



Making Decentralisation Work

A HANDBOOK FOR POLICY-MAKERS



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Sometimes called a “silent” or a “quiet” revolution, decentralisation is among the most important reforms of the past 50 years. It is implemented to varying degrees in a majority of developing and developed countries and has profound implications due to its complex and systemic nature. Engaging in a decentralisation process affects all spheres of society, from the nature and the quality of governance to national wealth and economic growth and, more broadly, to citizen well-being.

The 2019 OECD report *“Making Decentralisation Work: a Handbook for Policy-Makers”* focuses on current trends in the decentralisation policies of OECD countries and beyond, and on the ways to make decentralisation work. It argues that the question should not be whether decentralisation is good or bad in itself, but that decentralisation outcomes – in terms of democracy, efficiency, accountability, regional and local development – depend greatly on the way decentralisation is designed and implemented.

The report argues that decentralisation should not be considered a panacea for any type of problem a country may face, nor should it be seen as an objective in and of itself. Rather it is a means to achieve certain goals. Empirical research and a number of country examples show that decentralisation can be conducive to public sector efficiency, democratisation and political stability. There are also examples of failures with decentralisation, when the reforms were not properly designed and implemented, and when the multi-faceted dimension of the concept was not well understood.

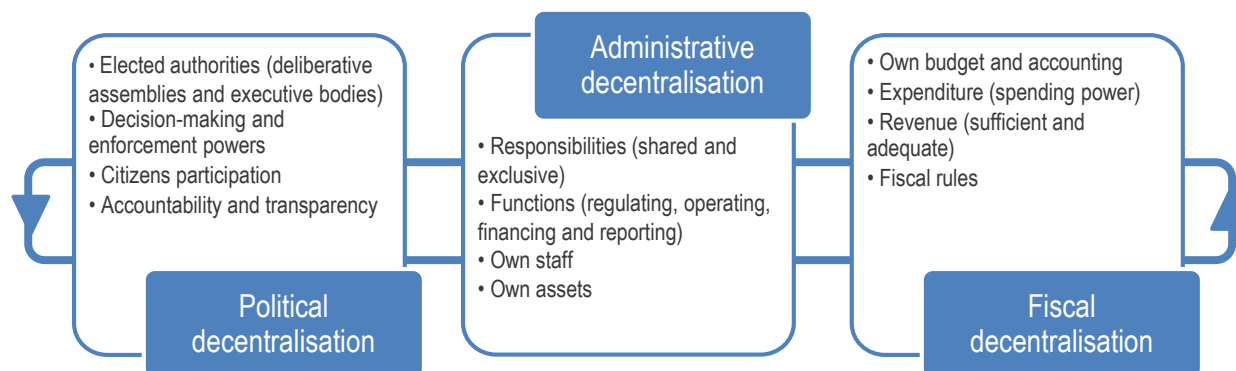
Making the most of decentralisation for regional development is particularly crucial in the current context of a “geography of discontent” and growing divides between places that feel left behind by globalisation and technological change and those that may benefit from the opportunities offered by megatrends. Dysfunctional decentralisation systems are part of the story behind the crisis of democracies: it is thus critical to find ways to make decentralisation systems more effective.

The report identifies ten guidelines for decentralisation to work and be conducive to regional development. Beyond the guidelines, the report proposes concrete tools for policy-makers, including detailed sets of recommendations, checklists, pitfalls to avoid and examples of good practices, both in unitary and federal countries.

What is decentralisation?

Although widespread and extensively analysed, decentralisation is often understood in different ways and applied in different scopes. Decentralisation refers to the transfer of powers and responsibilities from the central government level to elected authorities at the subnational level (regional governments, municipalities, etc.), having some degree of autonomy. Decentralisation is also about reconfiguring the relationships between the central government and subnational governments towards a more co-operative and strategic role for national/federal governments. It is also a multi-dimensional concept, as decentralisation covers three distinct but interrelated dimensions: political, administrative and fiscal. These dimensions are inter-dependent: there can (or should) be no fiscal decentralisation without political and administrative decentralisation. On the other hand, without fiscal decentralisation, political and administrative decentralisation are meaningless.

