etc.), stands or poles in public spaces, construction of ramps, work on public roads, advertising, peddling, use of municipal facilities or other uses. Services fees include: waste and street cleaning, use of the cemetery, market space rental, use of slaughterhouse, registration of labels or irons to mark livestock, registration of livestock sale or transfer, civil registry, extension of credit certificates and others, repairs made by the municipality to individuals, building permits, municipal inspections, sale of public stamps, cadastral assessments and other municipal services.

Other sources: Special contributions come from the highest property values through municipal works such as paving, improved access to services or other special contributions.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**19**	**0.3%**	**37.2%**	**100%**
Financial debt*	19	0.3%	37.5%	100%

* Currency and deposits, loans and bonds

FISCAL RULES. Nicaraguan municipalities must elaborate and approve annually their budget without initial deficit. The Mayor is responsible for preparing and presenting the budget proposal for the following year to the Municipal Council, which must discuss and approve the new Municipal Budget before the end of the first quarter of the corresponding year. The Mayor is required to send a copy of the municipal budget to the Office of the Comptroller General of the Republic as well as to the Nicaraguan Municipal Development Institute (INIFOM), for the purposes of statistics and technical assistance. Local budgets must be balanced, including all debt payments.

DEBT. The Municipal Budget Regime Act of 2001 specifies that local authorities may borrow from credit entities recognised by the Superintendency of Banks and other financial institutions. Municipalities may finance their investments through medium- and long-term public and private credits, subject to their approval by the Municipal Council. Credit transactions may take the form of public issuance of domestic debt, and loan or credit contracts (Art. 20). Municipalities may contract loans for the execution of works aimed at improving public services and for their institutional strengthening, provided that the debt service of all credits does not exceed 20% of the municipality's current annual revenues (Art.21). In 2016, SNG debt accounted for 0.3% of GDP and 37.2% of general government debt. It was entirely made up of financial debt, composed exclusively of loans.

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World Observatory on Subnational Government Finance and Investment

Lead responsible: UCLG
Last update: 02/ 2019

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Socio-economic indicators: World Bank // UNDP // UN DESA // ILO.
Fiscal data: OECD Revenue Statistics // Central Bank of Nicaragua // Annual Reports 2009-2015.
Other sources of information: Open Municipal Budgets // Porto, Augusto; Eguino, Huáscar and Rosales, Walter (November 2017) Panorama de las finanzas municipales en América Central, IADB // Martinez-Vazquez, Jorge & Sepúlveda, Cristian (2008) The Municipal Transfer System in Nicaragua: Evaluation and Proposals for Reform // Mattern, J. (2003) Autonomía regional en Nicaragua: una aproximación descriptive // Morales, H. Z. M. (2010) La financiación de las Regiones Autónomas de la Costa Atlántica de Nicaragua mediante recargos. Encuentro, (85), 39-53.

LATIN AMERICA

PANAMA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: PANAMANIAN BALBOA (PAB)

POPULATION AND GEOGRAPHY

Area: 275 420 km^2
Population: 4.099 million inhabitants (2017), an increase of 1.7% per year (2010-2015)
Density: 54 inhabitants / km^2
Urban population: 67.4% of national population
Urban population growth: 2.1% (2017 vs 2016)
Capital city: Panama City (43.5% of national population)

ECONOMIC DATA

GDP: 100.3 billion (current PPP international dollars), i.e. 24 469 dollars per inhabitant (2017)
Real GDP growth: 5.3% (2017 vs 2016)
Unemployment rate: 4.5% (2017)
Foreign direct investment, net inflows (FDI): 4 826.4 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 39.7% of GDP (2017)
HDI: 0.789 (high), rank 66 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Republic of Panama is a Presidential Republic. According to the 1972 Constitution (last amended in 2004), executive power is vested in the president and two vice presidents, elected by direct popular vote for five-year mandates. The first vice president acts as chief executive in the absence of the president, and both have votes in the Cabinet Council. Legislative power is vested in a unicameral legislative National Assembly (*Asamblea Nacional*), composed of 67 members, each of whom has an alternate. Members and their alternates are elected concurrently with the presidential elections, for five-year mandates.

Panama is a unitary country with a single-tier of subnational government, composed of municipalities. Article 232 of the 1972 Constitution acknowledges the autonomy of municipal governments, and the 1973 Law No. 9-106 on the Municipal Regime (*Ley No. 9-106 Sobre Regimen Municipal*) establishes municipal categories, autonomy and structure. The first local elections were held in 1984. There are also 10 provinces acting as deconcentrated entities.

The first decentralisation law was introduced in 2009 (*Ley No. 37 Que Descentraliza la Administracion Publica*), to define the main principles of decentralisation and local governance, establish categories of municipalities and list their responsibilities. However, it was suspended by the following government before it was fully implemented. Decentralisation was reintroduced in 2015, with the passing of Law No. 66, which updated and amended the original law. The 2015 Decentralisation Law sought to build municipal capacity, by increasing municipal revenue with the expectation that SNGs would gain new competences. It also established a National Secretariat for Decentralisation (SND).

In 2013-2014, an integrated development plan for indigenous communities was drafted (*Plan Nacional de Desarrollo Integral de Pueblos Indígenas de Panamá*), based on a dialogue between Panama's indigenous communities, the government, the United Nations and the Catholic Church, and which calls for establishing a National Council for the Development of Indigenous Communities in Panama. As of 2018, this Plan was being revisited and should be implemented quickly.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	78 Municipalities *(distritos)*			
	Average municipal size: 52 546 inhabitants			
	78			78

OVERALL DESCRIPTION. Panama is divided into a single tier of subnational government, composed of 78 autonomous municipalities (*distritos*). The country also comprises three semi-autonomous indigenous regions (*comarcas*): Embera, Kuna Yala and Ngäbe-Buglé. These three regional comarcas are divided into indigenous settlements. Overall, indigenous territories are organised by ethnic groups and host the majority of the indigenous population of Panama (around 12% of the country's population). The comarca of San Blas has a distinct form of local government headed by tribal leaders.

MUNICIPAL LEVEL AND INTERMUNICIPAL COOPERATION. The 78 municipalities include two indigenous local comarcas embedded within provinces that are considered equivalent to municipalities (Kuna de Madungandi, in the Panama Province, and Kuna de Vargandi, in the Darien Province). Each municipality is governed by a mayor (*Alcaldia*), who enforces ordinances enacted by a municipal council of community representatives, all directly elected for five-year terms. However, the National Assembly may pass laws requiring the appointment of municipal officials by the President under certain circumstances.

Municipalities are further sub-divided into *corregimientos*, of which there were a total of 670 in 2018. Each *corregimiento* has its own local government, headed by a corregidor, and local council (*junta communal*) composed of the *corregidor*, the *corregimiento* representative to the municipal council, and five selected other residents of the district. *Corregimientos* are represented on the municipal council as well as on the provincial council. The capital city of Panama is composed of 26 *corregimientos*.

Municipalities in Panama are large by international comparison: almost 53 000 inhabitants vs 9 700 inhabitants in the OECD on average in 2017-2018. However, population size varies from 1 200 inhabitants in Taboga to almost one million in Panama City. Only 10% of Panamanian municipalities have fewer than 5 000 inhabitants vs 44% in the OECD while 43% have more than 20 000 inhabitants (vs 30% in the OECD on average).

Municipalities in Panama are classified into four categories based on population and density. The bulk of municipalities are categorised as semi-urban (51 municipalities, accounting for approximately 65% of the population), 15 as urban (19% of the population), 10 as rural (13%) and 2 metropolitan areas (representing 3% of the population). The threshold between rural and semi-rural municipalities is 6 000 inhabitants.

According to the 1973 Law on Municipal Regime, municipalities can gather in associations that include a council, an administrative structure and their own treasury (*hacienda intermunicipal*). However, such associations are rare and their application is limited by the lack of fiscal autonomy of municipalities. In parallel, comarcas often cooperate with each other in sectors such as education and healthcare. Cooperation across indigenous and non-indigenous communities is more limited.

STATE TERRITORIAL ADMINISTRATION. The 10 provinces are deconcentrated entities of the central government. Each province is led by a governor, appointed by the President, and administered by a *Junta Territorial* composed of representatives from each line ministry (Art. 249 of the Constitution). As of January 2014, the five former districts west of the Panama Canal split, to form the Panama Oeste Province. In addition, each province has its own Provincial Council, indirectly elected, composed of a representative from each *corregimiento* in the province, which acts as an advisory body to the governor. Provinces do not have the capacity to generate their own revenue, and are responsible for implementing the plans and programmes developed by the national government. Their expenditures are funded directly from the central budget, though line ministries, and set annually.

In Panama, there are wide disparities between urban and rural provinces (particularly Bocas del Toro and Los Santos) in terms of service delivery and living conditions, and even wider regarding comarcas, which are the most disadvantaged areas. Projections indicate that provincial population growth between 2010 and 2020 will range from 1.6% in Los Santos to 20% in Panama City and 33.5% in Bocas del Toro, raising future challenges in terms of infrastructure, amenities and service delivery capacity.

The current Strategic Government Plan (*Plan Estrategico de Gobierno*, PEG) for 2015-2019 provides guidance for regional development in the medium term. A national policy for land use with a horizon to 2030 is under preparation by the Ministry for Housing and Land. At the municipal level, municipalities and comarcas have been required since the 2015 Law to develop district and corregimiento strategic plans (*Planes Estratégicos Distritales* – PED, and *Planes Estrategicos de Corregimiento*), which aim to combine both aforementioned national strategies.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Panama does not have a specific administrative decentralisation law that defines and regulates the competencies of municipalities vis-à-vis the central government. However the country has been gradually introducing a system of asymmetric decentralisation. The transfer of competences from the central government to Panamanian municipalities started through law no. 37 of 2009 on the Decentralisation of the Public Administration. The law took a gradualist approach and permitted the transfer of responsibilities to local authorities, following an accreditation process. However, the transfer was completed once their competence was authorised and their application process to the Secretariat for Decentralisation finalised. This approach was maintained with law no. 66 in 2015 (which amended the 2009 legislation). In addition, the new law improved local investment capacity and enacted a list of responsibilities that could be devolved to municipalities receiving transfers from the property and real estate tax collection, ranging from maintenance and improvement ofeducation, healthcare, and delivery of basic services. Overall, municipalities are responsible for a range of public services divided into specific tasks: urban public services, public transport services, security and protection, public education and culture services, health services and public provisions. However, despite their autonomous status, their responsibilities are concentrated on general urban amenities and education, and there are significant disparities in their ability to deliver public services.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPALITIES
1. General public services	Cemeteries
2. Public order and safety	Citizen security; Fire prevention
3. Economic affairs/transports	Public roads; Parking and transport terminals; Public slaughterhouses and public markets; Support for the agricultural sector; Touristic infrastructure
4. Environmental protection	Parks and gardens; Environmental protection; Solid waste collection and management; Recycling services
5. Housing and community amenities	Zoning; Building permits; Authorisation for public lighting; Telecommunication services; Supply of potable water
6. Health	Health centres
7. Recreation, culture & religion	Sport fields and recreation areas; Library services
8. Education	Pre-primary schools; School canteens; Construction of classrooms (support)
9. Social protection	Social assistance; Elderly care; Orphanage

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: municipalities and *corregimientos*	SNA 1993	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. Subnational fiscal and financial frameworks in Panama define a high degree of centralisation. The Constitution and 1973 Law on Municipal Regime provides municipalities with the right to receive revenues from taxes, fines and fees, yet they have few resources and their fiscal autonomy is limited. The 2015 Decentralisation Law marked an increase in municipal funding, with the objective of providing them with greater development and service responsibilities, through the establishment of two municipal funds for investment and current expenditures, including an equalisation mechanism for inter-municipal solidarity, as well as of Fiscal Offices in each municipality. However, local authorities have minimal autonomy regarding spending. To enhance the accountability of municipalities and corregimientos to the central government and to the citizens, new technological tools are being implemented (GRP - *Recursos de Planificación Gubernamental*, for the *corregimientos*, and SIDEM - *Sistema Integral de Descentralización*, for the municipalities and *corregimientos*).

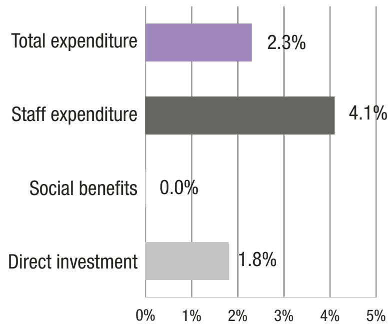
PANAMA

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**109**	**0.5%**	**100%**
Inc. current expenditure	81	0.4%	74.7%
Staff expenditure	43	0.2%	39.7%
Intermediate consumption	19	0.1%	17.0%
Social expenditure	0	0.0%	0.0%
Subsidies and current transfers	17	0.1%	15.5%
Financial charges	3	0.0%	2.4%
Others	0	0.0%	0.0%
Incl. capital expenditure	28	0.1%	25.3%
Capital transfers	16	0.1%	14.7%
Direct investment (or GFCF)	12	0.0%	10.6%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. Municipalities in Panama account for a limited share in total public expenditure, well below the OECD average for unitary countries (28.7% of public expenditure and 9.2% of GDP in 2016), and also far from many other Latin American countries (for instance, in Chile, one of the OECD's most centralised countries, SNG revenue represented 3.6% of GDP and 15.5% of total public expenditure in 2016). Local expenditures are uneven across municipalities, as municipalities in the province of Panama were responsible for 62% of all municipal expenditure in 2016. In terms of expenditure per capita, they ranged from an average of PAB 14 in the communities of Ngable Buglé to an average of PAB 112 for those in the province of Panama.

DIRECT INVESTMENT. Overall, municipal investment in Panama is very low, well below the OECD average for unitary countries of 50.7%. Local investment is concentrated in Panama City. In 2016, municipalities dedicated 10.6% of their direct investment to infrastructure, a level close to the OECD average (11.2% in 2016). This represents a sharp increase since 2015, when it accounted for only 6% of their expenditure. However, this share represents barely 1.8% of total public investment, and differs widely across municipalities. In fact, it amounted to less than 1% of municipal expenditure in the provinces of Herrera, Bocas del Toro, Darien, and in the comarca of Embera. On the flip side, it rose to 15% for the municipalities in Panama province (local direct investment in this province accounted for 88% of total local direct investment). Municipalities derive funding for investment from the funds transferred from the central government, and must submit their investment plan first to citizens for consultation, and then to the National Secretariat for Decentralisation for approval. Priority investment sectors at the national level in 2016 were transport and citizen safety.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

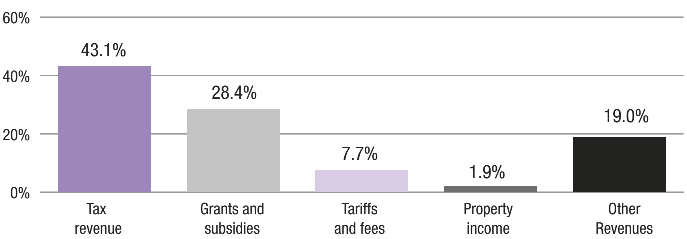
Subnational governments in Panama contribute primarily to public expenditures in the fields of general urban amenities and education, with some responsibilities in public health, recreation and culture and transport. They have a limited number of services and responsibilities compared to other countries, in particular in the field of education. Likewise, the amount of their contribution varies across municipalities, and is determined at the national level based on their population and level of socio-economic development.

% GDP | % SNG EXPENDITURE

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**135**	**0.6%**	**2.9%**
Tax revenue	58	0.3%	2.5%
Grants and subsidies	38	0.2%	
Tariffs and fees	10	0.0%	
Property income	3	0.0%	
Other revenues	26	0.1%	

% SNG REVENUE



OVERALL DESCRIPTION. Municipal revenue in Panama is low, and its share in GDP and total public revenue is well below the OECD average for unitary countries (respectively 12.3% of GDP and 30.1% of public revenue in 2016). Nevertheless, SNG revenue has been rising since 2014, and particularly 2015 with the reintroduction of the Law on Decentralisation. Most municipal revenues derive from tax revenue (43.1%), which is high by international comparison (in the OECD unitary countries, tax revenue accounted for 38.7% of SNG revenue) while grants and subsidies accounted for a limited share (28.4% in 2016 vs 48.8% in the OECD unitary countries). However, the share of tax in municipal revenue has been decreasing since 2015 thanks to the introduction of grants, and particularly current grants, in municipal budgets, often earmarked for specific uses. In 2015, before the Decentralisation Law, grants and subsidies accounted for only 6% of SNG revenue. Tariffs, fees and property income accounted for almost 10% of municipal revenue, and other revenue for the remaining 19%. However, there are strong disparities in terms of municipal revenue across provinces, as municipalities located in the province of Panama concentrated 65% of total municipal revenue in 2016, and received 77% of all transfers from the central government.

TAX REVENUE. Tax revenues are the main source of municipal revenue in Panama, but they represent a low share of national tax revenue. In 2016, they represented 2.5% of total public tax revenue and 0.3% of GDP (vs 19.8% of public tax revenues and 4.7% of GDP in OECD unitary countries on average). According to articles 242-243 of the Constitution, municipal tax revenue is composed exclusively of own-source taxes (there is no tax sharing system). Further development on municipal taxes can also be found in law no. 106 from 1973, amended in 1984, and law no. 38 from 2000 for the City of Panama. Each municipality has its own Tax Code (Regimen Impositivo).

Taxes on commercial activities represented more than half of municipal tax revenue, followed by other local taxes including taxes on construction and industrial activities, tax on alcoholic beverages, and on livestock (slaughterhouses), paid to the municipality of the animal's origin. There are strong disparities across municipalities: as an example, tax revenues represent only 7% of municipal revenue in Ngabe Buglé, against 69% for municipalities in Bocas del Toro.

GRANTS AND SUBSIDIES. There is no particular legal framework regulating transfers from the central government to municipal governments in Panama. In fact, the issue is often left to the discretion of the president. Most of these transfers are earmarked to specific uses. Making matter worse, transfers are unpredictable. In 2016, 94.5% of grants transferred to municipalities and corregimientos were current grants, and 5.5% were capital grants. Therefore, municipalities and corregimientos are accountable to the central government for the use of the funds transferred to them. In addition, grant revenues vary significantly across jurisdictions, as they represented only 2% of the revenues for municipalities in Panama Oeste, against 67% for the communities of Ngabe Buglé.

The 2015 Decentralisation Law established two new municipal funds, replacing the former National Programme of Local Development (Pronadel).The first new fund derives from the property and real estate taxes collected at the central government level by the Ministry of Economy and Finance (*Fondo del Impuestos de Inmuebles* - IBI). Funds are allocated to municipalities based on estimations from the previous year, including fines and surcharges, with a minimum threshold revised upward annually (set initially at PAB 500 000 in 2016). Urban municipalities are entitled to use 90% of this fund for investment in hard infrastructure, earmarked to municipal services and to specific sectors defined by law (roads, lighting, water, electricity), whereas the remaining 10% can be used for current administrative expenditure. For the other categories of municipalities, the ratio is 75% of the funds for investment in hard infrastructure, and 25% for administrative capacity. Finally, 1% of the funds transferred to each municipality goes to the Association of Municipalities of Panama. There also exists an equalisation mechanism (*Fondo Solidario*), composed of resources from municipalities that receive higher income from the property and real estate tax, and reallocated to municipalities below the threshold of PAB 500 000. In addition, the 2015 Decentralisation Law stated that municipalities would collect the property and real estate taxes. The changed is scheduled to be implemented over the course of 2018-2019. Authorities expect the amount of the IBI collected to increase going forward.

In addition, *corregimientos* receive transfers through the Public Works and Municipal Services programme (*Programa de Obras Públicas y de Servicios Municipales*), corresponding to a transfer of USD 110 000 to each *junta communal*. 70% of these transfers can be used, after citizen consultation, for investment projects, and the remaining amount for administrative and operational functions.

OTHER REVENUES. Municipalities can generate revenue from tariffs and fees for the delivery of public services, fines, income from public lands, properties or municipal assets, the extraction of natural resources (wood, sand, stone, clay, coral, etc.) and duties on public performances. Altogether, tariffs, fees, and property income represented slightly less than 10% of municipal revenue in 2016.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. Panama introduced a fiscal responsibility law for the non-financial public sector as a whole in 2002, although it was amended between 2008 and 2014. It sets a limit to the level of public debt and restricts the expansion of the public sector deficit. Local governments are subject to fiscal review by the Comptroller General of the Republic. Efforts are currently being made to establish a fiscal council in order to promote accountability and public debate on fiscal policy.

DEBT. Municipalities in Panama have no access to borrowing on their own. At the general government level, Panama's public debt accounted for 37% of GDP in 2017, a significant decrease from its peak in 1994 (82% of GDP). However, the public debt-to-GDP ratio has increased in recent years, and is nearing the limit established by the current fiscal rule (40% of GDP).

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World Observatory on Subnational Government Finance and Investment

Lead responsible: OECD
Last update: 02/ 2019

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Socio-economic indicators: World Bank // UNDP // UN DESA // ILO // National Institute of Statistics and Census of Panama
Fiscal data: Contraloría General de la República INEC // Dirección General de Fiscalización, Municipalidades de la República y Ministerio de Economía y Finanzas Dirección de Presupuesto de la Nación (DIPRENA)
Other sources of information: OECD (2018) Multi-dimensional Review of Panama: Volume 2. In-depth Analysis and Recommendations // OECD (2017) Making Decentralisation Work in Chile: Towards Stronger Municipalities // Ministerio de Economia y Finanzas (2017) Experiencia de la Inversion Publica en Gobiernos Sub-Nacionales, Tratamiento de Inequidades Territoriales y el Desarollo Urbano // Tribunal Administrativo Tributario (2016) Propuesta de Codigo de Procedimineto Tributario // Contraloria General de la Republica (2016) Guía para el uso del fondo del impuesto de inmuebles asignado a los municipios (funcionamiento y inversion) // World Bank (2013) Republic of Panama – Panama Public Expenditure and Financial Accountability.

PARAGUAY

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: PARAGUAYAN GUARANI (PYG)

POPULATION AND GEOGRAPHY

Area: 406 752 km^2
Population: 6.811 million inhabitants (2017), an increase of 1.3% per year (2010-2015)
Density: 17 inhabitants / km^2
Urban population: 61.3% of national population
Urban population growth: 1.7% (2017 vs 2016)
Capital city: Asunción (47.3% of national population)

ECONOMIC DATA

GDP: 89.1 billion (current PPP international dollars), i.e. 13 082 dollars per inhabitant (2017)
Real GDP growth: 5.2% (2017 vs 2016)
Unemployment rate: 4.9% (2017)
Foreign direct investment, net inflows (FDI): 507 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 18.6% of GDP (2017)
HDI: 0.702 (high), rank 110 (2017)
Poverty rate: 1.7% (2016)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Paraguay is a unitary and decentralized republic (1992 Constitution). The legislative power is vested in a bicameral Congress, composed of the Chamber of Senators and the Chamber of Deputies. The Chamber of Senators is made up of at least 45 members and 30 substitutes elected directly for a five-year term. The Chamber of Deputies consists of at least 80 members and of an equal number of substitutes, directly elected in departmental electoral colleges every five years. The executive power is exercised by the President who is both the head of state and the head of government. The president is elected for a non-renewable term of five years. The country is organized into departments and municipalities (Art.156 of the Constitution). Historically, the political and administrative structure of the country has been characterized by a high level of centralization. Since the return to democracy in 1989, the country has initiated a decentralization process to improve the efficiency of the delivery of local services as well as to promote greater transparency and accountability. The 1992 Constitution only recognizes the central government and the municipal governments as bodies with decision-making responsibilities for service delivery.

The current legal framework for subnational governments is the 1994 Departmental Law no 426 and the 2010 Municipal Law no 3966. Both laws define the legal nature, organization, competences and resources of the departmental and municipal governments. Departmental governments are responsible for coordinating policies and services, both between the central government and the municipalities and between the municipalities. The Municipal Law acknowledges that municipalities have political, administrative and normative autonomy, as well as control over collection and utilization of their own revenue, within the limits established by the Constitution. Despite the adoption of the 2010 Municipal Law, progress towards decentralization has been very slow and the coordination role of departmental governments is limited.