FIGURE 1. POLITICAL, ADMINISTRATIVE AND FISCAL DECENTRALISATION



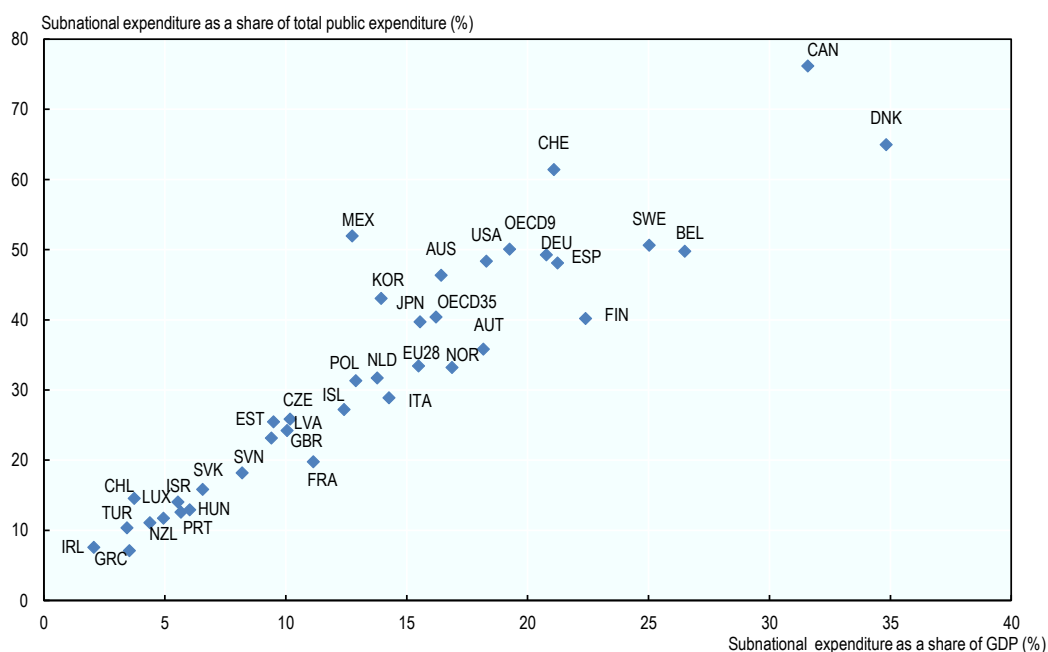
The forms and extent of decentralisation vary greatly from one country to another. Depending on the country, there are also varying degrees of upward and downward accountability and varying ranges of central government control.

At the global level, the OECD-UCLG World Observatory on Subnational Government Finance and Investment has identified that subnational expenditure amounted to 9% of gross domestic product (GDP), 24% of public expenditure and 40% of public investment (OECD-UCLG, 2016^[1]).

In OECD countries, subnational governments represent a larger share of public spending, accounting for 16.2% of GDP, 40.4% of public spending and 56.9% of public investment in 2016. Education represents the largest spending areas (25% of subnational expenditure), followed by health (18%), general public services (administration), social protection and economic affairs/transport.