Beginning in 1991 (1990 Electoral Code), municipal governments have been elected by direct suffrage for a mandate of five years. Since 1993, departmental governments have been directly elected every five years in elections held concurrently with presidential and legislative elections. Although departmental governments are directly elected, the Constitution states that the departmental governor represents the central government in the implementation of national policies. This dual role generates policy challenges and affects multi-level governance, as the governor is accountable both to his or her constituents and to the central government.

TERRITORIAL ORGANISATION

2019	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	256 municipalities *(municipios)* + 1 capital city *(capital)*		17 departments *(departamentos)*	
	Average municipal size: 27 270 inhabitants			
	257		17	274

OVERALL DESCRIPTION. The country is composed of 17 departments and 256 municipalities plus the capital city of Asunción, which is a municipality independent from the other 17 departments.

DEPARTMENTS. The departmental government is headed by a governor and a departmental council (*Junta Departmental*). Their constitution and functioning are regulated by Article 60 of the 1992 Constitution and by the 1994 Departmental Law no 426. There is legal provision for a departmental development council to be set up in each department, chaired by the governor and with an advisory function but this is rarely implemented.

MUNICIPALITIES. The municipal government is headed by a mayor and a municipal council. By decree 3250/2015, municipalities are divided into four groups based on the size of their budget compared to departments' capitals budget. This classification determines the number of councillors to be elected by each municipality. Municipalities in groups one and two have twelve councillors while those in groups three and four have nine councillors.

REGIONAL DISPARITIES. The country experiences regional disparities in terms of population density, with 37% of the population living in Asunción and the Central District, while departments such as Alto Paraguay and Boquerón register the lowest density of population with 0.65 inhab/km2 and 0.2 inhab/km2 respectively. Additionally, the majority of the population lives in urban areas and is concentrated in the Oriental Region (97.4% of the population).

TERRITORIAL REFORMS. Paraguay recently adopted its National Development Plan Paraguay 2030 designed to set a long-term vision for the country's territorial development by aligning national and subnational policy priorities. As part of this national strategy, the central government requires the preparation of Department and Municipal Development Plans to be approved by the Technical Planning Secretariat for Economic and Social Development Planning (STP). However, the territorial impact of the National Development Plan remains limited as the abovementioned local development plans are not linked to national and subnational budgets.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Due to the country long tradition of centralization, the central government still carries out a major role in delivering basic public services in Paraguay. According to the 1992 Constitution, departments' competences include energy and water provision, departmental planning, inter-municipal cooperation, multi-level coordination in the area of health and education, environmental protection and protection of indigenous populations. Municipal functions include urban planning, public transport, tourism, education, culture, healthcare and social protection, road maintenance and street paving, waste collection, cemeteries, markets and parks (Art. 168 of the Constitution).

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	DEPARTMENTS	MUNICIPAL LEVEL
1. General public services		Cemeteries
2. Public order and safety		Inspection and police bodies
3. Economic affairs/transports	Transportation	Regulation and control of transit and public transportation; Markets; Bus stations; Slaughterhouses; Tourism
4. Environmental protection	Preservation of the environment and natural resources	Waste collection and disposal; Public squares and parks
5. Housing and community amenities	Public works; Urban planning	Urban planning; Road maintenance; Street paving and street lighting
6. Health	Health promotion	Food hygiene; Health planning through local health committees
7. Recreation, culture & religion		Sports; Theatre; Public libraries
8. Education	Education infrastructure	Education infrastructure; Education planning through local education committee
9. Social protection	School meals	Support of community work for social purposes

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: departments and municipalities.	SNA 1993	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Low**

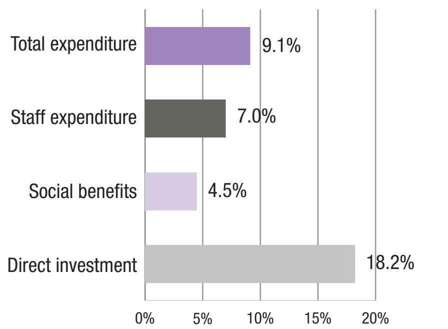
GENERAL INTRODUCTION. SNG finance is regulated by the 1994 Departmental Law no 426; the 2010 Municipal Law no 3966; Law no 3984 of 2010 on the Distribution and Deposit of Royalties and Compensation to Departmental and Municipal Governments, subsequently amended in article 2 by Law no 4841 of 2012; as well as Law no 4758 promulgated in 2012 which created the National Fund for Public Investment and Development (FONACIDE). Municipalities enjoy greater fiscal powers compared to departments. Municipalities are empowered to set local taxes, except property tax, and to borrow from credit markets. They make up the bulk of subnational finance expenditure and revenue in Paraguay. Conversely, departments cannot collect taxes and depend mostly on revenue from grants and taxes collected by other levels of government.

Municipal government data are currently not included in Paraguay's Integrated Financial Management Information System. Municipal governments are legally mandated to send reports on municipal finances for every budget cycle to the Ministry of Finance. However, the process of collecting and processing these municipal data is still not automatic. The 2018 Public Finance Report does not include local government finances because their income and expenditure were not included in the 2018 general government budget. This decision reflects the continuing difficulty for the Ministry of Finance to collect data on municipal finances.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**215**	**1.7%**	**100%**
Inc. current expenditure	142	1.1%	66.3%
Staff expenditure	73	0.6%	34.2%
Intermediate consumption	33	0.3%	15.2%
Social expenditure	22	0.2%	10.3%
Subsidies and current transfers	13	0.1%	6.2%
Financial charges	1	0.0%	0.4%
Others	0	0.0%	0.0%
Incl. capital expenditure	72	0.6%	33.7%
Capital transfers	4	0.0%	1.8%
Direct investment (or GFCF)	68	0.6%	31.9%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



PARAGUAY

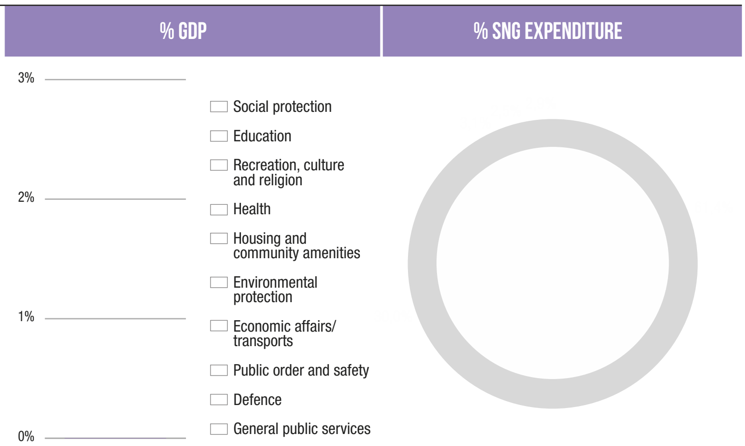
UNITARY COUNTRY

EXPENDITURE. Subnational governments' expenditure represented 9% of total public expenditures in 2016, being well below the average of the Latin American region. Among these, municipal governments' expenditures account for 7% of total public expenditures and 1.3% of GDP. Most of these subnational expenditures are spent on administrative costs, especially on wages and salaries which represent 34% of subnational governments' expenditures.

DIRECT INVESTMENT. In 2016, subnational governments allocated 34% of their expenditure to capital investment, representing almost 19% of general government's capital expenditure. In particular, municipalities dedicated 32% of their budget to direct investment. In 2012, Law no 4758 was adopted which created the National Fund for Public Investment and Development (FONACIDE). One quarter of this fund is allocated to departments and municipalities to finance projects in the areas of education, scientific research, and health. This fund is coordinated by the Ministry of Education and Sciences and can only be directed towards infrastructure investments, as well as capital investments in technology and human capital.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

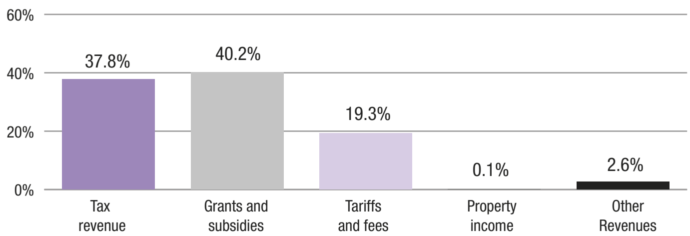
No data available. Paraguayan municipalities can finance a limited range of tasks in the fields of housing and community amenities (street paving), environmental protection (waste collection, public squares and parks) as well as economic affairs (bus stations and markets) and in some cases social protection (social assistance). The majority of municipalities spend most of their budget on administrative expenses.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**188**	**1.5%**	**8.0%**
Tax revenue	71	0.6%	5.7%
Grants and subsidies	75	0.6%	
Tariffs and fees	36	0.3%	
Property income	0	0.0%	
Other revenues	5	0.0%	

% SNG REVENUE



OVERALL DESCRIPTION. Municipalities in Paraguay depend strongly on locally-generated resources compared to other countries in the region. They rely heavily on taxes and fees. On the contrary, department are highly dependent upon transfers from central governments, and have no source of own revenues. Departments receive a general grant from central government but municipalities do not. However, both municipalities and departments receive considerable transfers in the form of a share of the royalties received from transnational hydroelectric projects.

TAX REVENUE. Since the adoption of the 1992 Constitution, municipal governments are in charge of collecting urban and rural property tax (art. 169). Those property taxes are the main own-source revenues for municipalities. Recurrent taxes on immovable property collected by subnational governments represented 48.5% of SNG total tax revenue, 18.3% of local revenue and 0.3% of GDP in 2016. 70% of property tax revenues are retained by municipalities, 15% are transferred to departments, and the remaining 15% is redistributed to poorer municipalities (type 4 municipalities).

Other municipal taxes include taxes for unused urban land (waste land) and for large plots of land, taxes on specific services (such as advertising or public transportation), industry and business licenses, driving licences, and an annual vehicle road tax.

Departments have no sources of own revenue and are funded entirely by transfers from central government and municipalities. Municipal budgets are not part of the integrated public finance system (SIAF). It is therefore difficult to measure accurately the contribution of local government to revenue mobilization, but subnational governments' tax revenues accounted for 0.6 percent of GDP and 5.7% of public tax revenue in 2016.

GRANTS AND SUBSIDIES. Departments receive a general grant from central government as well as shared taxes (30% of the gambling tax, 15% of VAT). The revenue collected from shared VAT is earmarked for health, education and public works (art. 34 of 1994 Departmental Law). General government transfers to municipalities are limited to one shared tax (30% of the gambling tax) and a specific transfer to municipalities in the Canindeyú Department as compensation for the loss of waterfalls as a consequence of the construction of the Itaipú Dam.

Both departments and municipalities receive earmarked transfers from two national hydro plant royalty funds. Departments receive 10% of the royalties collected from binational hydro projects (5% for those departments affected by the hydro dams and 5% for those that are not) (Law no 3984). 80% of these transfers are earmarked for capital expenditure. Municipalities receive 40% of the Royalty Fund (15% for municipalities affected by the hydro dams and 25% for municipalities not affected) (Law no 4841). Within each of these two categories, 50% of these transfers are distributed equally between all municipalities and 50% according to the population size of each municipality. 80% of the transfers are earmarked for capital expenditure, 10% for sustainable development, and 10% for current expenditure.

Departments receive 5% of the enhanced royalty payments from Itaipú Binacional channelled through the National Fund for Public Investment and Development – FONACIDE (Law 4758), and distributed between departments in a similar manner than royalty funds. 50% of the FONACIDE transfers are earmarked for education infrastructure, 30% for school meals, and 20% for general investment purposes. Municipalities also receive 20% of the FONACIDE royalty fund (7.5% for municipalities affected by the construction of Itaipú dam and 12.5% for those not affected). Within each of these two categories, 50% of these transfers are distributed equally between all municipalities and 50% according to the population size of each municipality. 50% of the transfers are earmarked for education infrastructure, 30% for school meals, and 20% for general investment purposes.

OTHER REVENUES. Other revenues for municipalities include fines, service fees (public lighting, cemeteries, waste collection fees, park fees), driver's licenses, transfer fees for real estate and charges for the rental of municipal land. The rates of tariffs and fees are closely regulated by the central government. These taxes benefit more to wealthiest and largest cities such as Asunción or Ciudad del Este, which have more capacities to collect these revenues, in particular car-parking fees.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. As provided for in the 1992 Constitution, the Office of the Comptroller General of the Republic is in charge of controlling and monitoring the reports submitted by departmental and municipal governments. At the municipal level, the Mayor must submit the proposed revenue and expenditure budget to the municipal council for consideration and approval. Once the ordinance has been promulgated, the municipal council must remit the draft budget to the departmental government and the Office of the Comptroller General of the Republic. The same process applies at the departmental level, where departmental governors are responsible for presenting the draft budget to the departmental council for approval before submitting it to the Ministry of Finance.

Fiscal Responsibility Law no. 5098 of 2013 provides that the annual fiscal deficit of the general government, including municipal and departmental governments, shall not exceed 1.5% of the estimated GDP for that year.

DEBT. According to Article 78 of the 2010 Municipal Law, municipalities are able to borrow, subject to approval by the municipal council. Municipalities may contract loans for the acquisition of capital assets, the establishment of municipal corporations to provide local services, and the provision of works and services when they require extraordinary resources. The Law no 1535 of 1999 on the financial administration of the State further stipulates that public debt can only be used to finance productive investments, national emergencies, public administration reforms or the refinancing public debt. Yet in practice, such borrowing is strongly limited by the central government.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: UCLG
Last update: 02/ 2019

www.sng-wofi.org

Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data: IMF Government Finance statistics // OECD Revenue Statistics // Ministry of Finance of Paraguay (2018) Informe de finanzas públicas de la República del Paraguay. Proyecto de presupuesto general de la Nación 2018 // OECD et al. (2018) Revenue Statistics in Latin America and the Caribbean 2018, OECD // The World Bank BOOST initiative.
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PERU

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: PERUVIAN NUEVO SOL (PEN)

POPULATION AND GEOGRAPHY

Area: 1 285 220 km^2
Population: 32.165 million inhabitants (2017), an increase of 1.3 % per year (2010-2015)
Density: 25 inhabitants / km^2
Urban population: 77.7 % of national population
Urban population growth: 1.5% (2017 vs 2016)
Capital city: Lima (32.3 % of national population)

ECONOMIC DATA

GDP: 432 118.5 billion (current PPP international dollars), i.e. 13 434 dollars per inhabitant (2017)
Real GDP growth: 2.5% (2017 vs. 2016)
Unemployment rate: 6.7% (2017)
Foreign direct investment, net inflows (FDI): 6 769.5 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 20.6% of GDP (2017)
HDI: 0.750 (high) rank 89 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Republic of Peru is a unitary, semi-presidential representative democratic republic. Legislative power is vested in the Congress (*Congreso*) of the Republic of Peru, the unicameral house. The 130 members of the house are elected directly by the population for a five-year term by proportional representation. The Head of State is the President, elected through direct vote for a five-year term.

After the country's transition from military dictatorship to democracy with the 1979 Constitutional Act, and the promulgation of the 1993 Constitution, a decentralisation process was launched in 2002, which is still on-going. The 2002 constitutional reform established four levels of government in Peru: central, regional, provincial and district.

The country has two tiers of subnational government, with regions (*departamentos*) and provincial and district municipalities (*municipalidades*). Both regional and local governments enjoy political and administrative autonomy over matters within their jurisdiction. Both have representatives (regional councils headed by presidents, and local councils headed by mayors) elected for four years according to an electoral system that mechanically hands a governing majority at the local level to the political party owning a majority in the subnational assembly. In regard to regions, if no candidate has obtained 30% of the votes cast, a run-off election between the two main candidates is held within 30 days of election day. Regional coordination councils (*Consejos de Coordinación Regional*) are consultative entities composed of elected officials (60% of the council) and civil society members (40%), with a mission to coordinate and advise the regional president on a broad range of issues, including the budget

To improve co-ordination between levels of government, an institutional framework for inter-governmental commissions was put in place as of 2007. However, its implementation remains poor and limited. In fact, as of the end of 2015, there were just three commissions considered active by the Decentralisation Bureau: health, labour and education. The lack of implementation is partly due to disagreement about how representatives of local governments should be elected. To overcome this gap, Decentralised Cabinet meetings have been used in recent years for vertical and horizontal co-ordination between levels of government. In March 2017, the Government created a new structure under the Prime Minister's Cabinet to manage dialogue and coordination with subnational governments.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	1 671 district municipalities *(municipalidades distritales)* and 195 provincial municipalities* *(autonomías indígenas originarias campesinas)*		24 regions *(departamentos)* and the Constitutional Province of Callao	
	Average municipal size: 17 238 inhabitants			
	1 866		25	1 891

** Excluding the province of Callao*

OVERALL DESCRIPTION. Peru has a two-tier subnational system of SNG, composed of departments (regional level) and provincial and district municipalities (local level).

REGIONAL LEVEL The regional level includes 24 *departementos* set as regional governments, as well as the Constitutional Province of Callao, surrounding the capital city of Lima, which has the status of a *departemento*. The country's main development challenges stem from acute regional disparities and difficulties in the mountainous zones, and the over-concentration of economic activity in specific territories, especially Lima. Despite the framework established by the National Strategic Development Plan for national policy priorities, and Concerted Regional Development Plans providing a complementary framework for priority setting at a regional level, national policies and priorities are not necessarily reflected or considered in sub-national planning.

MUNICIPAL LEVEL. The municipal level comprises two sub-levels: 195 provincial municipalities at the upper level and 1 671 districts municipalities at the lower level. These two municipal levels are independent (*Ley Orgánica de Municipalidades*); however, provincial municipalities have a co-ordination role across district municipalities within the province. The Metropolitan Municipality of Lima, with the status of provincial municipality, has been transferred additional powers and functions close to those of regional governments since 2011 under a special regime. 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. Regarding departments, a referendum on mergers took place in 2005, which led to the rejection of the proposal (the programmed 2009 and 2013 referenda were postponed indefinitely).

SUBNATIONAL GOVERNMENT 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. Organic laws for each level of government provide more details. Yet this process was not effectively implemented before 2007, when the Decentralisation Secretariat was created within the Presidency of the Council of Ministers (PCM), which replaced the former National Council for Decentralisation. This has caused overlaps across all levels of government. As of today, the central government is still refining the delimitation of competencies between the different levels of administration. Regional competences include education, public health, environmental protection, support for economic growth, land-use planning, as well as culture and citizen participation (shared or delegated). Provinces and districts are responsible for promoting local economic development, and providing public services. They share some basic competences and in addition, provincial municipalities have extended responsibilities regarding local development and spatial planning within the province, as well promoting, supporting and executing investment and public service projects.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONAL LEVEL	MUNICIPAL LEVEL
1. General public services	Internal administration; Enhance citizen participation	Internal administration (organisation and budget); Supervision of local public works
2. Public order and safety		Public safety
3. Economic affairs /transports	Regional development planning; Road infrastructure, energy, communications; Promotion of employment; Tourism; Support to economic and productive activities and SMEs	Local development and spatial planning (provincial municipalities); Urban and rural development; Public transport and traffic and urban transit management; Tourism
4. Environmental protection	Promote sustainable use of forestry resources and biodiversity; Preservation and management of natural reserves and protected natural areas	Defence and protection of the environment; Waste management
5. Housing and community amenities	Land-use planning	Land zoning plans (provincial municipalities); Housing and urban renovation
6. Health	Participation in the management of public health	Participation in the management of public health
7. Recreation, culture & religion	Access to culture; Strengthening of regional artistic and cultural institutions	Culture; Sport and recreation; Conservation of archeologic and historic buildings
8. Education	Management of preschool, primary, secondary, and higher non-university education	Participation in the management of education
9. Social protection		Management of social programs

SUBNATIONAL GOVERNMENT FINANCE

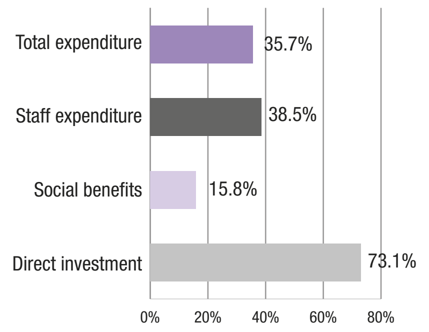
Scope of fiscal data: regions, provincial councils, district councils and decentralised agencies.	SNA 2008	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. Peru is, with Colombia, one of the most decentralised unitary countries of Latin America. SNGs have a key role in the economic and social development of the country, assuming important responsibilities, especially in public investments and in the delivery of such essential public services as health and education. According to the Law on Fiscal Decentralisation, the transfer of resources to regional governments is to be implemented gradually, in two stages: first, through the transfer of resources from the national level, and then through the allocation of a certain percentage of national taxes and resources to subnational governments. All regional and local governments approve their own budgets. Yet the way resources are assigned to local governments in Peru leads to resource imbalances between provinces, and fiscal decentralisation is currently mostly limited to municipalities, and to spending through intergovernmental funding transfers.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**987**	**7.6%**	**100%**
Inc. current expenditure	632	4.8%	64.0%
Staff expenditure	320	2.5%	32.4%
Intermediate consumption	254	2.0%	25.8%
Social expenditure	40	0.3%	4.0%
Subsidies and current transfers	18	0.1%	1.8%
Financial charges	1	0.0%	0.1%
Others	0	0.0%	0.0%
Incl. capital expenditure	355	2.7%	36.0%
Capital transfers	4	0.0%	0.4%
Direct investment (or GFCF)	351	2.7%	35.6%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



PERU

UNITARY COUNTRY

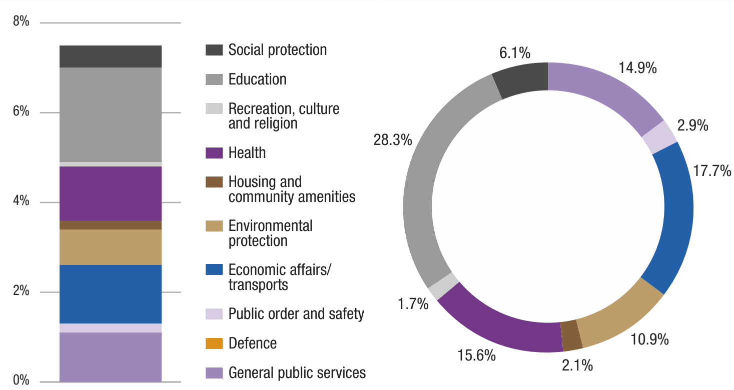
EXPENDITURE. In line with the decentralisation process, but also thanks to the increase in revenues resulting from the boom in commodities revenues (*canon* funds), SNG expenditure rose from 33% in 2004 to over 40% in 2013, before decreasing slightly to 35.7% in 2016, more in line with fluctuations in commodity prices than with the granting of new powers. 38.5% of public staff expenditure are made at the SNG level, as SNGs are responsible for the payment of wages and pensions in the sectors of education and health, on behalf of the central governments. Regions represented 53% of SNG expenditure in 2016 and municipalities 47%, indicating a reverse from past figures.

DIRECT INVESTMENT. One distinguishing feature in Peru is the high share of public investment made at the subnational level (73.1% of total public investment in 2016), above the OECD average (56.9%). In 2016, direct investment represented 36% of SNG spending (vs 10.7% in the OECD on average in 2016) and 2.7% of GDP vs 1.7% in the OECD in 2016).

This level is maintained partly due to transfer mechanisms (canon and earmarked transfers), whose funds must be dedicated entirely to public investment. The main categories of SNG investment are transportation, sanitation, and education, as well as health for regional governments. The Department for the Promotion of Private Investment (*Gerencia de Promocion de la Inversion Privada*) is responsible for promoting private investment and strategic alliances with the national, regional and local governments, private investment and civil society. A Metropolitan Fund for Investment was also created in the metropolitan municipality of Lima to provide resources for financing the Programme for Investment and Urban Works and supervise compliance with contracts involving local private investment.

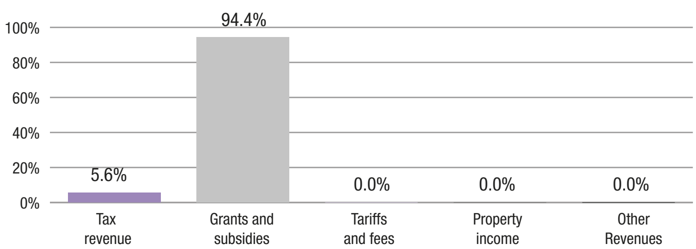
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

The vast majority of responsibilities regarding SNG expenditure are shared with the national government. SNGs have little spending discretion in several areas. Education as well as economic affairs/transport, are the two primary expenses, representing almost 45% of SNG expenditure. In both sectors, local and regional government spending have low efficiency due to the lack of comprehensive master plans and investment strategies and the need to build capacity. Regions have undertaken major spending on infrastructure in the past years, yet maintenance costs are weighing on regional budgets in the absence of medium-term investment strategies. In addition, local councils in charge of some school infrastructure spending lack operating and planning capacity. As such, there are major differences in educational infrastructures across regions. Other significant items, after "general services expenditure", are health (regional responsibility) and environmental protection (municipal responsibility).



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**1 023**	**7.9%**	**40.7%**
Tax revenue	57	0.4%	3.1%
Grants and subsidies	966	7.4%	
Tariffs and fees	0	0.0%	
Property income	0	0.0%	
Other revenues	0	0.0%	



GENERAL DESCRIPTION. Peru has a lower degree of decentralisation for revenue than for expenditure. Despite a sharp increase in the budget of local governments since 2002, SNGs depend heavily on central government transfers, while the share of tax revenue in their total revenue is very limited (5.6% versus 44.6% on average in OECD countries). However, SNGs benefit from an important source of revenue, namely the exploitation of natural resources (royalties redistributed through *canon* funds).

TAX REVENUE. Currently, responsibilities transferred to subnational governments are mostly financed by national government transfers. Regions have no assigned taxes, in contrast with provincial and district municipalities. Besides, the latter cannot set tax bases or rates, which are set by the Central Government through the Municipal Taxation Act. The most important municipal 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 a tax on property transactions (*Impuesto de Alcabala*). Property taxes represented 57.1% of SNG tax revenues in 2016 and 3.2% of total SNG revenue (accounting for 0.3% of GDP, compared to 1.1% of GDP on average in the OECD in 2016). The real estate transfer tax accounted for 29.4% of SNG tax revenue and the municipal tax on services for 8.1%. Provincial municipalities also benefit from the vehicle tax and gambling and lottery taxes. Overall subnational tax revenue in Peru in 2016 were well below the OECD average regarding the share of GDP (0.4% versus 7%), public tax revenue (3.1% versus 31.9%) and SNG revenue (5.6% versus 44.6%)

GRANTS AND SUBSIDIES. There are seven types of intergovernmental transfers in Peru, which constitute the main source of funding for SNGs. The primary transfers are the FONCOMUN for the municipalities (*Fondo de Compensación Municipal*, formula-based on demographic, geographic, socio-economic and fiscal criteria), and the FONCOR for regions (*Fondo de Compensación Regional*, also formula-based). They are complemented by discretionary ordinary transfers, for both regions and municipalities, which are mostly earmarked to cover the payment of wages and pensions in the sectors of education and health.

In addition, SNG also receive, in some cases, commodity-based revenues, canon and royalties, which are distributed exclusively to the regional and local governments where the minerals are extracted. Canon represents half of the corporate tax from mining companies (i.e. the other half is retained by the central government), and revenue from royalties is based on the companies' profits. They are earmarked to finance capital investment. Departments are almost fully financed through ordinary transfers from the central government- Canons and royalties account for 10% of their revenues, whereas they represent a larger share of municipal resources (37%) The second biggest source comes from the FONCOMUN. The importance of canon in the subnational financing system explains the importance of capital transfers in total transfers (28.1% in 2016) as well as the high level of SNG investment. Yet this system generates high disparities across SNGs (only five out of the 25 departments receive more than half of the total revenues from commodities). Since 2012, *canon* transfers have been decreasing, and compensated by an increase in other transfers earmarked for investment, which had a constraining impact on SNG autonomy for undertaking investment.

OTHER REVENUES. Revenues from user charges and fees, including street cleaning, road tolls, park 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.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**446**	**3.4%**	**14.4%**	**100%**
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. Fiscal discipline is a key component of 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 particularly complex (seven fiscal rules). Indeed, most SNGs did not comply with them. The 2013 Fiscal Responsibility and Transparency Law streamlined the framework into two rules, and aligned them with the national macro-fiscal framework. The first rule limits the annual growth in total non-financial public expenditure to the average of revenue growth of the last four years in order to smooth the volatility of SNGs' revenue. The second rule restrains the overall fiscal framework by capping the overall stock of debt that a given SNG can take to less than their own revenue (measured as an average over the last four years). The debt stock now includes "other accounts payable. Law 30099 also empowers the executive to regulate the full management and reporting framework associated with these two rules.

In 2015, a Supreme Decree 287-2015-EF established an independent Fiscal Council to provide technical, independent and non-binding opinions on the fulfillment of fiscal rules by the national government but also by subnational governments. In 2017, a new Legislative decree D.I. No. 1275 was enacted that set a new Framework for Subnational Fiscal Responsibility and Transparency (*Marco de la Responsabilidad y Transparencia Fiscal Subnacional* – MRTF-SN). The MRTF-SN introduced a budget balance rule for SNG current accounts, with the aim to limit SNG current expenditure and to provide incentives to increase SNG own revenue. The MRTF-SN establishes a gradual scale of sanctions for non-compliance with fiscal rules or failing to submit financial information as required by the MEF, easier to be implemented that in the framework of the previous law.

DEBT. SNGs can only borrow under the state guarantee and only for capital investment projects ("golden rule"), and they are required to submit multi-year reports on fiscal management. The MRTF-SN, which replaced the 2013 Fiscal Responsibility Law, established a set of measures associated with the debt restructuring of regional and local governments. It established that SNG debt balance must not exceed the average current income of the last 4 years, nor the limits for the issuance of Regional and Local Public Investment Certificates (CIPRL) established by law. Currently, SNG debt levels amount to approximately 3.4% of GDP.

In 2016, regions accounted for 55% of total SNG debt while the other 45% was held by municipalities. The financial debt is essentially composed of loans, as bond issuing is forbidden for most SNGs. Other accounts payable represented a large part of the total outstanding debt. Subnational debt is concentrated in a few regions and cities, in particular Lima, which is the only SNG with access to financial and foreign markets.

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Socio-economic indicators: World Bank // UNDP // UN DESA // ILO // Instituto Nacional de Estadística e Informática, Directorio Nacional de Municipalidades Provinciales, Distritales y Centros Poblados
Fiscal data: Central Bank of Peru (2017) Public Finances report // Ministerio de Economía y Finanzas databases // Ministerio de Economía y Finanzas (2016), Reporte Fiscal sobre el saldo de deuda de los gobiernos regionales y gobiernos locales // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database), IMF-GFS.
Other sources of information: World Bank (2017) Peru, Public expenditure review // OECD (2016) Territorial Review of Peru // OECD (2016) Multi-dimensional Review of Peru: Volume 2. In-depth Analysis and Recommendations // // Ministerio de Economía y Finanzas (2016), Informe Anual Actualizado de Cumplimiento de Reglas Fiscales de los Gobiernos Regionales y Locales // Neyra Araoz G. (2013), The effects of decentralisation of natural resource revenues on local service provision in Peru // Neyra Araoz G. (2013), Fiscal Decentralization in Peru: Achievements // Martinez-Vazquez J. (2013) Fiscal Decentralization in Peru: A Perspective on Recent Developments and Future Challenges.

URUGUAY

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: URUGUAYAN PESO (UYU)

POPULATION AND GEOGRAPHY

Area: 176 220 km^2
Population: 3 456 million inhabitants (2017), an increase of 0.34% per year (2010-2015)
Density: 20 inhabitants / km^2
Urban population: 95.2% of national population
Urban population growth: 0.5% (2017 vs 2016)
Capital city: Montevideo (50.2% of national population)

ECONOMIC DATA

GDP: 78.2 billion (current PPP international dollars), i.e. 22 562 dollars per inhabitant (2017)
Real GDP growth: 2.7% (2017 vs 2016)
Unemployment rate: 8.3% (2018)
Foreign direct investment, net inflows (FDI): -878.31 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 16.66 (2017)
HDI: 0.804 (high), rank 55 (2017)
Poverty rate: 0.1% (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Uruguay is a unitary republic organized as a presidential representative democracy with division of powers and three levels of elective government: national, departmental and municipal. The President is vested with the Executive power and is both the head of government and the head of the State. Legislative power is vested in a bicameral General Assembly, comprised of the Chamber of Representatives and the Chamber of Senators. The President is elected every five years by popular vote, while members of the General Assembly are elected every five years by proportional representation to ensure the presence of at least two members by department. Judicial power is vested in the courts, of which the Supreme Court is the highest one.

The beginning of the decentralization process can be traced back to 1935, with the enactment of the Organic Municipal Act No. 9 515 (*Ley Orgánica Municipal*). Decentralization is embedded in the 1967 Constitution (Section XVI), which acknowledges the existence of local authorities, although they are not explicitly deemed as municipalities. The Constitution has been amended in several occasions: 1989, 1994, 1996 and 2004. In particular, the 1996 Constitutional Reform defined a series of political reforms towards decentralization, amongst which the creation of the Sectoral Commission on Decentralization and the Congress of Mayors, as well as the definition of departmental and municipal matters may be highlighted. A second set of interventions was carried out since 1990 with the decentralizing initiative and new mechanisms of citizen participation of the department of Montevideo.

Important steps towards decentralization were taken in 2009 with the approval of the Law No. 18 567 on Political Decentralization and Citizen Participation, which established municipalities as local governments yet subject to the hierarchy of the head of department (*Intendente*). In July 2010, the first local governments were elected at the same time that the Law No. 18 719 gave rise to the Incentive Fund for Municipal Management (*Fondo de Incentivo a la Gestión de los Municipios*). In 2014, Law No. 19 272 was introduced, replacing Law No. 18 567 and establishing municipal councils as fully decentralized government bodies. However, the approval in 2015 of National Budget Law No. 19 355 entailed the return to the hierarchical system initially contemplated in Law No. 18 567.

TERRITORIAL ORGANISATION

2016	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	112 Municipalities *(Municipio)*		19 Department *(Departamento)*	
	Average municipal size: 21 391 inhabitants			
	112		19	131

OVERALL DESCRIPTION. Following the enactment of Law No. 18 567 and the subsequent creation of municipalities, Uruguay is divided into 19 departments and 112 municipalities. Slightly over 20% of the country's territory is municipalized, including 72% of total population. Three departments have their territory completely municipalized: Canelones, Maldonado and Montevideo. The three departments include 41% of all municipalities. Territories which are not municipalized remain under the management of the departmental government they fall within.

MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION. 89 municipalities were initially created after the implementation of Law No. 18 567, a number that has expanded to become the 112 municipalities that exist to date in the country. The initial 2009 Law established that municipalities may be created in territories of 2000 inhabitants or more, although departmental governments were granted by the 2009 Law the capacity to create municipalities in territories of even less than 2000 inhabitants – a capacity that they kept until 2013. In 2010, the initial 89 municipalities were created in all territories with over 5000 inhabitants. In 2013, departmental governments created 12 new municipalities and in 2015, following that years' municipal elections, 11 new municipalities were created in those territories whose populations exceeded 2000 inhabitants.

In 2013, the Departmental Congress approved the creation of a National Municipal Plenary (*Plenario Nacional de Municipios*) for promoting cooperation between municipalities in advancing the decentralization process.

DEPARTMENTS. The 19 departments constitute the second level of government in Uruguay. All departments are constituted by the Departmental Board (*Junta Departametal*), with judicial and legislative functions, and the Mayor (*Intendente*), which holds executive and administrative functions. The Constitution sets the basic responsibilities attributed to departments and leaves the determination of the rest of legislative and control responsibilities to ordinary law. Moreover, the Constitution also provides for the creation of the Departmental Congress, with the aim of coordinating the actions of the different departments in the country.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The responsibilities of departmental governments are mostly defined by the Municipal Organic Law, adopted in 1935 and, more recently, by Art. 13 of abovementioned Law No. 19 272 on Political Decentralization and Citizen Participation. The law excludes from the local government's sphere public security service and all the constitutional provisions that directly define powers of both national bodies and deconcentrated entities or services. Recent reforms have created new competencies that devolve responsibilities in the areas of land management, social policies, health, education and agriculture.

Municipalities are responsible for annual accountability to their department; collaboration in the collection of departmental income; assisting public agencies in territorial management and collaborating in national public policies in agreement with the departmental government and the executive branch. There are several fields in which local government's competences are not clearly defined, but local authorities can manifest institutional interest and contribute to programming and policy-making (Art. 13 of Law No. 19 272).

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	DEPARTMENTAL LEVEL	MUNICIPAL LEVEL
1. General public services	Internal administration	Internal administration
2. Public order and safety		
3. Economic affairs /transports	Transit and roads; Road management; Departmental and urban transport; Promote the development of agriculture, livestock, industry and trade	Road network; Traffic signs and traffic control; Conforming measures for the development of livestock, industry or tourism in coordination with the Departments; Opinion, proposal and assistance in the management of local development projects; Collaborate in guidelines on fairs and markets
4. Environmental protection	Protection of the environment and sustainable development of natural resources; Waste collection	Environmental protection; Environmental education programs; Maintenance of green areas; Rainwater management; Urgent measures in collaboration with the National Government on accidents, fires, floods and other natural disasters; Collection and final disposal of waste that is assigned by the department
5. Housing and community amenities	Construction and housing (part of its execution and regulation); Territorial and urban planning; Street cleaning; Public lighting; Sanitation; Cemeteries	Maintenance of public works; Improvement of goods and buildings; Public lighting; Street cleaning; Public spaces; Cemeteries
6. Health	Public hygiene and health	Zonal programs in health and hygiene
7. Recreation, culture & religion	Libraries; Museums; Exhibitions; Nurseries; Theater; Music; Sports; Gardens; Zoos; Planetariums	Social and cultural programs, attending to the proposals of other social bodies
8. Education		
9. Social protection	Activities and policies for specific population groups (women, children, young people, the elderly and people with disabilities)	

SUBNATIONAL GOVERNMENT FINANCE

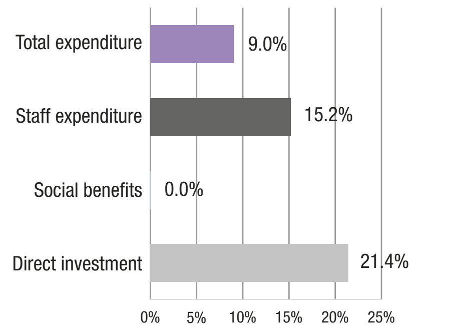
Scope of fiscal data: departmental and municipal governments.	SNA 1993 and other	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. Finance provisions regarding departments can be found in the Constitution, in particular in articles 214, 273, 275 and 298. Departments are financed through own revenue or transfers from the National Government or other agencies. Most of departmental own resources come from taxes and fees. The Constitution gives the departmental legislative body the possibility of creating specific taxes and fees. Law No. 19 272 directly regulates municipal finance, establishing that municipalities may only manage financial resources, not create them. Furthermore, the Law also sets out that departments must plan in their budget an allocation for municipalities.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**673**	**3.1%**	**100%**
Inc. current expenditure	568	2.6%	84.4%
Staff expenditure	328	1.5%	48.7%
Intermediate consumption	175	0.8%	26.0%
Social expenditure	0	0.0%	0.0%
Subsidies and current transfers	27	0.1%	3.9%
Financial charges	18	0.1%	2.7%
Others	20	0.1%	3.0%
Incl. capital expenditure	105	0.5%	15.6%
Capital transfers	0	0.0%	0.0%
Direct investment (or GFCF)	105	0.5%	15.6%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



URUGUAY

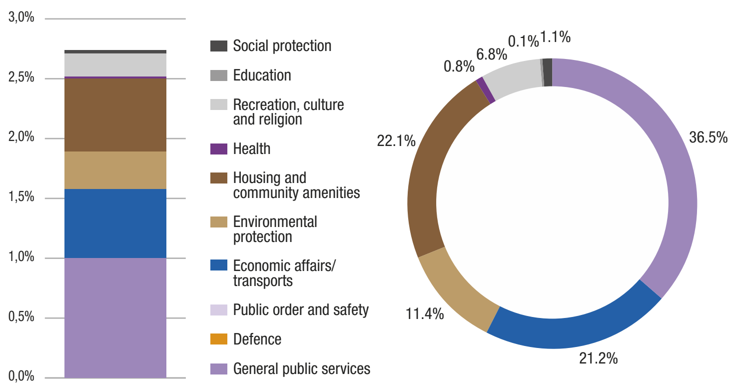
UNITARY COUNTRY

EXPENDITURE. For the last ten years, the Departments' expenditure rate (data for municipal governments have been available only since 2016) has increased by more than 10% per year on average. In 2016, current expenditures made up 84% of subnational total expenditure, while capital expenditures approximately 16%. Half of the expenses correspond to staff expenditure (salary and social security). Staff expenditure corresponds to group 0 of expenditure classification at departmental level, it includes social benefits and social security. In this category, municipal governments spend a higher share of their income than departmental governments do (65% and 46% respectively). Another considerable expense is that of intermediate consumption, which reaches 26% of total expenditure (even though, in this case, expense is relatively higher at the departmental level). In the national classification, the intermediate consumption is divided into group 1, consumption goods, and group 2, consumption services. Subsidies and transfer, corresponding to group 5 of the national classification, accounts for 4% of subnational spending. The amount of transfers cannot be disaggregated into capital and current transfers. The total amount is therefore included in "subsidies and current transfers". Other unclassified expenses and figurative expenses corresponds to groups 7 and 9 of the national classification, account for 3% of total subnational spending. Financial charges account for 2.7% of subnational spending. As per the national classification,it includes include expenses of group 4 (Financial assets), group 6 (interest charges) and group 8 (the repayment of internal and external debts).

DIRECT INVESTMENT. Direct investment corresponds to the group 3 of the national classification. In total, it corresponds to 21.4% of total public capital spending and 105 dollar PPP per capita. Departments allocate 16% of their total spending to investment. Subnational government direct investments have mostly experienced a sustained increase over the last ten years, with the exception of fiscal years 2010 and 2015. The percentage of investment over expenditure for municipal governments is 15%.

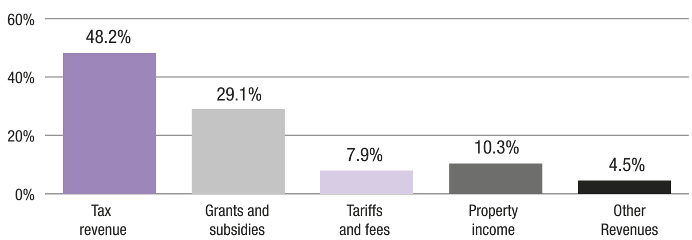
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Departmental expenditure is mostly allocated to the provision of general public services, which accounts for 36.5% of expenditure, followed by housing and community affairs and economic affairs, which respectively represent 22.1 and 21.2%. Within economic affairs, transport is the main line of expenditure. Environmental protection accounts for 11.4 % of subnational expenditure, while 6.8% is spent on recreation, culture and religion. Defence and security, education and social security are the main expenditures at the national level.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**703**	**3.2%**	**10.0%**
Tax revenue	339	1.6%	6.2%
Grants and subsidies	204	0.9%	
Tariffs and fees	55	0.3%	
Property income	72	0.3%	
Other revenues	32	0.1%	



OVERALL DESCRIPTION. Subnational revenue accounts for 3.2% of the GDP and 10% of total public revenue. In recent years, departmental revenues have grown at a rate exceeding 10% per year, except for 2015 when they increased by 5%. By 2016, 70% of departmental income came from own-revenue, mostly tax revenue, while the rest proceeded from the national level. In total, taxes revenue accounts for 48% of subnational government re. Contributions from the national level are based on the abovementioned constitutional provisions and laws, while transfers to specific destinations have mainly originated from the Office of Planning and Budget (OPP) and sectorial Ministries. In total, transfer and subsidies account for 29% of subnational public revenue.

TAX REVENUE. PIT, CIT and Property taxes are only collected at the central level and are different from the ones collected by the Departments. The national government establishes the tax rate. The Constitution provides for three main taxes to be collected at the departmental level: the Real Estate Fee (rural, urban and suburban), which taxes building property according to cadastral value; a 'wheeled-vehicle' license for all owners of a motor vehicle; and a tax on the sale and killings of cattle (*Impuestos a Remates y ventas de semovientes*). In 2016, the wheeled-vehicle fee was the main source of departmental income. The Real Estate Fee, on the other hand, was a top-three source of income for 16 departmental governments. Since 2011, a unified Single System for Collection of Vehicle Revenues (SUCIVE) has been established, standardizing tax amounts across all departments. The national government is in charge of managing and running the system. Other taxes collected at the local level include public lighting and commercial and industrial activities.

GRANTS AND SUBSIDIES. The total transfers made by the national government to sub-national governments amounted to 1% of GDP in 2016. Law No. 18 355 establishes that 3.33% of the National Budget will be directed to Departmental Governments. The Interior Development Fund (FDI) is an alternative, project-based financing source created in 2015 by Law No. 19 337. Remaining transfers come from subsidies for public lighting, roads and the Sub-National Development and Management Programme (PDGS). Funds are also granted for patent unification and the Law on Auctions and Livestock, which are paid by the central government on behalf of the department. (Law No.19 272). Lastly, the national government allocates specific funds, such as the Municipal Management Incentive Fund (FIGM) created by Law 19 272.The FIGM, which increased substantially from 2015 to 2016, allocates 10% of the annual amount divided in equal parts for all municipal units. 75% of the FIGM is divided according to Article 230 of the Constitution (weighted by territorial criteria): The remaining 15% is allocated to programmes and projects.

OTHER REVENUES.

Tariffs and fees. Over the last 5 years, the total amount of tariffs and fees has grown (except in 2015). In 2016, it corresponds to 8% of subnational public revenue, of which, 48% corresponds to fees. By order of amount collected, the fees include: transit services, sanitation, administration, urban planning, safety, cemeteries and related services, and other sources.

Property income. Capital income collected by Departments includes allowances, prices, fines and surcharges and the output of commercial and industrial activities. Property income amounts to 10.3% of total subnational income.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**134**	**0.6%**	**1.0%**	**100%**
Financial debt*	39	0.2%	0.3%	29%

* Currency and deposits, loans and bonds

FISCAL RULES. According to article 301 of the Constitution, departmental governments may borrow funds subject to the approval of the departmental board. Moreover, the Constitution also establishes that and loan accumulation requires Parliamentary approval and backup guarantees from the national government. In 2016, the approval of Law No. 17 947 established the legal framework for setting an annual national ceiling for debt contraction.

DEBT. The table shows the departmental governments' borrowing, that reflects the debt contracted with banks and providers. Subnational governments total outstanding debt accounts for 0.6% of GDP. Financial debt corresponds to 29% of the total outstanding debt, while 71% corresponds to other accounts payable.

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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.
Fiscal data: Central Bank of Uruguay // World Bank // General Accounting of the Nation (CGN) // Nation Institute of Statistics (NIE) // Observatorio Territorio Uruguay, Planning and Budget Office (OPP) // budgetary transparency portal.
Other sources of information: Arocena, J. (2013) "Descentralización: desafíos, contexto y el caso uruguayo" en Jornadas de trabajo "Diálogos sobre descentralización, gobernanza local-regional y desarrollo urbano sostenible". Organizadas por Mercociudades, IMM, PNUAH, Comisión Europea y AECID // BID (2009) Finanzas y gestión de los gobiernos subnacionales en Uruguay // Farinha, F et al. (2018) "Análisis legislativo sobre la descentralización en materia departamental y municipal" en Serie Descentralización y desarrollo territorial. Montevideo: Dirección de descentralización e inversión pública, OPP // Ferla, P. et al (2016) Panorama del nivel municipal en Uruguay. Montevideo: Fundación Konrad Adenauer: Universidad Católica del Uruguay // Lalanne, A. y Brun, M. (2014) Los ingresos y egresos de los gobiernos departamentales entre 1990 t 2013. Montevideo: Oficina CEPAL // OPP, Uruguay Integra (2017) Fondo de Incentivo para la Gestión de Municipios, Informe Desarrollo Municipal. Octubre 2017, Montevideo: Dirección de descentralización e inversión pública, OPP.