FIGURE 2. SUBNATIONAL GOVERNMENTS ARE KEY POLICY ACTORS ACROSS THE OECD, 2016

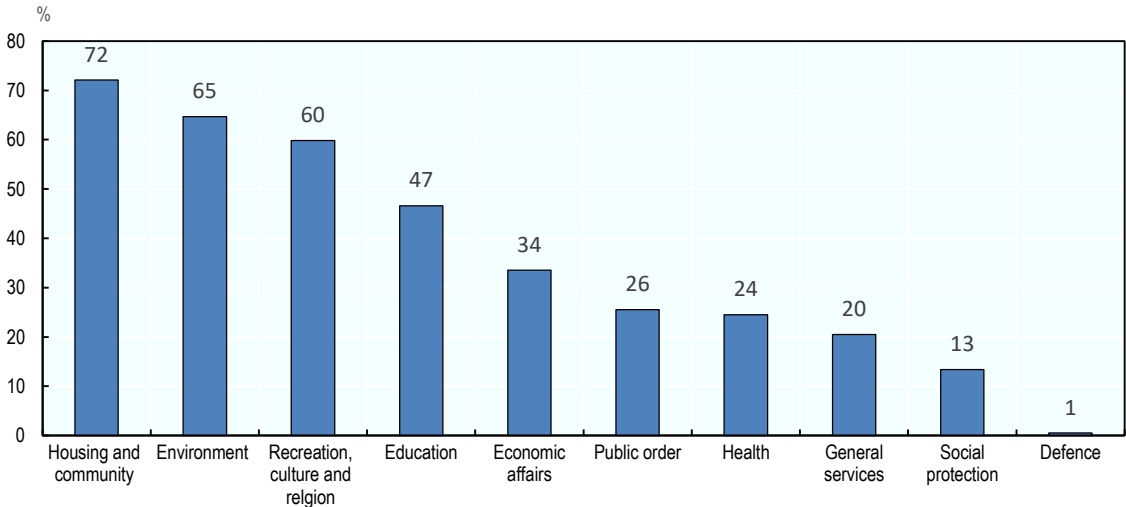
Subnational government expenditure as a percentage of GDP and public expenditure



Note: 2015 data for New Zealand, Mexico and Turkey. IMF data for Australia and Chile
 Source: OECD elaboration based on OECD (2018^[2]), *Subnational Governments in OECD Countries: Key Data (brochure and database)*, <http://dx.doi.org/10.1787/region-data-en>.

Rather than a clear-cut separation of responsibilities, most responsibilities are shared among levels of government, and the trend toward shared responsibilities has increased over the past decades. The need to share responsibilities may arise for functional reasons – as is common between municipal and regional tiers around issues of transport and infrastructure, environment and water, culture and tourism, communication, or economic development. It may also arise for financing reasons such as for social services. Overall, there is greater variation across countries in the distribution of competencies at the regional level, and less variation at the local level.

FIGURE 4. SUBNATIONAL EXPENDITURE AS A SHARE OF TOTAL PUBLIC EXPENDITURE BY ECONOMIC FUNCTION



Note: No data for Canada, Chile and Mexico. For the United States, data showed in the function “housing and community amenities” include the “environment protection” function data. OECD average is unweighted. The total of public spending is non-consolidated.

Source: OECD elaboration based on OECD (2018^[3]), *OECD Regions and Cities at a Glance 2018*, https://doi.org/10.1787/reg_cit_glance-2018-en

The financing systems for subnational governments vary significantly. Countries can be grouped into four families based on both their degree of subnational spending and their tax level characteristics, which cut across federal versus unitary distinctions. In 2016, taxes represented the number one source of revenues for subnational governments in the OECD on a weighted average (45%), followed by grants and subsidies (37%). The degree of tax revenue is not necessarily an indication of tax autonomy, as some taxes are also shared with the central government. Tax autonomy depends on many factors, including the ability to set or modify tax rates and bases. The same is true for the degree of spending power, as often spending covers delegated functions which are highly constrained by central government regulations and fiscal discipline rules.

TABLE 1. TYPES OF COUNTRIES BY LEVEL OF DECENTRALISATION WHEN MEASURED BY FISCAL INDICATORS

| | |
|---|---|
| High decentralised spending and high tax revenues | Australia, Belgium, Canada, Denmark, Finland, Germany, Japan, Spain, Sweden, Switzerland, United States |
| Medium decentralised spending and medium tax revenues | Czech Republic, France, Iceland, Italy, Latvia, Norway, Poland, Slovenia, Korea |
| Medium decentralised spending and low tax revenues | Austria, Estonia, Mexico, Netherlands, United Kingdom |
| Low decentralised spending and low tax revenues | Chile, Greece, Hungary, Ireland, Israel, Luxembourg, New Zealand, Portugal, Slovak Republic, Turkey |

Sources: Allain-Dupré, D. (2018^[4]), “Assigning responsibilities across levels of government: Trends, challenges and guidelines for policy-makers”, <https://doi.org/10.1787/f0944eae-en>; OECD (2017^[5]), *Subnational Governments in the OECD: Key Data (brochure and database)*, OECD, Paris.

Current trends in decentralisation

Although the measurement of decentralisation is complex, fiscal and institutional indicators converge on the fact that the overall trend has been towards decentralisation, despite some exceptions.