ISRAEL

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: NEW ISRAELI SHEKEL (ILS)

POPULATION AND GEOGRAPHY

Area: 21 643 km^2
Population: 8.709 million inhabitants (2017), an increase of 1.7% per year (2010-2015)
Density: 402 inhabitants / km^2
Urban population: 92.3% of national population
Urban population growth: 2.0% (2017)
Capital city: Jerusalem (10.4% of national population)

ECONOMIC DATA

GDP: 333.4 billion (current PPP international dollars), i.e. 38 276 dollars per inhabitant (2017)
Real GDP growth: 3.3% (2017 vs 2016)
Unemployment rate: 4.2% (2017)
Foreign direct investment, net inflows (FDI): 18 169 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 20.3% of GDP (2016)
HDI: 0.903 (very high), rank 22 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Israel is a unitary parliamentary democracy established in 1948 by the Declaration of the Establishment of the State of Israel. Israel has no formal written constitution but thirteen “Basic Laws” (and a temporary one) that were passed in 1957 to set up a legal framework. The first basic law established the parliament in 1958. It is a unicameral parliament (*Knesset*) composed of 120 members elected every four years by direct universal suffrage. The Knesset elects the President of the State in a secret vote for a single, seven-year term. The country’s prime minister is the head of government and chief executive, entrusted with the task of forming the cabinet, which is the government’s main policy-making and executive body. Following the Knesset elections, the prime minister is nominated by the President from among the Knesset members after asking party leaders whom they support for the position.

Israel has a rather centralised system of governance that is influenced by three factors: 1) British colonial Municipal Ordinances of 1934 and 1941 that are still in place, 2) socialist traditions of Israel’s early governments (1948-1977), and 3) its economic model called the “developmental state”. No major decentralisation reform or devolution of powers has officially taken place and the central government retains most of the powers and strict oversight of local government activities and finances. Bylaws and ordinances adopted by councils, as well as their budgets, are subject to approval by the Ministry of the Interior.

However, some de-facto decentralisation of political power has taken place since the 1970s, starting with the direct election of mayors and chairpersons by universal suffrage since the 1975 Law on Local Authorities, which went into effect in 1978 (“the Law on the Direct Election of Local Authorities”). Previously, they were elected by local councils from among their members. Councils members are elected on the basis of proportional representation for a five-year term. Since then, the country has aimed to improve public administration and enhance accountability, transparency and financial responsibility of local governments. In fact, the central government has gradually withdrawn from delivering and overseeing local services. Some additional responsibilities have been transferred to local governments.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	257 local authorities			
	Average municipal size: 33 253 inhabitants			
	257			257

OVERALL DESCRIPTION. The 257 local governments are divided into three categories: 77 municipalities, 124 local councils, and 54 regional councils. There are also two local industrial councils, which only manage industrial zones and do not have residents.

MUNICIPAL LEVEL. The status of municipalities is granted to cities with at least 20 000 inhabitants while that of local councils is reserved for towns between 2 000 and 20 000 inhabitants. Regional councils operate at the local level, bringing together settlements spread across rural areas (mainly *kibbutzim*, *moshavim* and *bedouin* villages) to unite local communities and provide local services. In regional councils, each village or community elects one candidate by a simple majority, who becomes a member of the council. In 2016, around 75% of population lived in municipalities, 15% lived in local councils and 10% in regional councils. SNGs are large by international comparison. Their average demographic size is 33 500 inhabitants vs 9700 inhabitants in the OECD. Around 30% of municipalities have fewer than 5 000 inhabitants (vs 44% in the OECD) and 3% fewer than 2 000 inhabitants (vs 28% in the OECD). Israel has 15 cities with populations over 100 000, including Jerusalem, Tel Aviv, Haifa, Rishon LeZion, Ashdod, and Petah Tikva. Four metropolitan regions have been identified (Tel Aviv, Haifa, Jerusalem, and Beersheba). To provide a more comprehensive assessment of both the resources and the economic and social needs of each local government, the Central Bureau of Statistics (CBS) defined 10 socio-economic clusters which are used by the government in the implementation of a number of policies related to local governments.

MUNICIPAL MERGERS AND INTER-MUNICIPAL COOPERATION. Several attempts have been made to reduce the number of local councils through mergers. In 2003, 23 local councils were consolidated into 11. However, in subsequent years some of these mergers were later reversed. Inter-municipal cooperation is increasingly popular. It started as a voluntary bottom-up process with the creation of the Western Galilee Cluster in 2009, under the form of “Regional cluster”. A pilot programme to establish Voluntary Regional Clusters was created in 2012 under the initiative of the Ministry of Interior, the Ministry of Finance and several civil society organisations. Subsequent legislation passed by the Knesset formalised the legal status of clusters on December 2016. In 2018, their number increased from 5 to 10, the number of associated local authorities increased from 59 to 109, and the scope of budgetary activity increased from about USD 4.16 million to about USD 61 million. Clusters deal with responsibilities such as environmental protection, waste, veterinary services, transportation, specialised education, economic development, etc.

STATE TERRITORIAL ADMINISTRATION. Israel has six statutory administrative districts – North, South, Centre, Jerusalem, Tel Aviv and Haifa – subdivided into 15 sub-districts. Headed by an officer of the Ministry of the Interior, districts are in charge of overseeing SNGs. Other ministries also have administrative districts, but they are not statutory. Districts act solely as administrative zones delimiting national policy plans.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The 1934 and 1941 Municipal Ordinances provided the legal framework for the local government system including a detailed breakdown of municipalities' responsibilities. This framework is, by and large, still in place today. Other regulations have been adopted since to delimit more precisely between central and local functions and provide a more robust legal framework for local government responsibilities. However, Israel does not have a comprehensive modern law on SNG functions, despite past attempts to adopt a new Municipalities Bill, especially in 2007.

Local councils' responsibilities are divided between compulsory responsibilities, devolved competences, and voluntary services. Services under the statutory responsibility of councils as specified by law concern supervision of public works within boundaries, sewerage services, sanitary services, veterinary services and more. Most responsibilities in education and social welfare are national services delegated and operated through SNGs, and their delineation is often unclear. Moreover, local councils sometimes provide additional services according to their preference and depending on their available resources, in particular in the fields of culture, recreation and environmental protection.

Over the last few years, decentralisation has occurred. For example, Amendment 101 to the Planning and Building Law (2014) contributed to giving more responsibility and discretion to SNGs in this area. Land-use planning authority was shifted to local level in 2014 to make it more efficient. By contrast, municipal water and sanitation services have been gradually transformed into corporatised utilities that are owned by local municipalities and regulated under licenses by the Israeli Water Authority (IWA). There are now 56 regional water and sanitation utilities serving 187 municipalities and local councils. 27 municipalities serving approximately 4.5% of the population remain without a corporatised water utility.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPAL LEVEL
1. General public services	Internal administration (including tax and fees collection)
2. Public order and safety	Municipal supervision
3. Economic affairs/transports	Physical infrastructure; Roads; Development of a long-term employment strategy (since 2006); Local tourism; Municipal transport infrastructure
4. Environmental protection	Parks and public gardens
5. Housing and community amenities	Water supply and sanitation (see above); Refuse collection and disposal system; Town and land-use planning; Housing; Street cleaning and sanitation; Veterinary services
6. Health	
7. Recreation, culture & religion	Sports activities; Cultural activities (libraries, museums, arts, crafts, orchestras, choirs, theatres and similar enterprises); Youth clubs; Religious services; Recreation areas
8. Education	Construction and maintenance of schools buildings but only for pre-schools and secondary education institutions; Provision of equipment; Student registration; Schools' day-to-day operations; Informal education
9. Social protection	Social care of families in need; Elderly; Drug addicts; Social services and day care for infants (shared)

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: : local government units (local councils, municipalities and regional councils), as well as approximately 180 religious councils.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. The subnational fiscal framework is spelled out mainly in by-laws and ordinances approved by the Ministry of Interior. The characteristics of the local funding system result in strong fiscal disparities among municipalities, and it has generated a fiscal and organisational crisis in weaker local governments. To fix the imbalance between councils, an equalisation system was set up by the government. Disparities remain strong, however, primarily between SNGs that are: urban vs rural; central vs peripheral; and predominately-Jewish vs predominately-Arab.

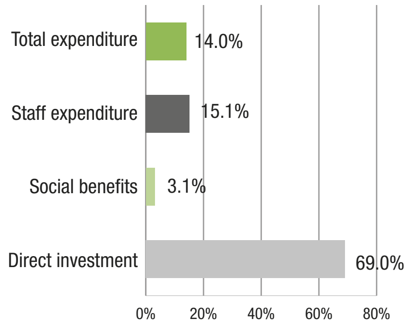
ISRAEL

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**2 062**	**5.5%**	**100%**
Inc. current expenditure	1 613	4.3%	78.2%
Staff expenditure	574	1.5%	27.8%
Intermediate consumption	568	1.5%	27.5%
Social expenditure	100	0.3%	4.7%
Subsidies and current transfers	322	0.9%	15.6%
Financial charges	19	0.1%	0.9%
Others	33	0.1%	1.6%
Incl. capital expenditure	449	1.2%	21.8%
Capital transfers	13	0.0%	0.6%
Direct investment (or GFCF)	436	1.2%	21.1%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



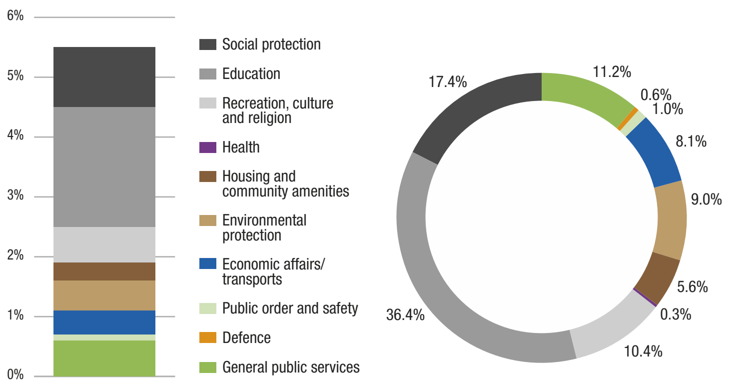
EXPENDITURE. Although some responsibilities have been decentralised, Israel remains a centralised country from the spending perspective. In 2016, SNGs accounted for 14.0% of public expenditure i.e. 5.5% of GDP, which is well below the OECD average for unitary countries (9.2% of GDP and 28.7% of public expenditure). The budgets for recurring resources and for investment are divided (ordinary and non-ordinary budgets) and managed separately, and are supplemented by their own resources. Staff expenditure accounted for nearly one-third of local expenditure and a significant part of the ordinary budget in 2016. However, local staff expenditure represented a small share of total public staff expenditure, especially compared to other OECD countries, including OECD unitary countries on average (43.0%).

DIRECT INVESTMENT. SNGs are significant public investors in Israel as investment is one of their main functions, amounting to 21.1% of local expenditure, well above the OECD average for unitary countries (13.8%). As a share of public investment, the ratio of 69% is particularly high but it does not reflect the real situation. In fact, most of central government investment is done by public companies whose investment is not recorded in the general government sector. As a result, the real extent of central government investment is under-estimated, and consequently, the share of SNGs in public investment is significantly over-estimated. This is confirmed by the low level of local investment in GDP (1.2% vs 1.7% in OECD unitary countries on average).

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Education is by far the biggest area of local spending, representing almost 37% of SNG expenditure, a much larger share than the OECD average of 24.8%. Local governments are also particularly active in the social protection sector, for which they also have delegated functions, like for education. Social expenditure accounted for 17.4% of their expenditure, above the OECD average (14.0%). Expenditure in economic affairs/transports and health are below the OECD average (respectively 13.6% and 18.1%). Israeli local governments are responsible for the vast majority of overall public spending in the areas of environmental protection (87% of public spending) and housing and community amenities. In most sectors, such as education and social affairs, SNGs are still subject to control by the central government and only have limited discretionary powers.

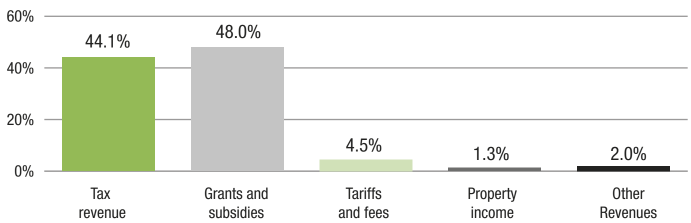
% GDP	% SNG EXPENDITURE



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**2 092**	**5.6%**	**15.0%**
Tax revenue	923	2.5%	9.5%
Grants and subsidies	1 004	2.7%	
Tariffs and fees	95	0.3%	
Property income	28	0.1%	
Other revenues	42	0.1%	

% SNG REVENUE



OVERALL DESCRIPTION. Tax revenue accounted for a significant part of local revenue in 2016, above the OECD average for unitary countries (38.7%). Consequently, the share of grants and subsidies in local revenue is slightly smaller than in the OECD unitary countries on average (48.8%). However, there are major disparities among councils and clusters, municipalities belonging to lower clusters depending significantly more on grants from the central government.

TAX REVENUE. Although tax revenues are a major source of SNG revenues, they amounted to only 2.5% of GDP in 2016 (vs 4.7% in the OECD unitary countries on average) and 9.5% of public tax revenues (vs 19.8% in the OECD unitary countries on average). The largest source of SNG tax revenue is by far the local property tax (*Arnona tax*). In 2016, it accounted for 81% of SNG tax revenue and 36% of their revenue. This tax is levied on land and buildings according to the size of the property, its location, use and age. It has two components: one for residential properties (around 44% of total receipts in 2016) and the other for non-residential properties (around 56%). Tax autonomy remains limited. Until 1985, the city council rates were autonomously determined by the local councils. In 1985, as part of the stabilisation programme, the council tax orders were suspended. They have not been reinstated, although the rate is adjusted based on CPI fluctuation, an adjustment that requires the approvals of the ministers of the Interior and the Treasury. In 1993, properties were assigned to various categories depending on how they are used. Depending on the classification, minimum and maximum rates are applied. The central government has set 13 main property categories at the national level. Each council has its own subclasses. It has the authority to change sub-classifications (i.e. the type of property) and to propose changes to specific *arnona* rates. However, both increases and decreases must be approved by the Ministers of Finance and Interior. Due to a significant imbalance in the level of tax rate between the arnona on residential and non-residential buildings, the property tax system is regressive and tends to exacerbate fiscal disparities among municipalities. Other tax revenues include the "betterment tax" or levy (*Hetel Hashbacha*, 13.8% of local tax revenue i.e. 6.1% of local revenue), which relates to the change in the real estate value of the property due to a land-use zoning change or the approval of additional building rights. Local government can also charge levies for the development of infrastructure in the local council.

GRANTS AND SUBSIDIES. There are three categories of central government transfers: transfers earmarked to delegated responsibilities (education and social welfare), a general balancing grant and other grants, including the new equalisation fund grant (*Arnona* fund).

Earmarked transfers for education and social welfare originate from the Ministry of Education and the Ministry of Welfare. They are granted according to the "matching" principle. In the social sector, for every service financed by the local authority, it receives 75% funding from the State. Local authorities are often unable to fund the remaining 25%, and they have to cut welfare costs at the expense of their local citizens. In the education sector, this percentage varies depending on what is being funded (on average, 85% of total spending in education comes from central transfers). The general balancing grant is designed as an equalising grant targeted to SNGs with limited amounts of own-revenues so they can meet their public service responsibilities. Individual allocation is determined annually by the Ministry of Interior, based on a complex formula. While most of the balancing grant is distributed as a block grant in support of local governments' regular budgets, a portion of the grant (no more than 15%) is conditional on meeting certain criteria (e.g. performance in tax collection). In 2017, a new equalisation fund was implemented (Arnona fund) to redistribute resources derived from the property tax more equally across municipalities. Drawing on the Arnona paid by the central government on its own assets, the amount is set by the Law of Finances. Eligibility to the fund and distribution keys are based on criteria such as socio-economic index, lack of non-residence arnona, periphery index, and financial management.

Sectoral ministries also provide development grants for specific local projects such as educational and cultural facilities, roads, water and sewerage systems, as well as general development grants for projects selected by local preference. In local Arab municipalities, where fiscal disparity issues related to land are particularly sensitive, a special five-year plan has been established to support development projects and reduce disparities (Israeli Government Resolution 922 of December 2015). It includes special budgetary allocations in many sectors such as education, public transportation, road infrastructure, water and sewerage infrastructure, employment, housing and public safety. The education grant and the welfare grant made up the bulk of current grants (respectively, 56% and 21% in 2017). In addition, the general balancing grant and the equalisation fund accounted for respectively 15% and 1%; and other grants added 7%.

OTHER REVENUES. Other revenues include charges and fees for the use of local educational, social, cultural and recreational services, income generated from bylaws, etc. Local councils are also empowered to collect fees for specific services provided to residents, such as sewerage, refuse, signage or security. However, the share of user charges and fees in Israel remains particularly low compared to the OECD average for unitary countries (10.1% of local revenue in 2016). Property income derive from rent and sales of local assets (land and buildings) as well as from dividends paid by water companies.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**818**	**2.2%**	**2.9%**	**100%**
Financial debt*	477	1.3%	1.9%	58.3%

* Currency and deposits, loans and bonds

FISCAL RULES. The Ministry of Interior is responsible for overseeing SNGs. Along with the Ministry of Finance, it approves local government budget and audits their accounts. Under the Municipalities Ordinance (Budget Preparation), local councils must be financially balanced, and if a deficit exists from previous years, the council must allocate, in the budget, the sums required to cover the deficit. Since 2014, SNGs have been classified according to fiscal wealth and budgetary performance criteria. "Stable" local governments that fulfil standards 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. As of 2018, 24 councils met these criteria. Conversely, authorities that fail to meet the standards are put under administration (the "fiscal rehabilitation" programme) and run by a state accountant. The State Comptroller and Ombudsman of Israel regularly publishes an audit report on the situation of local government finance.

DEBT. Municipalities can borrow only to finance investment projects ("Golden Rule") but they need the authorisation of both the Ministries of Interior and of Finance. In addition, they can only borrow if their total outstanding loans do not exceed 75% of their own revenue (including grants) in any fiscal year. This does not apply to the "stable" 24 local governments. The tightening of controls on councils' budget balance and debt led to a consistent decrease in their debt level, and to the significant improvement in their financial strength. In 2016, SNG debt was low by international standards, well below OECD average for unitary countries (14.5% of GDP and 11.8% of public debt). In 2016, the share of other accounts payable (i.e. commercial debt and arrears) was high (42%) compared to financial debt (58%). Financial debt amounted to 1.3% of GDP and 1.9% of public debt in 2016. It is exclusively composed of loans, as bonds remain negligible.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: OECD
Last update: 02/ 2019

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Socio-economic indicators: OECD // World Bank // UNDP // UN Desa // ILO // Central Bureau of Statistics (CBS).
Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // Ministry of Finance of Israel // Central Bureau of Statistics (CBS).
Other sources of information: Ministry of Finance of Israel (2019) Sector analysis – Interior and local councils // OECD (forthcoming) Review of the local taxation system // Israel Ministry of Interior (2019) Promoting Regionalism in Israel (presentation) // Israel Ministry of Foreign Affairs (2018) - OECD (2017), Spatial Planning and Policy in Israel: The Cases of Netanya and Umm al-Fahm // OECD (2017) "Israel", in National Urban Policy in OECD Countries // World Bank (2017) Water Management in Israel Key Innovations and Lessons Learned for Water-Scarce Countries // Oser, J., & Galnoor, I. (2016). Policy analysis evolution in Israel: Building administrative capacities. // Israel State Comptroller (2015) Regulating and Auditing Municipal Finance in Israel: Cost Efficiency and Distributional (conference presentation) // Committee of the regions (2014) Israel facts on the division of powers // Beeri I. (2013), Governmental Strategies towards Poorly-Performing Municipalities.

JORDAN

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: JORDANIAN DINAR (JOD)

POPULATION AND GEOGRAPHY

Area: 89 320 km^2
Population: 9.702 million inhabitants (2017), an increase of 2.6% per year (2010-2015)
Density: 109 inhabitants / km^2
Urban population: 90.7% of national population (2017)
Urban population growth: 2.8% (2017 vs 2016)
Capital city: Amman (19.5% of national population)

ECONOMIC DATA

GDP: 88.9 billion (current PPP international dollars), i.e. 9 153 dollars per inhabitant (2017)
Real GDP growth: 2.0% (2017 vs 2016)
Unemployment rate: 15.3% (2016)
Foreign direct investment, net inflows (FDI): 2 029 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 22.3% of GDP (2017)
HDI: 0.735 (high), rank 95 (2017)
Poverty rate: 0.1% (2010)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Kingdom of Jordan is a unitary parliamentary monarchy with a two-tier subnational government system. According to the 1952 Constitution, executive power is vested in the king and his cabinet, which is chaired by a Prime Minister (head of the government) appointed by the king. The legislative power lies in the bicameral National Assembly, made up of the Senate and the House of Representatives. Members of the Senate are appointed every four years by the king. The House of Representatives consists of 130 members who are directly elected for a four-year term. The judicial power is exercised by the courts.

The concepts of decentralized system and local governance were introduced with the establishment of the Hashemite Kingdom of Jordan. Although the first municipal law in the territory dates back to the Ottoman law of 1877, Jordan remained for decades a highly centralized country where national planning and development processes have been directed by the central government. Moreover, although municipalities were recognized as local government units, they were under direct supervision of the Ministry of the Interior.

The Municipalities Act, firstly introduced in 2007 and later modified in 2015, together with the Decentralization Act of 2015 and the relevant by-laws, make up the current legal framework for decentralization in the country. The Municipalities Act sets out the responsibilities of municipalities, as well as their governing structure and their classification. The Decentralization Act gives concrete expression to the decentralization initiative put forward by the King of Jordan as part of the Jordan Vision 2025, the country's 10-year strategy to promote decentralization and local democracy. The Act provides for the creation of elected governorate councils at the provincial level that enjoy financial and administrative independence (art. 6). Although these reforms have led to significant changes in Jordan's governance framework towards decentralization, important challenges still remain, such as assigning clear mandates to the different subnational levels or enhancing coordination across levels of government.

Along with the adoption of the 2015 Acts, a National Committee for coordinating the progress of decentralization reforms was set up, including the Ministry of the Interior, which represents the central government in governorates and is in charge of implementing the Decentralization Law, and the Ministry of Municipal Affairs, which supervises municipalities and is in charge of implementing the 2015 Municipalities Act.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	100 Municipalities *(Baladiyah)* and the Greater Amman Municipality *(GAM)*		Governorates *(Muhafazah)*	
	Average municipal size: 96 063 inhabitants			
	101		12	113

OVERALL DESCRIPTION. Jordan has two levels of subnational governments, composed of 12 governorates at the regional level, and 100 municipalities and the Greater Amman Municipality at the municipal level. There is also the Special Economic Zone of Aqaba.

REGIONS. Before the approval of the Decentralization Act in 2015, the 12 governorates were deconcentrated government units whose head, the governor, was appointed by the King. The 2015 Act established the creation of governorate councils, whose members are partially elected, although the governor and executive council are still appointed. The first local elections to the governorate councils took place in August 2017, with 88% of the councils' members being directly elected and 12% appointed by the central government. Governorates are assigned key functions in the decentralization reforms that Jordan is undergoing and the councils are accountable to both the central government and citizens. Governorates are divided into districts (*liwa*) which are in turn subdivided into sub-districts (*qda*). The territorial distribution of population in Jordan reveals a high concentration of population in regions with strong economic activity, i.e. the governorates of Amman, Irbid and Zarqa, which are home to 42%, 19% and 14% of the national population respectively, resulting in wide regional disparities.

The Aqaba Special Economic Zone is a regional hub established by the Jordan government in 2001 with the aim of enhacing economic activity, in particular trade, tourism and investment. The Aqaba Special Economic Zone Authority (ASEZA) is the financially and administratively independent institution responsible for the management and development of the zone. Although it is not an autonomous self-governing body, the territory of Aqaba is administratively independent from the ministry or the governorates: all public services are under the responsibility of ASEZA.

MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION. The 100 municipalities are administered by a mayor and a municipal council, elected every four years. The Greater Amman Municipality is divided into elected local councils and is governed by a mayor appointed by the prime minister and a capital council composed of a maximum of 15% of members appointed by the central government, the remaining members being the heads of local councils. The Municipalities Act provides that municipalities are classified into 3 subcategories: municipalities of governorate centres and municipalities with more than 100 000 inhabitants, municipalities of district centers and those with a population between 15 and 100 000 inhabitants, and other municipalities that do not fall into either of these two categories.

The Ministry of Municipal Affairs appoints an executive manager at the municipal level with the same power as the elected members of the municipal council. The manager is responsible for following-up the day-to-day administrative work and municipality management along with the Mayor.
Since the 2015 reforms, municipalities are allowed to form inter-municipal partnerships to improve the delivery of public services.

In addition, Local Development Units were introduced in 2003 at the governorate and municipal levels to engage local stakeholders in local socioeconomic development. Their role was expanded with the 2015 Acts to act as the general secretariats for both the executive and local councils at the governorate and municipal levels.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Municipal government responsibilities are outlined in the 2015 Municipalities Act. Article 5 details the functions of local councils, which include urban development, planning, upgrading of the public transport system, construction and management of public facilities, among others. However, the lack of municipal power remains a major challenge. The roles of local councils and mayors are often challenged by upper administrative levels. Urban delegates from ministries or private companies provide most urban services; thus, most of the municipalities' functions are limited to the maintenance or supply of part of the basic services.

Governorate government responsibilities mainly focus on public order and safety. Governorates usually serve as the provincial offices through which deconcentrated units of line ministries deliver key services, such as education and health, but also water, electricity and transportation. Appointed governors may act on all local affairs without consulting mayors and municipalities are not involved by the agencies that provide services in urban areas, in particular water and electricity. In addition, mayors need governor's approval for any activity within their jurisdiction.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	GOVERNORATES	MUNICIPAL LEVEL
1. General public services	Public buildings and facilities	Administration and operation of general services; Public buildings and facilities
2. Public order and safety	Civil Protection; Police department	Municipal police; Traffic signs and lights
3. Economic affairs /transports	Duty Free Zones development; Energy (renewable energy use); Public transport; regional road networks and facilities; Communications / IT; Tourism	Road networks and facilities (local); Regulating public markets
4. Environmental protection	Sewerage (waste water management)	Parks & green areas; Solid Waste management; Street cleaning; Sewerage (waste water management)
5. Housing and community amenities	Drinking water distribution	Street Paving; Public lighting; Drinking water distribution; Urban and land use planning and management; Slaughterhouses
6. Health	Hospital services; Primary healthcare (medical centres)	Primary and preventive healthcare (medical centres); Food quality control
7. Recreation, culture & religion	Cultural activities (planning and management); Cultural heritage (archaeological site management)	Museum; Libraries
8. Education		Manage lands for schools' construction
9. Social protection		

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: municipalities.	SNA 2008	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. Following the changes introduced by the 2015 Decentralization Act, fiscal decentralization to the governorate councils is currently an ongoing process. The central government has adopted a phased approach to the implementation of the Decentralization Law, based on four main elements of fiscal decentralization at the governorate level: allocation of expenditure assignment in accordance with the functions transferred; funding capacity to raise their own revenue and borrow; budget planning for their defined priorities; and budget execution and audit. Municipalities will have their own resources in accordance with the competences assigned to them but must coordinate their action with the Ministry of Municipal Affairs. In 2017, the Fiscal Decentralization Unit was created within the Ministry of Finance to oversee the fiscal decentralization process.

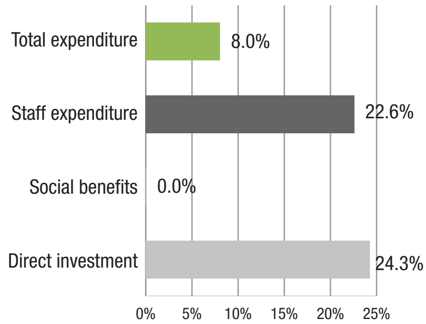
JORDAN

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**210**	**2.3%**	**100%**
Inc. current expenditure	128	1.4%	61.0%
Staff expenditure	102	1.1%	48.6%
Intermediate consumption	15	0.2%	6.9%
Social expenditure	0	0.0%	0.0%
Subsidies and current transfers	0	0.0%	0.0%
Financial charges	9	0.1%	4.1%
Others	3	0.0%	1.4%
Incl. capital expenditure	82	0.9%	39.0%
Capital transfers	0	0.0%	0.0%
Direct investment (or GFCF)	82	0.9%	39.0%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. Jordanian municipal government expenditures account for a small share of general public expenditure (2.3%). In 2016, municipalities dedicated most of their spending to current expenditures, including staff expenditures (49% of SNG expenditure). The share of staff expenditure in public staff expenditure and in SNG expenditure is above the OECD average. Most Jordanian municipalities have a budget deficit. This is due to the high level of expenditure on staff salaries and infrastructure costs. According to the Jordan Civil Service Bureau, one of the central government institutions responsible for human resources management, more than 46% of its employees are at the subnational level (22% at regional level and 36% at municipal level), and about 42% at the national level.

Of all the municipalities, the Greater Municipality of Amman has the largest budget, with annual expenditures significantly higher than the other 100 municipalities put together.

With respect to governorates, although the 2015 Decentralization Act stipulates that governorate councils should enjoy administrative and financial autonomy, their autonomy in relation to expenditure and investments remains de facto very limited.

DIRECT INVESTMENT. About two thirds of public investment are made by the central government with municipalities and governorates playing only a limited role. Under the Jordan 2025 vision, the Jordan Economic Growth Plan (JEGP) 2018–2022 defines development projects across priority sectors which include health, education, water, energy, tourism and transport for the next years. At the governorate level, the Governorate Development Programmes 2016-2018 have been elaborated by the Ministry of Planning and International Cooperation in collaboration with the governorates to promote a bottom-up approach to strategic planning. The Decentralization Act has also introduced new competencies for governorates in strategic planning.

At the municipal level, the cost of infrastructure projects represents a significant part of the expenditures of certain municipalities, including transport infrastructure, construction of airports and garbage collection - in addition to pavement, lighting, maintenance of gardens and squares, markets, building permits and public hygiene.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

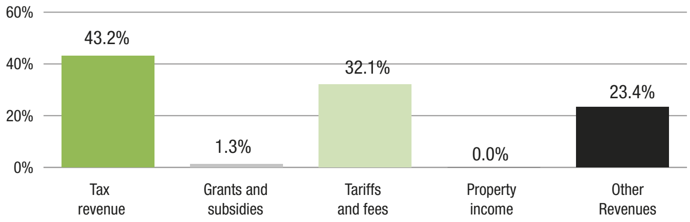
No data available. According to the expenditures listed in Article 8 of the Decentralization Act and Article 5 of the Municipalities Act, as well as the competences assigned to subnational governments, municipalities and governorates devote the bulk of their expenditures on economic affairs including transport; housing and community amenities (local urban development); environmental protection; health; and recreation, culture and religion.

The Greater Amman Municipality has broad responsibilities in service delivery, in particular with regard to road networks and facilities; street lighting and traffic management; solid waste management; public transport; agriculture; public markets; social and cultural activities; spatial planning; economic development; and business licensing.

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**219**	**2.4%**	**6.7%**
Tax revenue	94	1.0%	6.5%
Grants and subsidies	3	0.0%	
Tariffs and fees	70	0.8%	
Property income	0	0.0%	
Other revenues	51	0.6%	

% SNG REVENUE



OVERALL DESCRIPTION. The financial resources of municipal governments are listed in article 16 of the 2015 Municipalities Act. They consist of taxes and fees, revenue from investment projects, own revenue, and grants and donations. In 2016, municipalities' revenues came from local taxation on fuel and property, fees and charges, and transfers from the central government. Municipalities have some control over certain fees (e.g. waste collection, building permits), which represented around 32% of local revenues, but local governments still face challenges regarding fees enforcement and collection. Central government transfers represent a significant share of municipal budgets, although they are accounted under categories other than grants and subsidies.
Governorates still lack real autonomy to manage their own budget since they are deprived of the possibility of collecting direct revenues in the form of taxes or duties. Governorates receive their revenues in the form of transfers from the central level as well as donations and grants from international donors that require prior approval of the Ministry of the Interior.

TAX REVENUE. In Jordan, taxes are determined and collected by the central government on behalf of the local government. The central government also plays a role in determining the amount transferred to municipalities through the Ministry of Municipal Affairs.
Municipalities can collect two different taxes: fuel tax and property tax. As specified in the 2015 Municipalities Act, the central government must transfer to the municipalities 50% of the fees and taxes levied on oil products imported or produced in the country (art. 20).
These revenues are distributed on the basis of several allocation criteria defined by the Cabinet: the category of the municipality; the municipal size; the percentage of municipal contribution to revenue allocation; location and geographical nature; municipal needs in terms of development projects; constraints on municipal resources; responsibilities that do not fall within the local domain; and the distinction in the exercise of its functions and responsibilities. The property tax is levied at 15% on the estimated annual rental value of the property.
The Ministry of Finance considers that 24% of municipal revenue came from tax on fuel and 19.1% from land and construction taxes in 2016.

GRANTS AND SUBSIDIES. Municipalities are heavily dependent on central government transfers, which have increased steadily, in particular since 2014. Transfers correspond to two sources of revenue that by law belong to the local government, namely local government's 40% share of registration of motor vehicles and 8% of revenues from the sale of oil products. The distribution among municipalities is done based on a formula approved by the council of ministers that takes into account population, distance from the regional centre, unemployment and poverty rates. These transfers are mainly used for the salaries of municipal employees.

OTHER REVENUES. Municipalities also obtain revenue from sources such as customs taxation and fines. Article 21 of the Municipalities Act specifies that 40% of the fees collected under the Traffic Law for vehicle ownership licenses must be transferred to municipalities. The Greater Amman Municipality also receives additional funds through income from the sale of land and property leases.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt				
Financial debt*				

* Currency and deposits, loans and bonds

FISCAL RULES. Each municipality's annual budget has to be approved by the Ministry of Municipal Affairs and the Ministry of Finance. Municipal expenditure cannot exceed revenues in the budget. Since 2010, the Cities and Villages Development Bank (CVDB), created in 1985 to assist municipalities in providing public services and managing local and international funding, has the mandate to prepare municipality accounts. Additionally, as specified in the Municipalities Act, the municipal council accounts must be audited by the Ministry of Municipal Affairs and are inspected by the Audit Bureau.
Ongoing actions to support the decentralization process include the preparation of regulations, such as rules of procedure and fiscal rules to govern the actions of the governorate councils, and the elaboration of manuals for capacity building and budget preparation and execution at the local level.

DEBT. Municipal councils require the approval of the Ministry of Municipal Affairs to borrow from any entity. When the loan is to be guaranteed by central government, they also need the approval of the Cabinet. Municipalities may finance capital expenditure by borrowing from the Cities and Villages Development Bank (CVDB), which acts as a fiscal intermediary for grant administration and a lending agency in the municipal sector. The bank provides loans and technical and administrative expertise for infrastructure projects such as roads, parks, solid waste equipment. Interest rates for such projects are 5%, and 6% for productive projects, with a maturity of 12 years and a 2-year grace period.

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Lead responsible: UCLG
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Socio-economic indicators: World Bank // UNDP // UN DESA // ILO.
Fiscal data: Ministry of Finance // AECOM International Development Europe (2017) PEFA Assessment 2016; Department of Statistics of Jordan.
Other sources of information: A. Al-Majaly, A. Khater (2017) Jordan's Municipality and Decentralization elections 2017 // 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. // Ministry of Finance (2017) Fiscal decentralization in Jordan: strengthening the role of governorates in improving public services // OECD (2017) Jordan: Towards a new partnership with citizens: Jordan's decentralization reform // M. Ababsa (2013) Municipalities and Issue of Local Governance, in Atlas of Jordan, Presses de l'Ifpo, Institut français du Proche-Orient // M. Serageldin, M. Larsen, Vigier, B. Summers. (2016) Habitat III Regional Report for the Arab Region // World Bank (2005) Analysis of the municipal sector, Annex B // The World Bank (2018) Jordan Urban and Municipal Program for Balanced and Inclusive Growth, Program Information Document.

TURKEY

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: TURKISH LIRA (TRY)

POPULATION AND GEOGRAPHY

Area: 780 043 km^2
Population: 79.037million inhabitants (2017), an increase of 1.6% per year (2010-2015)
Density: 101 inhabitants / km^2 (2017)
Urban population: 74.6% of national population (2017)
Urban population growth: 2.2% (2017 vs 2016)
Capital city: Ankara (6.7% of national population)

ECONOMIC DATA

GDP: 2 261.0 billion (current PPP international dollars), i.e. 28 607 dollars per capita (2017)
Real GDP growth: 7.4% (2017 vs 2016)
Unemployment rate: 10.8% (201)
Foreign direct investment, net inflows (FDI): 11 546 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 30.0% of GDP (2017)
HDI: 0.791 (high) rank 64 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Republic of Turkey is a presidential republic. Legislative power is vested in the Turkish Grand National Assembly, which comprises 600 deputies directly elected every five years through a system of proportional representation based on political parties. The Head of State is the President, elected by direct suffrage for five-year terms. This system has been in place since 2014, as a result of the 2007 referendum transferring to the people the Parliament's former prerogative of electing the president. A new major constitutional reform took place recently confirming the political transformation of the country. Following a constitutional referendum held on 16 April 2017, the country passed from a parliamentary representative system to an executive presidential system in 2018. With the new system, the powers of the Assembly were reduced, the Prime Ministry position was abolished, and all executive authority was transferred to the President including appointing a cabinet, regulating ministries, drafting the budget, etc. According to Article 123 of the Constitution, the Turkish administration is built upon the principles of both centralisation and decentralisation. It means that Turkey's administration has a unitary character: in terms of organisation and functions, central government bodies and decentralised entities form a whole. As a result, Turkey's administration at territorial level is based on both deconcentrated administrations and decentralised governments.

Several waves of reform have significantly modified territorial administration in recent years and provided SNGs with more powers. Between 2004 and 2005, a package of reforms was enacted, involving the restructuring of the Special Provincial Administrations - SPAs, the municipalities (granting additional responsibilities to them in the area of economic development and education infrastructure), the village administrations, the Local Government Unions and the Metropolitan Municipality. In particular, with the 2005 reform, the SPAs became self-governing entities and gained some powers. The Provincial Governor, who was appointed by the central government, is no longer the head of the SPAs, which now have their own council president. However, a dual decentralised/deconcentrated system remains in place, as provincial governors still have a major role as the head of the SPA's Executive Committee.

In 2008, there was both a territorial reform ("Scale Reform Act") and a local finance reform (Act no. 5779). In 2012, a new local government reform took place, modifying both the provincial and local levels and modifying the fiscal framework (Act no. 6360). With the 2012 metropolitan reform effective in 2014, the level of the 81 self-governing provincial administrations has been reformed: 30 entities lost their statute as SPAs to become "provincial metropolitan municipalities" (PMM). These entities have a two-layer structure, the metropolitan municipality and its constituent district municipalities. Municipal amalgamations also took place and the system of local finance was also reformed. Today, at territorial level, the State deconcentrated administration is based on provinces and districts while the decentralised administration is based on SPAs, metropolitan cities, municipalities, and villages. Turkey also has several areas without municipalities but traditional settlements. The legal basis for local authorities is provided by the Law on Special Provincial Administration (Law no. 5302), the Law on Municipalities (Law no. 5393), and the Law on Metropolitan Municipalities (Law no. 5216) of 2004, amended in 2012 (Act no. 6360).

Despite the on-going decentralisation process, Turkish public administration remains highly centralised. Art. 127 of the Constitution guarantees the tutelage of the central administration over local governments. As such, the central government ensures equality and uniformity of services throughout the country, as well as compliance with the law and the quality of the overall public administration between the central and the local governments. Turkey is a signatory of the European Charter of Local Self-Government, in effect in Turkey since 1993, even though it has many reservations regarding the Charter.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	973 provincial and district municipalities *(Belediyeler)* 386 towns; 30 metropolitan municipalities		51 special provincial administrations *(İl Özelİdareleri)* 30 provincial metropolitan municipalities	
	Average municipal size: 56 577 inhabitants			
	1 389		81	1 470

*Nb: Metropolitan municipalities are counted twice, as a municipal-level entity and as regional entity.

**Total population of municipalities was 76 888 607 in 2018.

OVERALL DESCRIPTION. Turkey has a two-tier local government system, comprising 81 provincial level entities and 1 389 municipal-level entities. Turkey also comprises 18 195 villages (*köy*) as of December 2018, representing a population of around 5.1 million inhabitants. Even if these villages are not fully-functional municipalities because of their small size, they are local self-governments recognised in the Constitution and do not depend on a municipality. They comprise three bodies: village council, council of elders, and village headman – the so-called *Muhtar* who is also elected every five years by the villagers.

REGIONS LEVEL. The provincial level comprises 51 SPAs as well as 30 PPMs (with a population over 750 000 inhabitants). The deliberative body of the SPAs is the provincial council composed of members elected by direct universal suffrage for a five-year mandate. It is headed by a president, elected by and from among the members of the council. Each SPA has a provincial executive committee composed of ten members for one year. Five members are elected by the provincial council while the five others are appointed by the governor (vali), who is appointed by and represents the central government. In 2018, the average size of provinces was around 1 million inhabitants, ranging from 82 274 inhabitants for the least-populated province (Bayburt) to 15 067 724 inhabitants in the province of İstanbul. Provinces are sub-divided into districts. There are 39 districts in Istanbul but only three in Bayburt. Turkey has the largest regional disparities in terms of GDP per capita across small regions within the OECD, even though disparities have decreased slightly over the last decade between Istanbul, the richest Turkish region, and Eastern Anatolia, which has been catching up. The GDP per capita of the Istanbul region is four times higher than the GDP per capita of Eastern Anatolia.

Metropolitan municipalities were first created in 1984 in the three largest cities (Istanbul, Ankara and Izmir). Two main waves of legislative reform extended the number of metropolitan municipalities: Act no. 5216 in 2004 and Act no. 6360 in 2012. The 2012 law determined a minimum size of 750 000 people and expanded the boundaries of metropolitan municipalities to their corresponding provincial boundaries in order to cover both urban and rural areas. Therefore, the reform established 14 new "metropolitan municipalities" in addition to the existing 16, and their boundaries extended to match those of the associated provinces. In metropolitan municipalities, the metropolitan and district mayors are elected directly, while the metropolitan assembly is not elected, but composed of representatives of district assemblies.

LOCAL LEVEL. The local level comprises four categories of local governments depending on their size: metropolitan municipalities (see above), provincial districts, district municipalities and town municipalities. In municipalities, the deliberative body is the municipal council composed of members elected by direct universal suffrage for a period of five years. The mayor is the executive body of the municipality and is elected by direct universal suffrage for five years.

In 2008, the Scale Reform Act reduced the number of municipalities from 3 225 to 2 954. It was followed by a new territorial reform in 2012, which reduced the number of municipalities from 2 954 to 1 397 as of the March 2014 elections. In 2017, the average size of municipalities was large by international comparison (9 700 inhabitants in the OECD and 5 900 inhabitants in the EU28). Median municipal size is however much smaller (8 600 inhabitants). Around 39% of municipalities (excluding metropolitan cities) had fewer than 5 000 inhabitants and 7% fewer than 2 000 inhabitants, while 37% had more than 20 000 inhabitants.

STATE TERRITORIAL ADMINISTRATION. SPAs co-exist alongside deconcentrated state entities that are managed by governors appointed by the central government. These governors maintain a major role as the heads of the Executive Committee of SPAs. Governors are represented by sub-governors in each district of the provinces. Since the 2014 reform, the state territorial administration in metropolitan municipalities has been represented by Investment, Monitoring and Coordination Directorates (IMCDs).

Regions as such do not exist in Turkey but the government established a national network of 26 Development Agencies based on Law no. 5449 in 2006. Since then, NUTS-II level has been used as the regional planning unit for preparing regional plans and strategies. Agencies have a participatory approach to encourage public-private dialogue. At the moment, all 26 NUTS-II regions have regional development plans prepared by Development Agencies and local stakeholders for the 2014-23 period, in accordance with the National Strategy for Regional Development (NSRD 2014-23). The latter was adopted in late 2014 and aims to address regional and rural-urban disparities. These plans are important in tailoring policy and implementation to local needs and circumstances. They also highlight regional situations that may need national-level intervention.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Article 6 (a) of the Special Provincial Administrative Act lists the duties and responsibilities of provincial governments. They comprise competences in economic development, land development, agriculture, environmental protection and planning, health services and social welfare.
Article 14 of the Law on municipalities defines functions of municipalities. They are divided between mandatory and discretionary service provision responsibilities. Mandatory responsibilities include urban infrastructure facilities, environmental and public health issues, urban traffic, parks and recreation, housing, social and cultural services, economic development and construction and school maintenance.
Metropolitan municipalities have additional responsibilities, such as urban planning, metropolitan transport master plan and disaster management (Art. 7 of the Law on Metropolitan Municipalities). Basic services in water supply, sewerage, natural gas and transport services may be performed by separate established administration called affiliated agencies.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	PROVINCIAL LEVEL	MUNICIPAL LEVEL
1. General public services	Internal administration	Internal administration; Marriage ceremonies
2. Public order and safety	Emergency assistance and rescue	Security forces; Fire brigades; Emergency aid
3. Economic affairs /transports	Industry and trade; Roads; Agriculture (reforestation, irrigation); Tourism	Local roads; City traffic; Tourism
4. Environmental protection	Environmental planning and protection; Protection of soil; Prevention of erosion; Sewerage; Solid waste; Supporting forest villages and reforestation; Parks and gardens	Environmental health; Forestry, parks and green areas; Protection of natural resources
5. Housing and community amenities	Water; Land development	Urban infrastructure
6. Health	Health centres; Health posts, mainly in rural areas; Mother and child health and family planning centres; Tuberculosis dispensaries; Hospitals;	Relief services and ambulances; Opening and operation of health facilities.
7. Recreation, culture & religion	Culture and artwork	Youth and sport activities; Leisure and recreational facilities; Libraries and museums; Conservation of cultural assets
8. Education		Pre-elementary school education centres; School buildings maintenance
9. Social protection	Social service assistance	Social and aid services

TURKEY

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT FINANCE

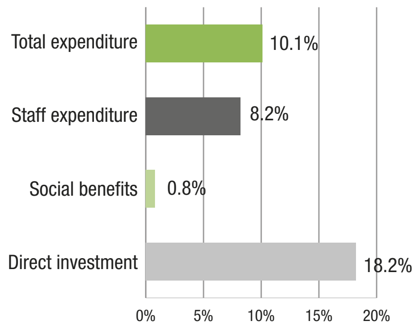
Scope of fiscal data: provincial special administrations, metropolitan municipalities, municipalities, local government unions, development agencies, youth and sports provincial administrations.	SNA 2008	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. Turkey belongs to the OECD countries with a centralised system of government. SNGs play a minor role in the provision of public services and investment and they depend heavily on central government funding. Different fiscal reforms, driven by territorial reforms, have changed the design of the intergovernmental fiscal system to increase SNG revenues: in 2008 (Law 5779 on Allocations from Tax Revenues under the General Budget to Special Provincial Administrations and Municipalities) and in 2012 following the Local Government Act and Metropolitan Act (Act no. 6360). These recent changes aimed at the strengthening metropolitan municipalities but they also increase their dependence on intergovernmental transfers, while clarifying their functions and reinforcing the financing framework and fiscal rules.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**980**	**3.8%**	**100%**
Inc. current expenditure	696	2.7%	71.0%
Staff expenditure	174	0.7%	17.7%
Intermediate consumption	423	1.7%	43.2%
Social expenditure	28	0.1%	2.9%
Subsidies and current transfers	33	0.1%	3.3%
Financial charges	38	0.1%	3.9%
Others	0	0.0%	0.0%
Incl. capital expenditure	284	1.1%	29.0%
Capital transfers	31	0.1%	3.2%
Direct investment (or GFCF)	253	1.0%	25.8%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)

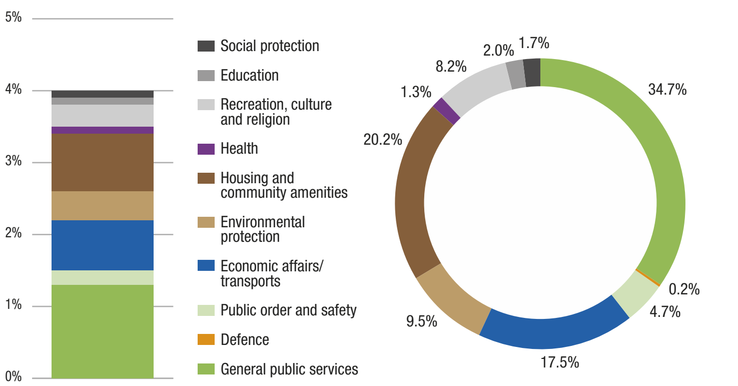


EXPENDITURE. SNG spending ratios to GDP and general government expenditure are well below the average for OECD unitary countries (9.2% of GDP and 28.7% of public expenditure). Municipalities represent the lion's share of SNG expenditure, especially due to the increasing share of metropolitan municipalities, whereas SPAs represent less than 20% of SNG revenue, and other local actors the remaining part. The share of SNGs in public staff spending is particularly low: 8.2% compared to 43.0% in OECD unitary countries. Staff spending also accounts for a small share of SNG expenditure, well below the OECD average for unitary countries (31.3%).