Decentralisation reforms are and have been implemented for a wide variety of political, historical, and economic reasons that vary greatly across countries. Several moves towards decentralisation have been mainly motivated by the quest for more local democratic control, as well as by greater efficiency in public service delivery and accountability for regional and local development policies. Mega-trends such as information revolution, digitalisation, the globalisation of economic activity and urbanisation, also contribute to the stronger role played by subnational governments.

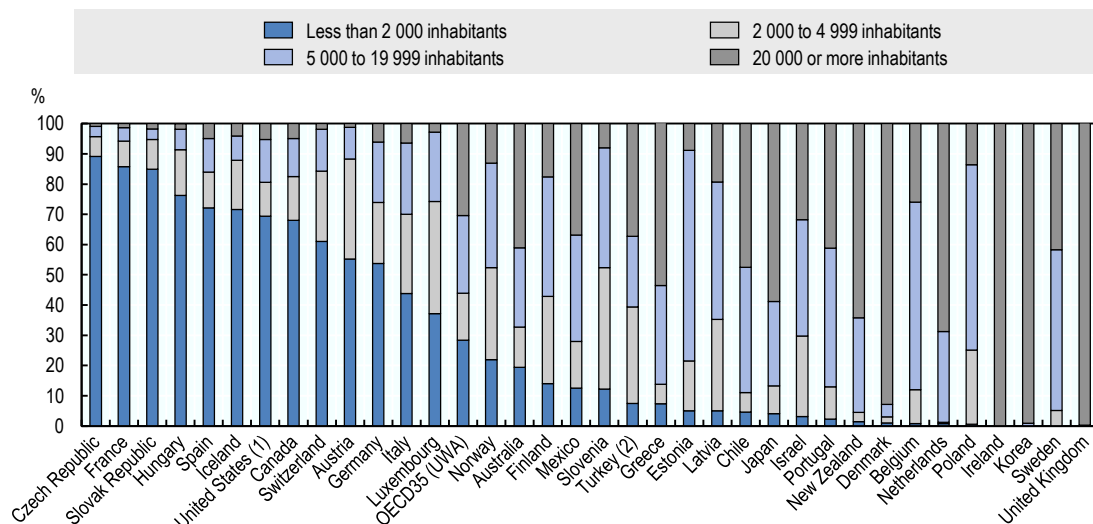
Paths to decentralisation vary considerably across countries, from “big bang” approaches to incremental approaches or “waves” of reform. Engaging in a decentralising reform is ultimately a political issue and thus should be conceived and pursued as part of a broader strategy of territorial development and broader public governance reforms. Decentralisation should also be viewed in a more comprehensive way, including interactions between public entities and private stakeholders, in particular citizens, businesses and non-governmental organisations. Decentralisation reforms are often accompanied by other types of multi-level governance reforms, notably territorial and public management reforms. In all cases, decentralisation systems require regular review and adjustment.

Several complementary trends in decentralisation stand out:

1. **Increased subnational spending and revenues:** Decentralisation processes resulted in an increase in subnational government expenditure, both as a share of GDP and total public spending, in the past decades, in a majority of OECD countries. On the revenue side, tax revenues have slightly increased both as a share of GDP and in total public tax revenues. Subnational spending and revenue have increased – and this was amplified in some countries by the global financial crisis. Although the real spending power of subnational governments is more limited than what financial indicators show, more comprehensive indicators, such as the Regional Authority Index and the Local Autonomy Index, also indicate an increase in the degree of authority of regions and municipalities over the past decades.
2. **Upscale in subnational governance** through municipal co-operation, metropolitan governance and the strengthening of regions (regionalisation):

- **Municipal fragmentation** has been the driver of policies encouraging or imposing amalgamations (Figure 5). It has also motivated policies fostering inter-municipal co-operation as a way of generating economies of scale, efficiency gains and cost savings. Today, inter-municipal co-operation is widespread in the OECD, benefiting rural and metropolitan alike.
- **The number of metropolitan governance authorities of all types created has increased**, in particular since the 1990s. Currently, around two-thirds of the metropolitan areas in the OECD have a metropolitan governance body.
- **The rising role of regions: of the 81 countries covered by the Regional Authority Index, 52 experienced a net increase in the degree of regional authority** and only 9 experienced a net decline (Figure 6). The main objectives of regionalisation reforms are to generate economies of scale in public service provision, for example in the health sector, and public transport sectors. The objectives are also to design and implement integrated regional development strategies that take into account urban-rural linkages. Regionalisation trends increase the need for co-ordination across government tiers and the need for clarification in the assignment of responsibilities, to avoid overlap.