DIRECT INVESTMENT. SNGs in Turkey play a limited role in public investment compared to the OECD average for unitary countries (respectively 50.7% and 1.7% of GDP). However, investment accounted for a large share of their expenditure in 2016, well above the OECD average (13.8% for unitary countries). Metropolitan municipalities are however significant contributors to the economic growth of the country, through their large-scale investments in transport, tourism and environmental protection, healthcare, art, culture and sport. Yet they are primarily executing decisions made by the central government through the Presidency of Strategy and Budget, which considers regional dimensions while preparing the public investment programme. With the metropolitan municipality reform, Investment Monitoring and Coordination Presidencies (IMCP) were established as deconcentrated entities to coordinate investment decisions in metropolitan municipal areas. 26 development agencies were also created to facilitate the co-preparation of regional plans. Agencies proved to be effective in the public investment decision-making process at local level and mobilising local stakeholders and resources.

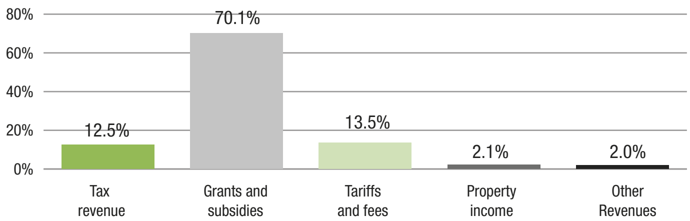
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

The two most important SNG expenditure items (excluding general public services) are housing and community amenities (mainly drinking water, housing and community development) and economic affairs and transport. They are followed by environmental protection, recreation and culture. For the SPAs, general administrative services represent the bulk of their spending, followed by education and economic affairs. For municipalities, the main budget items are economic affairs, housing and environmental protection, and general administrative services.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE
Total revenue	**906**	**3.5%**	**10.3%**	
Tax revenue	113	0.4%	2.3%	
Grants and subsidies	635	2.5%		
Tariffs and fees	122	0.5%		
Property income	19	0.1%		
Other revenues	18	0.1%		



OVERALL DESCRIPTION. Since law no. 5779 of 2008 went into effect, municipalities and SPAs have received a fixed share of the receipts of national taxes (personal income, corporation income and profits, and VAT), which are redistributed in the form of grants according several criteria. Law no. 6360, effective since 2014, substituted the 2008 law and introduced major changes in the distribution of the different shares of general tax revenues going to different categories of SNGs. The goal was to take into consideration the population of the new entities, including the metropolitan cities. The SNG financing system is dominated by grants and subsidies from the central government, which represented up to 70% of SNG revenue in 2016 (vs 48.8% for the OECD unitary countries). By contrast, the share of tax revenue is particularly small compared to the OECD (38.7% in the OECD unitary countries).

TAX REVENUE. Tax revenue accounted for 3.5% of GDP and 2.3% of public tax revenue in 2016, which is well below the OECD average for unitary countries (4.7% of GDP and 19.8% of public tax revenue). All taxes are own-source taxes.The primary municipal tax is the property tax on land and buildings (*EmlakVergisi*), paid by owners whether or not the owner lives in the property. It provided around 59% of SNG tax revenue and 7.3% of SNG total revenue. It amounted to 0.3% of GDP, which was well below the OECD average in 2016 (1.1% of GDP).The tax is calculated based on the land and building's facilities and the size of the plot in square metres. Municipalities are responsible for collecting the property tax and can set the rates within 0.1% and 0.3% with the approval of the Council of Ministers. Other local taxes include excise taxes including the tax on motor vehicles and on petroleum consumption (approximately 10% of local tax revenue), the electricity and gas consumption tax, the environmental cleaning tax, the advertisement tax, stamp tax, and insurance tax. The environmental cleaning tax is paid by owners or residents who use the property. It is included in the water bill of the property and is calculated on the basis of water consumption per cubic meter.

GRANTS AND SUBSIDIES. The major component of the intergovernmental transfer scheme is the system of national tax revenue sharing (PIT, CIT and VAT). They consist mainly of formula-based block grants that are buoyant, predictable, and unconditional transfers (the share of conditional transfers is less than 3% of total revenues). The revenue entitlements of SPAs and municipalities from the national budget were originally defined by the 2008 Law no. 5779. Major changes occurred in 2014 with law no. 6360. As a result, municipalities were more reliant on central government transfers. According to the new tax-sharing scheme, of the total collection of the general budget tax revenues, 6% of national taxes are allocated to metropolitan municipalities, 4.5% to district municipalities (vs 2.5% before 2014), 1.5% to other municipalities (vs 2.85%) and 0.5% to SPAs (vs 1.15%). These funds are redistributed according to equalisation mechanisms based on various criteria, including population, economic development index as well as surface area, number of villages and rural population (for SPAs). Metropolitan municipalities have their own inter-metropolitan equalisation scheme. Transfers are channelled to municipalities and SPAs through the Provinces Bank, except for metropolitan municipality transfers that are directly transferred to the metropolitan municipalities' account by the Ministry of Finance. If municipalities default on their debt, the Provinces Bank may deduct a percentage of up to 40% from their transfer revenues (the decision is made by the Council of Ministers).

OTHER REVENUES. SNGs derive around 10% of their income from user charges and tariffs, in particular in the areas of sewerage, water, road construction and improvement, business license, and communal fees from Land Development Fees and Construction Permits. SNGs also receive an important revenue stream from profits of municipality-owned corporations, rents and the sales of municipal assets.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**303**	**3.2%**	**9.2%**	**100%**
Financial debt*	167	1.8%	5.8%	55.0%

* Currency and deposits, loans and bonds

FISCAL RULES. Turkey's fiscal rules concern essentially expenditure limits and borrowing constraints, in the absence of a balanced-budget rule. The Public Financial Management and Control Law No. 5018 was adopted in 2003 to re-organise the public financial management and control system at the national level in line with international standards and EU practices. Oversight of SNGs remains weak, and is expected to increase by way of regular reporting on the finances of individual SNGs. A Fiscal Management and Control Centre Harmonisation Unit exists, and its monitoring function shall be strengthened.

DEBT. SNGs are allowed to borrow within the rules set by law no. 4749 (regulation on public finance and debt management) to finance investment projects only ("golden rule"), and under the supervision of the central government (in the case of foreign borrowing). In addition, there is a series of borrowing limits and procedures. In particular, domestic borrowing is limited to an amount of 10% of the previous year's revenues. Total outstanding debt stock cannot exceed the revalued amount of the latest annual budget (1.5 times for metropolitan municipalities). The level of SNG debt is significantly below the OECD average for unitary countries only (14.5% of GDP and 11.8% of public debt). Around 55% of the outstanding debt was composed of financial debt while other accounts payable (commercial debt, arrears) amounted to 40% and insurance pensions (4.7%). Financial debt is made up of loans exclusively. Over 95% of the SNG debt is held by municipalities, in particular metropolitan municipalities, due to the infrastructure investment needs of urban jurisdictions. Despite the very small share of municipal bonds, most metropolitan municipalities are rated by international rating agencies.

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Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // IMF-GFS // NALAS // Union of Turkish Municipalities. **Other sources of information:** Bakir, C. & Günes E. (2018) Policy Analysis in Turkey // OECD (2018) OECD Regions and Cities at a Glance 2018 // NALAS (2018) Fiscal Decentralisation Indicators for South-East Europe // Yilmaz, S. & Güner A. (2017) Impact of recent changes on local government discretion and accountability in Turkey // Yilmaz, S. &Güner A. (2017) Fiscal decentralisation in Turkey and differentiation in selected provinces , IJPF // Akman, C., Akman, E. & Okcu, M. (2015) Reform in Local Governments: What Did the New Municipal Law Bring in Turkey? //OECD (2015) "Turkey", in The State of Public Finances 2015: Strategies for Budgetary Consolidation and Reform in OECD Countries // OECD (2015) Governing the city // Kablan A (2013) Financial resources of municipalities in Turkey // S. UlasBayraktar, Elise Massicard (2012), Decentralisation in Turkey // Council of Europe (2011), Local and regional democracy in Turkey.

CANADA

FEDERAL COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: CANADIAN DOLLAR (CAD)

POPULATION AND GEOGRAPHY

Area: 9 984 670 km^2
Population: 36.708 million inhabitants (2017), an increase of 1.0% per year (2010-2015)
Density: 3.7 inhabitants / km^2
Urban population: 81.4% of national population
Urban population growth: 1.3% (2017 vs 2016)
Capital city: Ottawa (3.7% of national population)

ECONOMIC DATA

GDP: 1 714.4 billion (current PPP international dollars), i.e. 46 705 dollars per inhabitant (2017)
Real GDP growth: 3.0% (2017 vs 2016)
Unemployment rate: 6.3% (2017)
Foreign direct investment, net inflows (FDI): 27 525.6 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 23.0% of GDP (2017)
HDI: 0.926 (very high), rank 12 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Canada is a parliamentary democracy and a constitutional monarchy with a federal system of government composed of 10 provinces and 3 territories. Canada's Constitution, enacted in 1867, and the 1982 Charter of Rights and Freedoms defined the country's federal system of shared powers in which the federal government and the autonomous provinces have equal status. The choice to fund a federation was made to promote unity within the Canadian territory between the Province of Canada, New Brunswick and Nova Scotia for economic and military purposes, while preserving its diversity, and in particular the culture, institutions, laws and religions of Lower Canada (which later became Quebec) and the Maritime provinces. Canada is an exception among federal countries as federal states do not have their own constitution. In 1982, the enactment of the Canadian Charter of Rights and Freedom by new Constitution Act, which abolished Canada's dependence on the British Parliament, made it applicable to all federal and provincial laws.

At the federal level, legislative power is vested in the bicameral parliament, which consists of the Senate (upper house) and the House of Commons (lower house). Members of the House of Commons, elected for four-year terms, are responsible for passing most federal legislation, which is then reviewed by the upper house. The Senate has an equal representation of the four geographic regions of Canada, with the purpose of representing the regional and social diversity of Canada. Its members are appointed by the governor-general on the advice of the Prime Minister. Executive authority at the federal level is formally vested in the Queen through the Constitution, and the executive function belongs to the Governor General, appointed by the Queen on the advice of the Prime Minister, usually for five years. In practice, the executive branch is directed by the Cabinet, a committee of ministers of the Crown responsible to the elected House of Commons of Canada and chosen and headed by the Prime Minister of Canada. The Prime Minister of Canada is the most important minister of the Crown and Canada's head of government.

At the provincial level, there is a clear distinction between provinces and territories as province receive their power and authority from the 1867 Constitution Act, whereas territorial governments have powers delegated to them by the Parliament of Canada. Legislative powers were originally conferred to the provinces in 1867, including civil and criminal courts, and regulation of the civil procedure, and as of today each province and territory has its own legislative assembly, whose functioning is similar to that of the House of Commons of Canada. The Premier is the head of government, and is usually the head of the party with the most seats at the assembly. Each province also has its own representative of the Crown, the Lieutenant Governor. In territories, the Commissioner, a representative from the federal government, substitutes the Crown representative.

At local level, municipalities are not formally recognised in the federal constitution as a separate order of government, but they are mentioned as "coming under the exclusive jurisdiction of the provinces" (section 92 (8) of the constitution). Without constitutional status, municipalities remain "creatures of the provinces. They are governed by provincial legislation, and therefore their organisation, responsibilities and fiscal framework differ from one province/territory to another. The degree of local decentralisation and autonomy also varies from one province/territory to another. There is no uniformity in terms of local–provincial relations in the Canadian federation. The provincial/territory legislatures can set up local government structures in their area and grant them powers. Some provinces and territories have elections based on wards, others on a general vote. Councillors in single-tier and lower-tier governments are generally elected directly by the first-past-the-post system. Mayors may be directly or indirectly elected; those in single-tier councils or lower-tier councils are usually directly elected.

There are numerous instruments and mechanisms involved in intergovernmental relations that focus on federal-provinces/territories relations. However, they are not anchored in the Constitution and do not have any basis in law or statute, unlike several other federations. These forums for the exchange of information and negotiation are the Federal/provincial/territorial First Ministers Conferences or Meetings (FMMs), the Ministerial meetings in specific policy sectors, the Canadian Intergovernmental Conference Secretariat (CICS) and Federal/Provincial/Territorial (FPT) Agreements. They constitute an important element of Canadian federal governance to strengthen the economic and social union.

Horizontal coordination takes place through the Council of the Federation, established in 2003, which comprises Canada's 13 provincial and territorial Premiers to provide a forum to discuss and work together on issues of mutual interest or concern. Through its Annual Premiers Conferences (APC), it develops and presents common positions, providing a "united front" when interacting with the federal government, fostering a "constructive relationship" with the federal government. At local level, the Federation of Canadian Municipalities, established in 1937, acts as a coordination forum among the local governments and an advocacy group.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	3 959 municipalities*		10 provinces and 3 territories	
	Average municipal size: 9 272 inhabitants			
	3 959		13	3972

* Indian reserves, Indian settlements and unorganised territories as well as special purpose entities are excluded from the count reported in the table.

OVERALL DESCRIPTION. Canada is a federal state with two levels of subnational government, with 10 provinces and 3 territorial governments, and 3 959 local authorities (general purpose governments according to the census subdivisions). In addition, Canada has Indian reserves, Indian settlements and unorganised territories (around 1 200 such entities) as well as around 2 570 special purpose authorities such as school boards, police service boards, public health units, transit authorities, library boards, public housing authorities, etc. Only the school boards however have directly elected boards, the other special purpose boards are made up of appointed representatives (often elected municipal councillors).

REGIONAL LEVEL. The regional level is composed of 10 provinces and three territories. The three territories of Northwest Territories, Yukon and Nunavut account for 39% of Canada's surface area, but approximately 0.3% of its population. Population ranges from 36 000 inhabitants in the Territory of Yukon to 13.45 million inhabitants in the province of Ontario, while the average size is around 2.7 million inhabitants. The three provinces of British Columbia, Ontario and Quebec, which are also the three largest provinces both in terms of population and area, have a multi-tiered local government system, with a regional tier with some authority over local authorities. The local government system in British Columbia is particularly unique in the country because it is comprised of 27 regional districts, divided into smaller areas called electoral areas. This is explained because a large part of the province is made up of unincorporated areas, with sparse populations, which do not have local governments. The other provinces and territories have a single-tier municipal government. Canada has relatively low regional disparities compared to OECD countries and the regional gap in GDP per capita has decreased slightly in Canada over the last 16 years. In 2016, the highest regional GDP per capita (Northwest Territories) was 2.5 times higher than the lowest regional GDP per capita (Prince Edward Island). Main regional disparities are found in the areas of safety, health and jobs, which are largely due to the particular challenges faced by the sparsely populated territory of Nunavut and territory of Yukon.

MUNICIPAL LEVEL. In total, Canada counts 3 959 municipalities at the lower level. Subnational legislation is unique for each province and territory, and local governments in Canada are very diverse in size and legislation. There is a variety of municipal structures and names which differ from one province to another, including towns, municipalities, townships, cities, rural municipalities, municipal districts, villages, etc. Over the last 20 years, several provinces have carried out municipal merger policies such as Nova Scotia (1995-96), Ontario (1996-2002), Quebec (2000-06), etc. More recently, the 2013 Municipal Amalgamations Act in the province of Manitoba requires that municipalities with a population less than 1 000 inhabitants merge with one or more neighbouring municipalities by 2015. In May 2013, the Province of New Brunswick has introduced the "regional municipality" as a new restructuring option (municipalities with a population of greater than 15 000 and a community grouping that includes at least one municipality are required to become a regional municipality).

INTER-MUNICIPAL LEVEL, in the aim of providing specific services to groups of municipalities. takes place through special agencies, joint boards and commissions. Some provinces can have specific policies promoting inter-municipal cooperation such as New Brunswick which established in 2013 twelve Regional Service Commissions to assist communities to communicate and collaborate regionally. Inter-municipal cooperation at the scale of metropolitan areas is also encouraged. In 2016, 59% of the Canadian population was living in metropolitan areas with more than 500 000 inhabitants (compared to the OECD average of 55%). Overall, metropolitan areas of Canada generate more than 60% of national GDP, yet they display great differences in terms of wealth. Several metropolitan governance reforms have been implemented by individual provinces or have been initiated by the municipalities themselves through voluntary associations of local governments (bottom-up strategies). Examples of metropolitan governance bodies include Metro Vancouver (district regional of Vancouver) and Communauté Métropolitaine de Montréal.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Division of powers across levels of government in Canada adheres to the principle of subsidiarity, and it has been shifting throughout Canadian's history. Allocation of powers is specified in the Constitution Acts of 1867 and 1982 (ss. 92, 92A and 93), and all residual powers are conferred to the federal government. The provinces have exclusive legislative jurisdiction over a large array of matters of a local nature, social programmes such as health (including hospitals), education and welfare, as well as highways, prisons, natural resources, and municipal affairs. They regulate both labour and capital markets and administer much of the justice system. Provinces and territories also have some concurrent powers with the federal government, including pensions, energy, water, agriculture and immigration.

While the Canadian constitution is based on a unified approach of federalism, it does enable asymmetric arrangements for Canadian provinces. More specifically, asymmetric decentralisation in Canada is mostly based on "menu federalism", where the "opt in" or "opt out" choices are made available to all provinces. The province of Quebec has been using this option more frequently than other provinces. Quebec has had and used specific powers for example in healthcare provision, the pension system, with the position of the French language in government, and immigration screening.

Municipal tasks are set by provinces, which can also delegate to them some of their own responsibilities. As a result, they vary considerably across jurisdictions. Municipal functions typically include transport, civil protection, utilities, recreation and culture, land use planning, social housing. Municipalities are generally not in charge of education, social or health services, except when they share some of the province's responsibilities (e.g. social assistance in Ontario). There have been significant changes in local government legislation over the last decade, including giving councils greater autonomy and powers of general competence to respond to structural changes in society. Most provinces and territories have enacted new or substantially-amended legislation accordingly.

Primary and secondary education lies with independently elected local authorities (schools boards) who are directly answerable to provinces and territories. Councils in most provinces and territories can appoint committees and delegate responsibilities to them. Canada also has a dense network of provincially and municipally owned corporations, also called government business enterprises (GBEs) and including Crown corporations, which are engaged in selling goods and services to the public in the marketplace in a variety of sectors.

CANADA

FEDERAL COUNTRY

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	PROVINCES AND TERRITORIES	MUNICIPALITIES
1. General public services	Civil status register; Criminal justice	Internal administration
2. Public order and safety	State police; Regional Firefighting services	Police; Fire protection
3. Economic affairs /transports	Road; Transport; Agriculture; Tourism; Gaz services; electricity	Roads; Transit; Cemeteries and crematoria
4. Environmental protection	Natural resources preservation; Soil and groundwater protection; Climate protection; Sewerage	Waste management; Parks and open space
5. Housing and community amenities	Housing; Regional planning	Land use and town planning; Water and sewerage; Social housing
6. Health	Primary care; Hospitals	
7. Recreation, culture & religion	Museums; Religious facilities	Sports; Recreation and leisure
8. Education	Pre-school; Primary education; Secondary education; Higher education; Adult education	
9. Social protection	Family welfare; Welfare homes; Social security	

SUBNATIONAL STATE AND LOCAL GOVERNMENT FINANCE

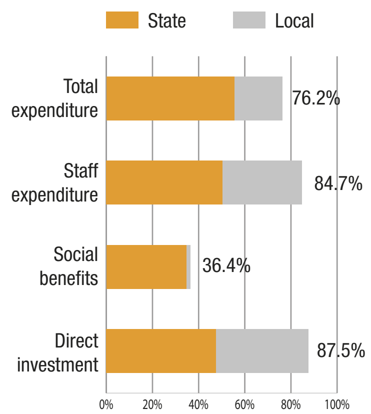
Scope of fiscal data: at state level: provincial and territorial governments; colleges and universities; health and social services institutions; Non-autonomous superannuation and retirement funds for public service employees; provincial and territorial agencies, boards, and commissions. At local level: municipal governments; agency boards, commissions, and local school boards.	SNA 2008	Availability of fiscal data: **Medium/High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. Canada is one of the most decentralised countries in the world, but while Canadian provinces and territories enjoy a significant degree of autonomy in terms of spending and revenue, local government authorities are, on the contrary, highly controlled and tightly constrained regarding their spending and revenue. Provinces are responsible for most major social expenditures and essentially face no constitutional restraints on tax rates, bases, or collection systems, in addition to perceiving large unconditional transfers from the federal government. Unlike provinces and territories, municipal fiscal autonomy is limited and Canadian municipalities operate within restrictive legislative frameworks and under strict provincial control, often as agents of provincial governments. Fiscal provisions are not specified in the Constitution, on – for instance – intergovernmental transfers or tax sharing, which leaves local government financing at the discretion of the provinces and territories. However, section 36 (2) of the Constitution Act, 1982, sets out in principle the requirement of federal equalisation payments, resulting in the development of a system of transfers between the federal government and the provinces and territories. The advanced decentralisation system also creates strong horizontal imbalances, and not all subnational governments enjoy equal levels of fiscal autonomy. For some provinces, transfers are more important sources of revenue than their own taxes. A fiscal equalisation scheme is enshrined in the Constitution, which was reformed in 2007, to compensate for the most disadvantaged provinces and territories.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.			% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT EXPENDITURE		
	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total expenditure	14 153	10 289	3 863	31.6%	23.0%	8.6%	100%	100%	100%
Inc. current expenditure	12 327	9 168	3 159	27.5%	20.5%	7.0%	87.1%	89.1%	81.8%
Staff expenditure	4 821	2 869	1 952	10.8%	6.4%	4.4%	34.1%	27.9%	50.5%
Intermediate consumption	2 704	1 809	894	6.0%	4.0%	2.0%	19.1%	17.6%	23.2%
Social expenditure	1 971	1 874	97	4.4%	4.2%	0.2%	13.9%	18.2%	2.5%
Subsidies and current transfers	1 933	1 800	133	4.3%	4.0%	0.3%	13.7%	17.5%	3.4%
Financial charges	838	768	71	1.9%	1.7%	0.2%	5.9%	7.5%	1.8%
Others	60	48	13	0.1%	0.1%	0.0%	0.4%	0.5%	0.3%
Incl. capital expenditure	1 826	1 122	704	4.1%	2.5%	1.6%	12.9%	10.9%	18.2%
Capital transfers	287	287	0	0.6%	0.6%	0.0%	2.0%	2.8%	0.0%
Direct investment (or GFCF)	1 539	835	704	3.4%	1.9%	1.6%	10.9%	8.1%	18.2%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



EXPENDITURE. The share of Canadian subnational government expenditure in GDP and public spending is by far the highest of all OECD countries, at 31.6% of GDP and 76.2% of public spending, well above the OECD average (16.2% of GDP and 40.4% of public spending in 2016) and above the OECD average for federal countries (19.2% of GDP and 50.0% of public spending). A vast majority of spending is made by the provinces (73%), but this share has decreased of 5 percentage points since 2013. SNGs are in charge of 36.4% of the financing of total social expenditure, which is high by international standard (16.7% in the OECD). Accounting for 84.7% of total public staff spending, SNGs are also key employers: SNG share in public staff spending is 20 percentage points above the OECD average of 62.9%, and 8 points above the average of the OECD federations (76.5%). Most of subnational jobs are located at provincial and territorial levels, who represented 50.4% of total public staff spending vs 34.3% for the local level.

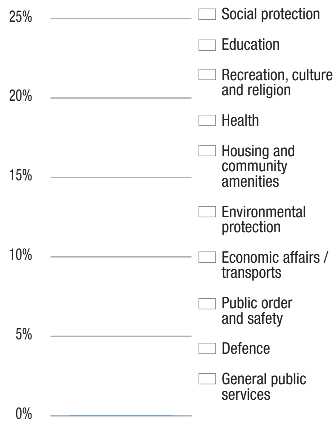
DIRECT INVESTMENT. Canada SNGs are key investors, responsible for 87.5% of public investment, a share that tops the ranking of OECD countries together with Belgium (30 percentage points higher than the OECD average of 56.9% and 25 percentage points higher than the average of the OECD federations of 62.3%). Canada also ranks first in the OECD regarding SNG investment-to-GDP (3.4% vs. 1.7% on average in the OECD and 1.8% in OECD federations). Within SNGs, local governments are major investors, accounting for 46% of total SNG investment and 40.1% of total public investment while the provincial/territorial levels accounted for 54% of SNG investment and 47.5% of public investment. Investment amounted to 18.2% of local government expenditure, a ratio above the OECD average of 10.7%.

Despite their broad powers of taxation, provinces still rely on the federal government for some infrastructure finance, even for projects of primary benefit to provincial (and municipal) residents. Canada's six regional development agencies (RDAs), which implement federal priorities, cover the entire country and, since 2015, are part of the country's Innovation, Science and Economic Development portfolio. They intervene with provincial, territorial, municipal and indigenous governments on an ongoing basis. The RDAs are developing Regional Growth Strategy (RGS) with an all-of-government approach (federal/provincial/territorial) for their respective regions by collaborating on targeted, evidence-based actions around a common vision. As of September 2018, two regions had already launched their strategies: the Atlantic Growth Strategy, launched in 2016, and the Prosperity and Growth Strategy for Northern Ontario in 2018. The "Building Canada Fund", part of "Infrastructure Canada", helps fund specific transport infrastructure projects for municipalities, as well as water and sewerage systems. The establishment of the Canada Infrastructure Bank, a new federal crown corporation, in late 2017 contributes towards diversifying financing sources for public investment, notably by attracting private sector and institutional investment in new revenue-generating infrastructure projects. The Bank funding may be accessed by all levels of government – federal, provincial, territorial, municipal and Indigenous governments – and the private sector.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

2015	% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT		
	SNG	State	Local	SNG	State	Local
Total expenditure						
1. General public services						
2. Defence						
3. Security and public order						
4. Economic affairs / transports						
5. Environmental protection						
6. Housing and community amenities						
7. Health						
8. Recreation, culture and religion						
9. Education						
10. Social protection						

SNG EXPENDITURE AS A % GDP



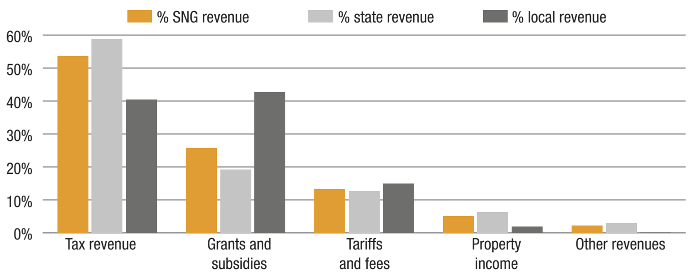
% OF TOTAL SNG EXPENDITURE

In health, education, housing, economic affairs, housing and community amenities and environmental protection, Canadian SNGs, and provinces in particular, are responsible for the very large majority of total public spending. Primary areas of provincial spending are hospital and medical care, education, income support and other social services. On the other hand, primary areas of municipal spending are transport, environment and the protection of persons and property. SNGs dedicate on average one third of their expenditure on health, which is by far the highest spending category of subnational budgets. It is followed by education (in the hands of elected school boards), social protection and general public services.

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	% GDP			% GENERAL GOVERNMENT (SAME REVENUE CATEGORY)		
	SNG	State	Local	SNG	State	Local
Total revenue	**30.3%**	21.8%	8.5%	**75.2%**	54.0%	21.2%
Tax revenue	**16.3%**	12.8%	3.5%	**57.2%**	45.1%	12.1%
Grants and subsidies	**7.8%**	4.2%	3.6%			
Tariffs and fees	**4.0%**	2.8%	1.3%			
Property income	**1.5%**	1.4%	0.2%			
Other revenues	**0.7%**	0.7%	0.0%			

% SUBNATIONAL, STATE AND LOCAL GOVERNMENT REVENUE



CANADA

FEDERAL COUNTRY

OVERALL DESCRIPTION. Tax revenues represent the primary source of revenue of Canadian SNGs, accounting for almost 54% of their revenues, well above the OECD average (44.6%) as well as the average of the OECD federations (47.5%). Consequently, the share of grants and subsidies in SNG revenues is more limited, well below the OECD average. While the share of tariffs and fees is in line with OECD average, the share of income from property assets is particularly high by international standards. There are great differences between provincial/territorial and local funding sources. While provinces and territories are funded mainly through taxation (59% of their revenues), municipalities depend more on grants and subsidies which accounted for 43% of their revenues, representing the primary source of municipal revenue. Yet data varies between provinces, and for some provinces and territories with few natural resources, transfers from central government are the main source of revenues. Likewise, the funding scheme at municipal level may differ from one province/territory to another. Overall, territorial and local governments in the territories are heavily dependent on federal funding, where it represents on average 74.4% of revenues, compared with 15.3% in the provinces in 2016.

TAX REVENUE. The share of SNG tax revenue in public tax revenue in Canada is the highest within OECD countries (31.9%) as well as within OECD federations (42.4%). Regarding the SNG tax-to-GDP ratio, Canada also stands out in the OECD: 16.3% vs 7.1% in the OECD and 8.8% in the OECD federations.

SNG tax revenue comes from shared taxation (between provinces and the federal government) and own-source taxation (in particular at the municipal level). Provinces represent almost 80% of all SNG tax revenue, and have a wide-ranging tax autonomy. Their tax revenue includes the personal income tax (PIT), the corporate income tax (CIT), provincial sales tax and payroll tax (all shared taxes).

Provincial tax systems are to a large extent harmonised with federal taxes, through a series of tax collection agreements and the supervision of the independent Canada Revenue Agency. Provinces must agree to common bases, but keep considerable discretion over tax rates and credits, provided that the latter do not discriminate against non-resident taxpayers. Revenues collected by the Canada Revenue Agency are allocated among provinces according to estimates of aggregate consumption. Most non-participating provinces levy a single-stage retail sales tax. The province of Quebec remains outside the income tax collection agreements, but nonetheless it adopted similar tax bases. Besides, for corporations that earn income in multiple provinces, revenues are allocated to provinces using a formula apportionment, which gives equal weight to revenues, payrolls and capital assets. Six of the ten provinces harmonise their sales taxes with the federal Goods and Services Tax, which is a value-added tax. Different tax arrangements exist among provinces with respect to shared responsibility for immigration, training, tourism and agriculture. In the past, provinces have been allowed to opt out of certain federal transfer programmes with compensation, although Quebec has been the only one to take advantage. A 1982 constitutional amendment (92A) granted provinces an unrestricted taxing power ("any mode or system") in the natural-resource field, which clarified and expanded their powers over non-renewable resources, forestry resources and electricity generation.

The most significant sources of tax revenues for provinces is the PIT (41% of total PIT income at the national level, representing 38% of provincial tax revenue and 22% of their total revenue), over which provinces have considerable autonomy, followed by the general sales taxes (20.9% of provincial tax revenue and 12.3% of their revenue) and CIT (10.7% of provincial tax revenue and 6.3% of their revenue, representing 40% of total CIT revenue collected at the national level). Other provincial taxes include excise taxes on motor fuel and tobacco (6% of provincial tax revenue), payroll tax (5%) and taxes on property (5%). At local level, most tax revenues come from recurrent taxes on immovable property (land and buildings), which accounted for 85% of local tax revenue and 34% of local revenue. This tax is composed of the personal property tax paid by residents and business owners and special assessments and charges on local property. Municipalities have discretion over the tax rates. Each municipality (and province) has its own tax formula specificities but municipal property tax bases are harmonised within all provinces. Assessment of the property value is typically conducted by a provincial authority and the frequency of assessments can differ by province. Property value assessment takes different factors into account such as neighbourhood, the age of the home, the size of the lot, etc.

Other minor local taxes include licences and permits, and a share of the tax on financial and capital transactions.

Overall, revenue form the provincial and municipal recurrent taxes on immovable property represented 3.2% of GDP in 2016, and 2.9% for the municipal level only, which is very high by international comparison (the OECD average was 1.1% of GDP in 2016).

GRANTS AND SUBSIDIES. Canada subnational fiscal system is composed of large and unconditional federal-provincial fiscal transfers and a revenue equalisation system enshrined in the constitution and revised in 2007, in order to ensure that all provinces and territories of various sizes, resources and wealth can provide relatively comparable level of public services at relatively comparable tax rates.

The high degree of revenue decentralisation in Canada results in significant horizontal imbalance. High-income provinces and those heavily endowed with natural resources have relatively high fiscal capacity, and transfers represent a very low share of their revenue, whereas in some provinces transfers from the federal government represent a more important source of revenue than their own taxes. On the other hand, this imbalance generates fiscal pressures for the federal government, obliged to finance equalisation from its own revenues.

Federal transfers to provinces and territories aim at ensuring funding for providing social programmes, mostly in the area of health, welfare and post-secondary education services. They include a vertical equalisation function through unconditional equalisation transfers (determined by assessing each province's revenue-raising capacity from tax revenues and natural resource revenues), and social transfers, transferring revenues from high-income to low-income provinces. The latter are based on equal per capita transfers and include the Canada Health Transfer (CHT), with broad conditions in order to support the public health care programme, and the Canada Social Transfer (CST), conditional on provincial programmes. In addition, there exist many other small transfers to provinces for specific purposes. Territories also receive specific unconditional transfers that also take expenditure needs into account, in recognition of the higher cost of providing programmes and services in the north of the country.

Municipalities receive both federal and provincial transfers. Federal transfers take the form of earmarked grants, such as the Gas Tax Fund (GTF), dedicated to support municipal infrastructure that contributes to cleaner air and water and reduced greenhouse gas emissions. Most grants from provincial to local level are conditional grants aimed at financing specific services at levels and standards that are set by the province. Most provinces provide some form of equalisation grants to municipalities, and each province can define its own municipal equalisation scheme, but these do not generally constitute the major component of grants. Disagreements exist over the structure of the equalisation system, particularly the extent to which natural resources should be equalised, and the extent to which it incentivises local economic development.

OTHER REVENUES. The level of user charges and fees in SNG revenues is high, in particular in local government revenues. Charges for services (e.g. water, waste water and sewer fees) and development permits are a significant source of revenue for municipalities. Property income (dividends, rents, assets sales) also represented a significant source of revenues for SNGs in 2016 (5.1% of SNG revenues vs 2.0% in the OECD), especially for the provincial/territorial level (6.3%). In fact, 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. Revenue from oil and gas royalties had tended to decline sharply.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.			% GDP			% GENERAL GOVERNMENT DEBT			% SNG DEBT		
	SNG	State	Local	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total outstanding debt	**28 091**	23 739	4 352	**67.2%**	56.8%	10.4%	**58.9%**	49.8%	9.1%	**100%**	100%	100%
Financial debt*	19 231	17 525	1 705	46.0%	41.9%	4.1%	58.3%	53.2%	5.2%	68.5%	73.8%	39.2%

* Currency and deposits, loans and bonds

FISCAL RULES. Almost all provincial and territorial governments in Canada have adopted fiscal rules in the form of balanced-budget requirements since the mid-1990s, prior to which most provinces ran deficits and failed to balance their budgets. Only recently, did the Canadian Federal Government followed the example of provinces and introduced its first balanced-budget legislation in 2014. There have been three waves of fiscal rules in Canada, the first focusing on spending limits (early 1990s), the second one on more wide-reaching rules for deficit reduction (mid-1990s) and the third one for the completion of provincial fiscal consolidation (late 1990s). Fiscal rules vary significantly among provincial governments, in both the types and stringency of rules. Manitoba and Alberta are the provinces with the strongest rules, including an annual general prohibition of deficits, limited tax rate increases without a referendum, debt repayment requirements, and sanctions in case of non-compliance, such as a decrease in politicians' salaries. However, the use of fiscal rules in Canadian provinces has been changing frequently, and their efficiency was particularly questioned during the great recession, to which provinces responded in different ways. Indeed, During the 2007-08 economic crisis, some provinces ignored their rules, making them become functionally non-operative (Ontario, Nova Scotia and New Brunswick), whereas other actively confronted the constraints set by their rules and made changes accordingly (British Columbia, Quebec and Manitoba). Eventually, Nova Scotia and New Brunswick abandoned their budget-balance legislation post-2008 (respectively in 2009 and 2014), and more than 40% of the stability laws that were enacted were repealed or significantly amended. The Parliamentary Budget Officer (PBO), established by the 2006 Federal Accountability Act (FedAA), provides independent analysis on public finance and since 2011, provides an assessment of the long-term sustainability of government finances for three government sub-sectors (federal, provincial/territorial and local).

DEBT. Provinces can borrow and lend at their discretion, although they set fiscal rules, impose balanced budgets and restrict borrowing for their municipalities. A common rule is to restrict borrowing to the financing of capital expenditure (golden rule). The debt-GDP ratio varies widely across provinces, some of them reaching levels comparable to the federal government debt. Yet all provinces can borrow at similar terms to the federal government. On average the SNG debt ratio as a share of GDP and public debt is the highest in the OECD, where it amounted 24.5% of GDP and 20.7% of public debt, even when considering OECD federations only (31.3% of GDP and 27.1% of public debt). The financial debt accounted for 68.5% of total outstanding debt while insurance pension and other accounts payable accounted respectively for 13.5% and 18% of debt stock. The financial debt is made up mainly of bonds (93%) while the share of loans is more limited (7%).

Provinces account for 84.5% of SNG outstanding debt (i.e. 56.8% of GDP), compared to municipalities whose debt is much smaller (15% of SNG debt i.e. 10.4% of GDP). Some provinces have run up significant debt-GDP ratios, which are sustainable as long as interest rates remain low, but could cause financial difficulties if interest rates were to rise. Financial debt is higher for the provinces/territories(74% of debt stock) than for the local government sector (39%) whose debt is largely composed of other accounts payable (61% of debt stock). Bond financing is predominant at both provincial/territorial and local government levels.

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Socio-economic indicators: OECD // // World Bank // UNDP // UN DESA // ILO // Statistics Canada.
Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // Statistics Canada - Consolidated Canadian Government Finance Statistics.
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UNITED STATES OF AMERICA

FEDERAL COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: US DOLLAR (USD)

POPULATION AND GEOGRAPHY

Area: 9 831 510 km^2
Population: 325.983 million inhabitants (2017), an increase of 0.7% per year (2010-2015)
Density: 33 inhabitants / km^2
Urban population: 82.1% of national population
Urban population growth: 1.0% (2017 vs 2016)
Capital city: Washington (0.2% of national population)

ECONOMIC DATA

GDP: 19 390.6 billion (current PPP international dollars), i.e. 59 532 dollars per inhabitant (2017)
Real GDP growth: 2.3% (2017 vs 2016)
Unemployment rate: 4.4% (2017)
Foreign direct investment, net inflows (FDI): 354 828 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 20.5% of GDP (2017)
HDI: 0.924 (very high) rank 13 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The United States is a federal republic composed of 50 federated states. The country has an elected head of state, the President, and a bicameral legislature composed of the Senate and the House of Representatives. The 435 voting members of the House of Representatives represent congressional districts proportionally to the population of the states. In the Senate, the 100 seats are occupied by two members of each of the 50 states, directly elected for six years, regardless of their size. The Senate has full legislative powers and an absolute veto over all legislation. The president is elected indirectly by an Electoral College of 538 electors. Each state has an entitled allotment of electors, which equals the numbers of members in the Congressional delegation. The capital, the District of Columbia, is allotted the number of electors that it would have if it had congressional representation. Territories do not have electors.

The United States has a three-tier system of subnational government made up of state governments, counties and municipal governments. The 1787 Constitution and Bill of Rights developed concepts of federalism based on dual sovereignty of the federal government and the states (Art. 4, 5 and 6). According to the 10th amendment, the Constitution defines the balance of powers between the federal government and the states, and specifies that all powers not specifically attributed to the federal level remain with the states. Each of the 50 states and five commonwealth territories are headed by governors, who are directly elected for four-year mandates (except for the states of New Hampshire and Vermont). The federal capital, the District of Columbia, is neither a state nor a territory, and is governed by a mayor and council, with oversight from Congress. Governors serve as both chief executive officers and commanders-in-chief. Every state (except Nebraska) has a bicameral legislature, made up of an upper and a lower house.

Local governments are not formally recognised in the federal Constitution as a separate order of government. They belong to the states and their types and structure varies according to their state's constitution or legislation, from counties to cities, townships or villages. Depending on the state, local governments can be governed by general law (Dillon's Rule), or they may be allowed to have their own charters, which consist of unique sets of laws that form the legal foundation of the local system. Even though chartered cities and counties are still subject to state laws, they are more autonomous than others regarding local laws and regulations. Some states allow local governments to adopt a charter on their own, whereas others grant directly charters to municipalities by state legislature; as of 2015, 31 states allowed chartered counties and 44 allowed chartered municipalities. In addition, the US has a highly decentralised election administration system, with variations across and even within states. All general-purpose local governments, including counties and municipalities, have elected representatives. Elections for general-purpose local governments are usually administered at the county level.

The vast majority of municipal governments operate on one of two governing models: a mayor-council system or a council-manager system. Under the mayor-council system, voters elect both a mayor and members of the city council. The city council performs legislative functions and the mayor the executive functions. In a council-manager system of government, either the members of the city council are elected by voters along with a mayor who presides over the council, or the voters elect members of the city council and the mayor is chosen from among them. In either case, the city council will then appoint a city manager to carry out the administrative functions of the municipal government.

The US Advisory Commission on Intergovernmental Relations, an official governmental forum to raise intergovernmental issues, was abolished in 1996. Today, most intergovernmental relations take place through ad hoc and short-lived intergovernmental fora, committees, task forces and sectorial working groups. The states lobby the federal government via their associations. Among others, the Intergovernmental Policy Advisory Committee (IGPAC) provides advice on trade policy matters of importance to state and local governments. There are 35 members (appointed by the United States Trade Representative) including governors, mayors, state legislators, attorney generals, state regulators and county officials. The National League of Cities, created in 1924, represents US cities, towns, and villages along with 49 state municipal leagues. With over 1 900 member cities, it plays a role in convening organisations, support networks, and representatives in federal affairs. At the state and local levels, some states have created Advisory Commissions on Intergovernmental Relations (ACIR) such as Connecticut, or a Local Government Advisory Commission (as in Massachusetts).

TERRITORIAL ORGANISATION

2012	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	35 879 municipalities, towns and townships	3 031 counties	50 states	
	Average municipal size: 9 086 inhabitants			
	35 879	**3 031**	**50**	**38 960**

OVERALL DESCRIPTION. The United States federal structure is composed of 50 state governments, 3 031 counties at the intermediary level and 35 879 municipalities (according to the last 2012 census). States determine their own systems of local government, including their number, territorial organisation and powers. In practice, there are 50 different systems of local governments in the US, one for each state.

REGIONAL LEVEL. The federal entities consist of 50 states. States differ in population size, California being the most populous state (38.332 million inhabitants in 2013, i.e. 12% of the US population), and Wyoming the least populous (582 658 inhabitants, i.e. less than 0.2% of the US population) while the average size is 6.415 million inhabitants. With the exception of the federal capital, the District of Columbia, GDP per capita levels are relatively similar across US states in comparison with other OECD countries, as measured by the ratio of top 20% over bottom 20% of regions. However, regional disparities, in terms of GDP per capita, have slightly increased over the last 16 years.

COUNTIES. Counties were originally created to serve as administrative arms of state government, performing state-mandated duties. Their role was strengthened as urban populations began to spread beyond city boundaries, and county governments started to be devolved greater autonomy from the states. Organised county governments are found in every state but Connecticut, Rhode Island, and the District of Columbia.

MUNICIPALITIES. Municipalities have population thresholds that vary according to each state. Towns and townships exist in less than half of the states, located in areas that are not incorporated as municipalities, and typically have more limited powers. The distinction between towns and cities is primarily based on population size, as townships were established to govern areas without a minimum population concentration. It is interesting to note that between 1952 and 2012, the number of municipalities (including towns and townships) increased by 5.5%, resulting from the creation of new municipalities in unoccupied territories or subdivisions of existing municipalities. However, in some states such as Kansas and Nebraska, mergers have taken place recently. In 2017, the average size of municipalities was close to the OECD average of 9 700 inhabitants. Almost 70% of US municipalities have fewer than 2 500 inhabitants whereas only 5% have more than 25 000 inhabitants.

INTER-MUNICIPAL COOPERATION AND METROPOLITAN GOVERNANCE. Inter-municipal cooperation takes place through special-purpose governments (see below) but also through formal shared service arrangements that are usually led by state governments. They are sometimes based on state legislation or dedicated shared services programmes. Cooperation between municipalities at the scale of metropolitan areas is promoted by state governments but also by the Federal government, which from 1960 encouraged inter-municipal cooperation in major cities to deal with problems, especially transport-related issues, that seemed relevant at the metropolitan level. It supported the creation of two major cooperation arrangements in several US cities: the Councils of Governments (COG) and the Metropolitan Planning Organizations (MPO). They bring together local government institutions in the field of metropolitan planning and studies and regional policy exchange. Funded by the federal government, these entities are also responsible for allocating federal subsidies to public transport. In the 1980s, the federal government continued to support these bodies using environmental problem to justify its intervention. Gradually, the COGs (also called “metropolitan councils” or “regional councils”) and MPOs therefore gained skills and resources. As of 2015, there were 405 MPOs in the United States.

SPECIAL-PURPOSE SUBNATIONAL GOVERNMENTS. Besides general-purpose subnational governments, there are numerous types of elected special-purpose subnational governments in charge of providing governmental services, sometimes at the scale of several municipalities (inter-municipal cooperation). The main ones, recognised by the Census Bureau, are school districts and special district governments such as transport districts, fire districts, water districts, etc. (around 51 000 such entities in 2016). They are governed by a board, with members either elected by the public or appointed by the states, counties, municipalities, or townships forming the special district. They receive funds from federal, state and local sources. School districts and special districts are undergoing a consolidation process and their number decreased by 36% between 1950 and 2012, due mainly to the consolidation of school districts.

OTHER ADMINISTRATIVE DIVISIONS AT SUBNATIONAL LEVEL. The United States also comprise subnational administrative divisions,overseen by the federal government, including 14 territories in the Caribbean Sea and Pacific Ocean, among which five commonwealth territories are permanently inhabited, 326 Indian reservations, managed by Native American tribes recognised by the federal government and the Federal District of Columbia. The latter (Washington, D.C.) is the capital of the United States and the seat of the federal government. As the U.S. Constitution provided for a federal district under the exclusive jurisdiction of the U.S. Congress, the District is not a part of any state. Despite the existence of a locally-elected mayor and council since 1973, the Congress maintains supreme authority over the city.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Powers specifically granted by the Constitution to the federal government include the power to declare war, to collect taxes, coin and borrow money, make treaties with foreign nations, and regulate commerce between the states. According to the Tenth Amendment to the U.S. Constitution, “the powers not delegated to the United States by the Constitution nor prohibited by it to the states, are reserved to the states respectively, or to the people.” These reserved powers, often called the police powers, allow states to legislate and regulate to protect the health, safety, and morals of citizens.

Typically, states are responsible for economic development, education, intra-state commerce, the state police force, state parks, economic affairs, energy, etc. They also exercise full control over local governments within their jurisdictions. Although the U.S. Constitution appears to make the division of powers between the federal governments and the states clear, the reality is different. Many powers belonging to the federal government are shared by state governments (concurrent powers) such as taxing, borrowing and public welfare.