FIGURE 5. MUNICIPALITIES BY POPULATION SIZE CLASS IN THE OECD

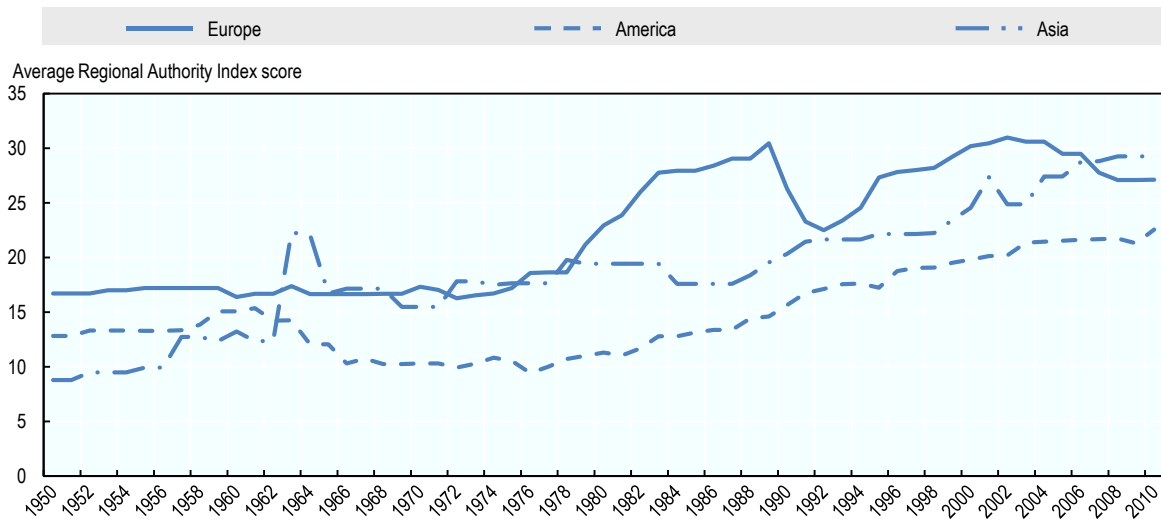


1. Size-classes are slightly different: less than 2 499 inhabitants, 2 500 to 4 999, 5 000 to 24 999, 25 000 or more.

2. Metropolitan municipalities are not included to avoid double counting.

Source: OECD elaboration based on OECD (2018_[2]), *Subnational Governments in OECD Countries: Key Data (brochure and database)*, <http://dx.doi.org/10.1787/region-data-en>.