The powers of counties arise from state law and vary widely, from almost no powers to a large range of responsibilities, including public education, social services, transport, etc. In between, counties have a moderate scope, which typically includes courts, public utilities, libraries, hospitals, public health services, parks, roads, law enforcement, and jails.

Overall, counties and municipalities are in charge of a large array of responsibilities related to social services, local roads and economic development, community services and the provision of basic services. 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, fire protection, etc.).

UNITED STATES OF AMERICA

FEDERAL COUNTRY

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	STATES	COUNTIES	MUNICIPAL LEVEL
1. General public services	Civil registries; State criminal law; Prisons; Issuing licences; Organisation and control over local governments	Internal administration; County courts; County jails	International administration; Local ordinances; Municipal courts
2. Public order and safety	State police; Motor vehicle regulation	Law enforcement	Local police and fire protection; Traffic control
3. Economic affairs /transports	State economic development; Intra-state commerce; Highways; Railways; Airport; energy	County roads; County economic development	Local economic development; Public transportation; Local roads
4. Environmental protection	Environmental protection; State parks	Parks	Green areas and parks; Sanitation and waste disposal
5. Housing and community amenities	Water resources management; Zoning law	Public utilities	Local land use and zoning; Building regulations; Housing services; Urban development; Water utilities; Street lighting
6. Health	Health	Public hospitals; Health services	Emergency medical services
7. Recreation, culture & religion		Libraries	Recreation and libraries; Stadiums
8. Education	Higher education		
9. Social protection	Income support (cash and in-kind, particularly health care for the poor through Medicaid)	Income support and social services	

SUBNATIONAL, STATE AND LOCAL GOVERNMENT FINANCE

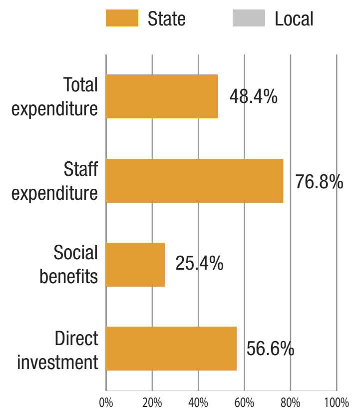
Scope of fiscal data: at state level: 50 state governments; state temporary disability insurance systems; state workers' compensation systems; At local level, general purpose governments, special district governments, public school systems. Note: Subnational finance data for the United States are provided only in an aggregated and consolidated manner, without distinction between state and local governments.	SNA 2008	Availability of fiscal data: **Medium**	Quality/reliability of fiscal data : **Medium**

GENERAL INTRODUCTION. The federal government's fiscal powers are defined by the US Constitution (Art. 1, Section 8). Yet the U.S. Constitution does not define clearly the fiscal roles and relationships of the federal and state governments. Besides, the definition and control of local government fiscal policy is devolved to the states. Overall, SNGs have large autonomy regarding their fiscal policy, with few limitations imposed by the federal constitution, despite a growing influence of the federal government over time. At local level, local fiscal autonomy differs markedly from one state to the next. In some states, local governments are under strict fiscal constraints while in others, large local governments may have considerable discretion to build their own financing systems. This high degree of decentralisation generates wide fiscal disparities among states and local governments that are not fully compensated by weak intergovernmental transfer schemes, either at the state level or at the federal level. SNG finances were severely hit by the 2008-09 economic crisis, due partly to the strict balanced budget rules applied to SNGs, and to their heavy reliance on specific sources of revenues on the other hand (such as the property tax for many municipalities). Since then, the fiscal situation of states and municipalities in the United States has been slowly improving, as intergovernmental fiscal policies start to address long-term structural imbalances.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION*

2016	DOLLARS PPP / INH.			% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT EXPENDITURE		
	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total expenditure	10 533	n.a.	n.a.	18.3%	n.a.	n.a.	100%	n.a.	n.a.
Inc. current expenditure	9 523	n.a.	n.a.	16.5%	n.a.	n.a.	90.4%	n.a.	n.a.
Staff expenditure	4 317	n.a.	n.a.	7.5%	n.a.	n.a.	41.0%	n.a.	n.a.
Intermediate consumption	2 495	n.a.	n.a.	4.3%	n.a.	n.a.	23.7%	n.a.	n.a.
Social expenditure	2 142	n.a.	n.a.	3.7%	n.a.	n.a.	20.3%	n.a.	n.a.
Subsidies and current transfers	2	n.a.	n.a.	0.0%	n.a.	n.a.	0.0%	n.a.	n.a.
Financial charges	567	n.a.	n.a.	1.0%	n.a.	n.a.	5.4%	n.a.	n.a.
Others	0	n.a.	n.a.	0.0%	n.a.	n.a.	0.0%	n.a.	n.a.
Incl. capital expenditure	1 010	n.a.	n.a.	1.8%	n.a.	n.a.	9.6%	n.a.	n.a.
Capital transfers	0	n.a.	n.a.	0.0%	n.a.	n.a.	0.0%	n.a.	n.a.
Direct investment (or GFCF)	1 010	n.a.	n.a.	1.8%	n.a.	n.a.	9.6%	n.a.	n.a.

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)



* The breakdown between the states and local government is not available in the national accounts.

EXPENDITURE. American SNGs are key economic and social actors. Their shares in GDP (18.3%) and public spending (48.4%) are above OECD averages (respectively 16.2% and 40.4%) and slightly below the OECD average of the nine federal countries (respectively 19.2% of GDP and 50.0% of public expenditure). Local governments represent a slightly larger share of SNG expenditure than state governments (52%), considering that they often administer programmes with funds transferred from the state governments. SNGs are also key public employers, accounting for more than three-quarters of total public staff spending. 43 states out of 50 increased spending levels in 2016 versus 2015; yet, states and local government spending varies widely across states. In 2016, Alaska had the highest per capita SNG spending (USD 18 499) whereas Idaho had the lowest (USD 6 571).

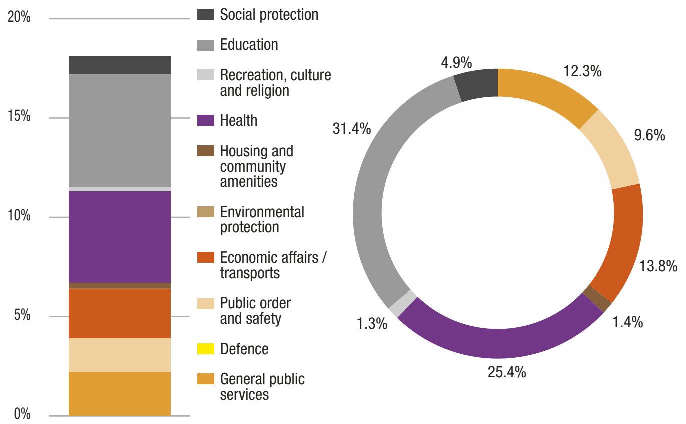
DIRECT INVESTMENT. SNGs play a key role in investment in the US and account for the bulk of total public investment, similar to the OECD average of 56.9%. However, they stand below the OECD average for federal countries (62.3% in 2016). State governments alone were responsible for 21.5% of public investments in 2016. In 2009, in response to the economic crisis, the federal government launched a recovery package made up of contracts, grants and loans, partly dedicated to supporting public investment (American Recovery and Reinvestment Act-ARRA). It supplemented state funding for SNGs for investments in transport and particularly mass transit and education, and encouraged coordination across levels of government. SNGs administered one-third of ARRA. Increasing infrastructure demands have been the biggest pressure on municipal budgets since the recession. Other federal investment schemes are dedicated to support state and local investments in transport and water infrastructure, such as the Water Infrastructure Finance and Innovation Act Program (2014). As of 2017, state and local governments spent 59% of their capital expenditure on transport and water infrastructure.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

2016	% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT		
	SNG	State	Local	SNG	State	Local
Total expenditure	18.3%	n.a.	n.a.	100%	n.a.	n.a.
1. General public services	2.2%	n.a.	n.a.	12.3%	n.a.	n.a.
2. Defence	0.0%	n.a.	n.a.	0.0%	n.a.	n.a.
3. Security and public order	1.7%	n.a.	n.a.	9.6%	n.a.	n.a.
4. Economic affairs / transports	2.5%	n.a.	n.a.	13.8%	n.a.	n.a.
5. Environmental protection*	0.0%	n.a.	n.a.	0.0%	n.a.	n.a.
6. Housing and community amenities	0.3%	n.a.	n.a.	1.4%	n.a.	n.a.
7. Health	4.6%	n.a.	n.a.	25.4%	n.a.	n.a.
8. Recreation, culture and religion	0.2%	n.a.	n.a.	1.3%	n.a.	n.a.
9. Education	5.7%	n.a.	n.a.	31.4%	n.a.	n.a.
10. Social protection	0.9%	n.a.	n.a.	4.9%	n.a.	n.a.

SNG EXPENDITURE AS A % GDP

% OF TOTAL SNG EXPENDITURE



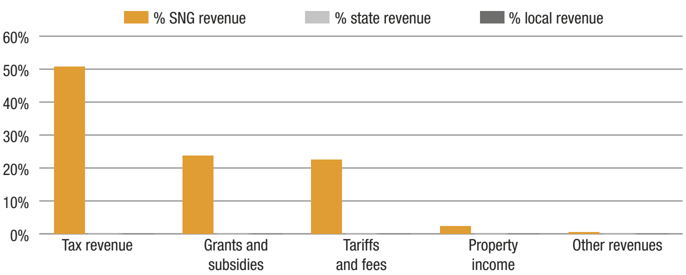
* Environmental protection expenditure is included in "housing and community amenities" area.

SNGs in the US spend most of their resources on education and health, which represented 56% of SNG total expenditure in 2016. Spending in education is focused on elementary and secondary education (covered mainly by local governments, which represented about 21% of SNG spending in 2016) and higher education (covered mostly by state governments, accounting for 10%). Spending on health were mainly covered by state governments, and Medicaid, a health programme jointly funded by states and the federal government and administered by states. Medicaid has constituted a large, and growing, portion of state government spending. In fact, the National Association of State Budget Officers (NASBO) estimates that in 2018, Medicaid alone accounted for nearly 30% of total state spending. Other public welfare spending by SNG includes hospitals, Temporary Assistance for Needy Families, and Supplemental Security Income. Economic affairs and transport are the third main area of SNG spending (13.8%), covering highways and roads, among others. Regarding their share in total public spending by sectors, SNGs are also responsible for the large majority of total public spending in the areas of security and public order, recreation and culture and education (over 80% in those three categories).

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	% GDP			% GENERAL GOVERNMENT (SAME REVENUE CATEGORY)		
	SNG	State	Local	SNG	State	Local
Total revenue	17.3%	n.a.	n.a.	52.6%	n.a.	n.a.
Tax revenue	8.8%	n.a.	n.a.	44.6%	n.a.	n.a.
Grants and subsidies	4.1%	n.a.	n.a.			
Tariffs and fees	3.9%	n.a.	n.a.			
Property income	0.4%	n.a.	n.a.			
Other revenues	0.1%	n.a.	n.a.			

% SUBNATIONAL, STATE AND LOCAL GOVERNMENT REVENUE



OVERALL DESCRIPTION. The federated states and, at the discretion of states, local governments have a large degree of fiscal autonomy as defined in their own constitutions, and broad authority over their fiscal policy, including tax types, collection, rates, bases and budgetary priorities. SNG revenue in the US accounts for a share of total public revenue that is in line with the OECD average for federal countries (53.1% in 2016). Taxation is the primary source of revenue for SNGs, accounting for a share of SNG revenue above the OECD average for federal countries (47.5% in 2016). This is also the case for tariffs

UNITED STATES OF AMERICA

FEDERAL COUNTRY

and fees, which amount to 22.5% of SNG revenues in the United States compared to an average of 17.2% in OECD federal countries. In contrast, the share of grants and subsidies in SNG revenue is well below the OECD average for federal countries (31.5% in 2016).

TAX REVENUE. SNG tax revenues accounted for 17.3% of GDP and 52.6% of public tax revenues in 2016, which is well above the OECD average (7.1% of GDP and 31.9% of public tax revenue), even when considering the average of the OECD federations (8.8% of GDP and 42.4% of public tax revenue). In 2016, tax revenue represented approximately 48.3% of state revenue and 54.3% of local government revenue. There are no tax sharing arrangements between the federal government, the states and local government. Some states however have established tax sharing arrangements in their jurisdictions. Most SNG taxes are therefore own-source taxes.

At the SNG level, the primary source of tax revenues is the recurrent tax on immovable property (28% of SNG tax revenue in 2016 and 14% of SNG revenues). It is followed by the personal income tax (PIT) and the sales tax (in total amounting to 23.5% of SNG tax revenue and 12% of SNG revenue), excise tax (5.9%) and the corporate income tax (3.7%).

At the state level, the largest source of tax revenue comes from the PIT (37% of state tax revenue, i.e. 18% of state revenue). The structure of state PIT varies from state to state. Seven states impose no income tax, while eight states have top marginal tax rates up to 11%. However, the breakdown of tax revenue varies from state to state. The second most important tax is the sales tax (31.5% of state tax revenue and 15.4% of state revenue), the rate of which varies across states, from 2.9% in Colorado to 7.25% in California. Five states do not have sales tax.Other major taxes include excise taxes, license taxes, the corporate income tax, motor fuel tax, and severance taxes on natural resource extraction.

Local government taxes vary from state to state, and by type of local authority, but the most important souce of own revenue for local governments is the recurrent tax on immovable property, levied in all 50 states on both residential and business property, based on market value. In 2016, the property tax levied by counties, municipalities and townships represented 68.4% of local revenue and 2.5% of GDP, above the OECD average of 1.1% of GDP in 2016. Real property tax rates differ widely across and within states, and local governments use various methods to calculate their real property tax bases. School districts also collect property tax revenue, which account for a significant portion of their revenue. The remaining part of the local government property tax is collected by Special Districts such as water and sewer authorities. In addition, 37 states have implemented tax-sharing systems with local authorities within their jurisdictions, by allowing them to impose their own general sales taxes in addition to the state tax. Local rates range from 0.5% to 8.3%. In 2016, the share of local government sales tax accounted for 12.5% of local tax revenue. Other shared taxes may include the local individual income tax (4.8% of local tax revenue in 2016) and corporate income tax.

The last major tax reform passed at the end of 2017 changed the ability of US taxpayers to deduct state and local taxes (SALT). SALT deductions were introduced with the Revenue Act of 1913, which also introduced the federal income tax, stating that "all national, state, county, school, and municipal taxes paid within the year, not including those assessed against local benefits," could be deducted. The Revenue Act of 1964 later named specific state and local taxes that could be deducted, including real and personal property, income, and general sales taxes. The aim, in a partnership between the federal government, states and local governments, was to avoid double taxation by several levels of government, and to provide incentives for homeownership. The new law partially eliminated the SALT deduction, now capped at USD 10 000 for property, plus income or sale taxes. In addition to this change, the reform also reduced the maximum marginal corporate tax rates down from 35% to 21%.

GRANTS AND SUBSIDIES. Unlike most other federations, there is no federal unconditional general grant, or equalisation grant system, to either state or local governments in the US. However, some intergovernmental transfers may contain equalising elements, through the inclusion of per capita income in various grant formulas, and targeted categorical grants.

Over the years, the federal intergovernmental system in the US has become increasingly centralised, with the federal government using federal grants and mandates to expand its influence in many policy areas. In this sense, the Congress has a central role in determining the scope and nature of the federal grant system. Transfers increased rapidly from 2008 to 2010, to assist state and local governments recover from the 2007-2008 economic crisis, especially with the enactment of the 2009 American Recovery and Reinvestment Act of (ARRA). They have increased again since 2014 due to the expansion of Medicaid eligibility (Patient Protection and Affordable Care Act – ACA), which positioned healthcare as the leading category of federal assistance to SNGs. However, the recent upward trend in federal grants to SNGs is expected to slow, as part of an effort to address the federal deficit and debt.

The three general types of federal grants to state and local governments are categorical grants (to be used only for relatively narrowly-defined purposes), block grants (for a specific aid programmes), and general revenue sharing. The main categorical grant refers to the Children's Health Insurance Program (CHIP – Medicaid). State and local governments may have more of less discretion over federal earmarked grants (the Community Development Block Grant is the largest), and have to comply with federal standards and monitoring.

At the local government level, 85% of transfers to local governments come from state governments and, increasingly, from the federal government (15% of grants). A portion of state transfers comes indirectly from the federal government in the form of pass-through grants, 'subawarded' to local governments for carrying out specific grant programmes. 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, through formulas based on such factors as population, tax capacity, and fiscal need. They are dedicated in particular to mitigate property tax disparities among local governments.

OTHER REVENUES. In addition to tax revenues, state and local governments levy fees and charges for services rendered which represent a larger share of their revenue than for the average of OECD federal countries (17.2% in 2016). Local governments may collect fees and charges on a variety of services such as sewerage, parking meter fees, accounting for approximately 18% of local revenue. On the other hand, states receive highway tolls, trust revenues, service charges for education and hospital-related services, interest revenue, and are increasingly relying on proceeds from lotteries.

In aggregate, tariffs and fees provide a substantial amount of revenue for SNGs, especially for states that collect relatively little tax revenue. They also receive property income, and tuition paid to state universities.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.			% GDP			% GENERAL GOVERNMENT DEBT			% SNG DEBT		
	SNG	State	Local	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total outstanding debt	**18 200**	n.a.	n.a.	**31.6%**	n.a.	n.a.	**24.1%**	n.a.	n.a.	**100%**	n.a.	n.a.
Financial debt*	9 589	n.a.	n.a.	16.7%	n.a.	n.a.	16.2%	n.a.	n.a.	52.7%	n.a.	n.a.

* Currency and deposits, loans and bonds

FISCAL RULES. The federal government does not impose fiscal rules on state or local governments. However, the statutory limit set on federal government debt and the federal budget procedures that constrain federal spending may have an indirect effect on state and local finances. Most important fiscal rules in the US federal system are set by the states, imposed upon themselves and on local governments within their jurisdictions, mostly by their own citizens via constitutional and statutory law. In that context, they vary from state to state, including various ceilings, prohibitions and conditions on deficit and debt.

Overall, almost every state and local government (all except the state of Vermont) is required to maintain a balanced operating budget. As of 2017, 35 states had some sort of tax and expenditure limitations of varying degrees, based on inflation or on the previous year's budget or personal income growth. Many states go beyond their own fiscal rules to extend additional restrictions on local government finances, such as limits on property taxes and spending. States also impose financial management and audit requirements on local governments to ensure appropriate financial accountability for spending. The Congressional Budget Office (CBO), created in 1974, has the mandate to provide the Congress with nonpartisan and objective budget analysis at state level.

DEBT. All states have debt rules applying to their own debt and that of local governments, with statutory limits on tax receipts or general funds. Long-term debt is usually intended for capital projects ("golden rule"). To deal with the risk of local bankruptcy, 23 states have laws that allow them either to supervise local government debt or to assist local governments with debt restructurings in the face of a fiscal emergency.

In 2016, SNGs had a total debt outstanding amounting up to 31.6% of GDP and 24.1% of public debt. These levels of debt are close to the OECD average of federal countries (31.3% of GDP and 27.1% of public debt). SNG debt is made up of financial debt (53%), pension liabilities (32%) and other accounts payable (15%). Financial debt comprises almost exclusively bonds, issued by states and local governments for the financing of infrastructure and capital expenditure, such as investments in schools, streets, highways, hospitals, bridges, water systems, and other public works.

SNG debt may take two forms: General obligations, entirely funded by a general-purpose government, and non-general obligations, issued by governments and special entities, usually backed by a specific revenue source. Municipal bond issuance is a particularly interesting way for state and local governments to finance infrastructure as they save additional interest expenses through federal tax exemption for municipal bonds. Thanks to a well-developed framework of municipal borrowing, large and small SNGs in the United States have gained access to the municipal bond market, some of them through pooled financing mechanisms, i.e. the creation of a public financing entity acting as a financial intermediary between the capital market and smaller-size local governments. On average, 11 600 municipal bonds are issued each year. The creation, mandate and function of municipal bond banks are governed by state legislation. Another major form of pooled financing used in the United States is State Revolving Funds (SRFs). They were first developed in 1978 to leverage federal grants for revolving loans for local environmental and water projects.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: OECD
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www.sng-wofi.org

Socio-economic indicators: OECD // World Bank // UNDP // UN Desa // ILO.
Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // US Census Bureau // Congressional Budget Office // Urban Institute // U.S. Office of Management and Budget.
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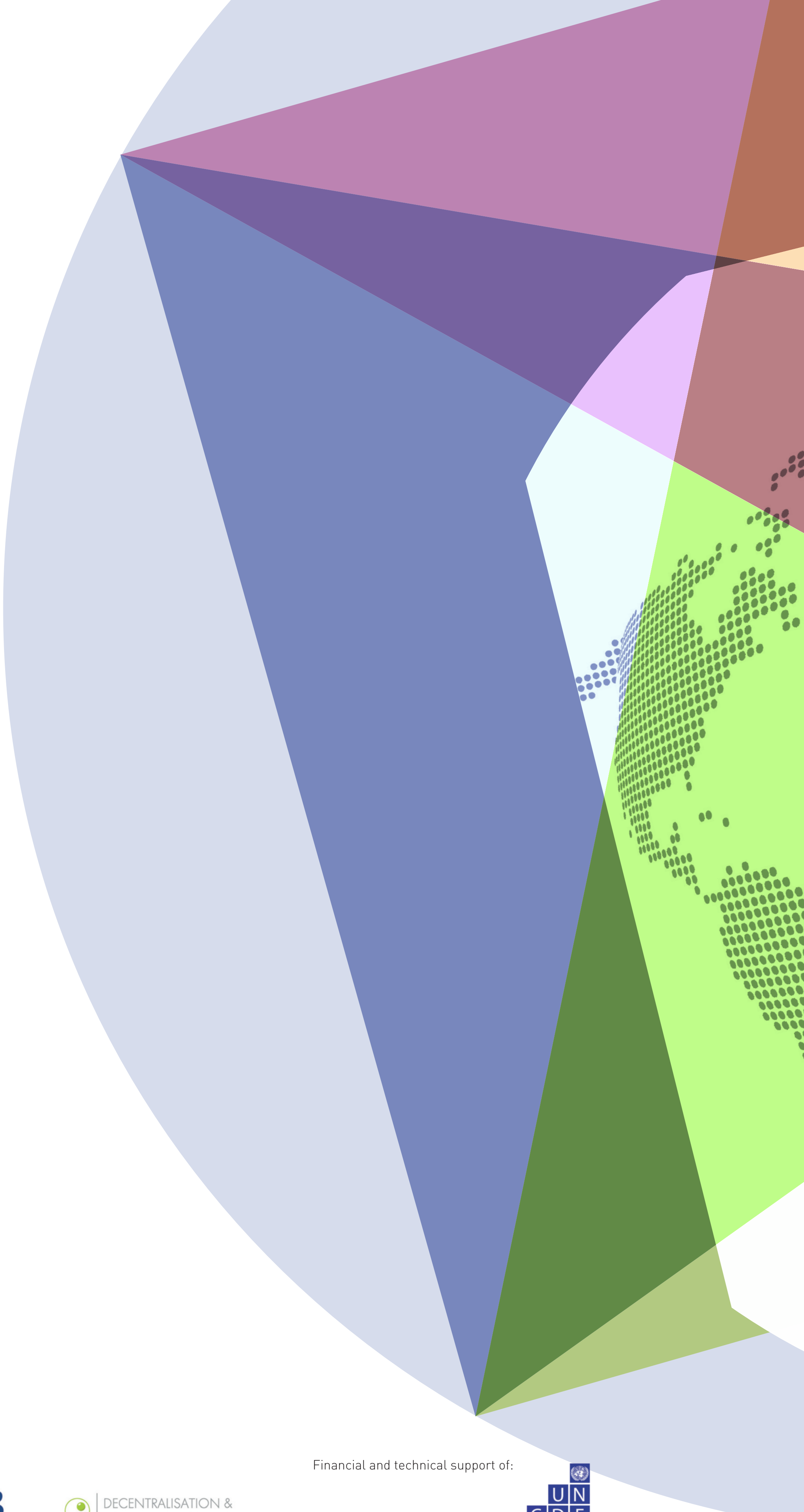

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