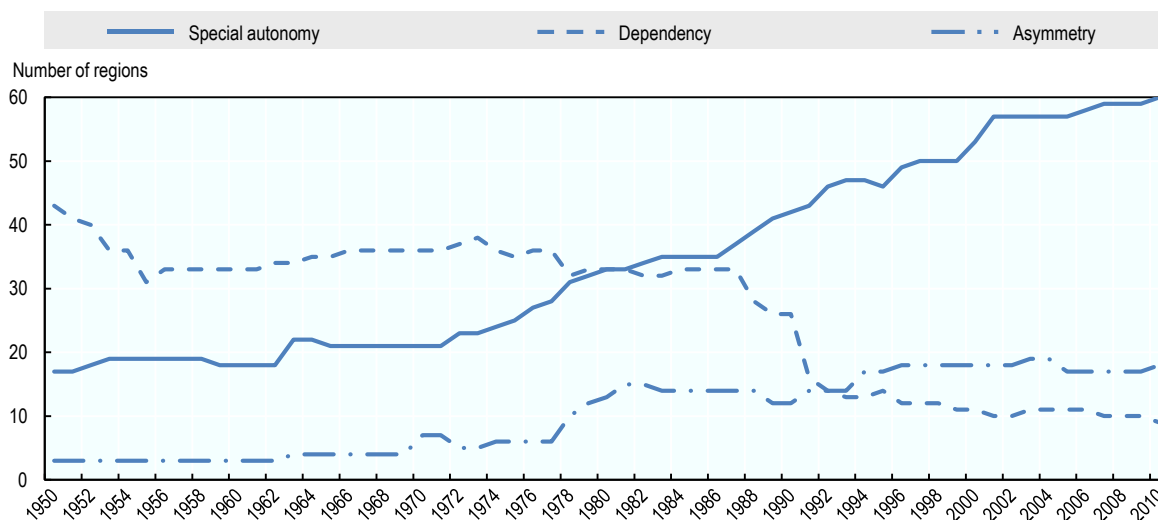
FIGURE 6. REGIONALISATION IN AMERICA, ASIA, AND EUROPE SINCE 1950



Note: Shown are average Regional Authority Index scores for 29 American, 11 Asian and 41 European countries.
Source: Schakel, A. et al. (2018^[6]), *Final Report on Updating the Regional Authority Index (RAI) for Forty-Five Countries (2010-2016)*.

3. **Increased asymmetric decentralisation**, i.e. the fact that governments at the same subnational government level have different political, administrative or fiscal powers. Whereas between the 1950s and the 1970s asymmetric arrangements happened mostly at a regional level, the present trend seems to apply asymmetric decentralisation in major urban areas. While asymmetric decentralisation appears more “natural” in federations, it is increasing in unitary countries, based on new motives. There is thus a greater convergence between unitary and federal countries in differentiated governance at the subnational level. Observed experience indicates that once adopted, asymmetric arrangements are kept on a long-term basis.

FIGURE 7. NUMBER OF SPECIAL AUTONOMOUS REGIONS, DEPENDENCIES AND ASYMMETRIC REGIONS IN 81 COUNTRIES SINCE 1950



Note: Asymmetric and special autonomous regions and dependencies are subject to a different kind of autonomy regime than standard regions. Dependencies are directly ruled by central government and have very limited autonomy. The decline in the number of dependencies is largely based on the change of dependencies into standard regions in South America.
Source: Hooghe, L. et al. (2016^[7]), *Measuring Regional Authority: A Postfunctionalist Theory of Governance*, Oxford University Press, Oxford.

In parallel to these trends affecting subnational governments, the role of central governments has evolved. Being more strategic, this role is focused on setting the conditions for proper co-ordination and alignment of policy objectives, monitoring the performance of regions and cities, and ensuring balanced development of all parts of the national territory, through active regional development policies. Decentralisation reforms involve a shift from a direct role in service delivery to one of enabling, advising and assisting, ensuring consistency, and facilitating the work of subnational governments. This requires building new capacity at central government level, able to cope with these new functions, which cover a large area of sectors. Impacts of decentralisation on the central government are often underestimated. Failing to take full measure of this issue may be detrimental to the reforms, slowing down or modifying the reform process.

Making the most of decentralisation's benefits

The way decentralisation is designed and implemented has a major impact on its associated outcomes. The benefits depend on the system as a whole, including the adequate capacity of subnational governments, accountability of local public decision-making and sound framework conditions.

The benefits and challenges of decentralisation can be direct or indirect. Direct effects result from enhanced allocative efficiency and may include improvements in service levels, quality and efficiency of public services. Indirect effects of decentralisation, such as faster economic growth or better stability of the society, result from direct outcomes of decentralisation such as better education or higher participation in political decision-making. Since the indirect effects of decentralisation are affected by a variety of factors, the role of decentralisation is, of course, harder to separate from other trends and policies.

While country statistics and correlations do not allow for causal conclusions, subnational fiscal power is positively associated with economic activity. In particular, measures such as GDP, public investments made

in physical and human capital and education outcomes show a positive correlation with decentralisation. Revenue decentralisation appears to be more strongly associated with income gains than spending decentralisation. In addition, country examples and empirical research results show that decentralisation can be conducive to public sector efficiency, democratisation and political stability. Decentralisation has the potential to support and expand citizen participation by bringing government closer to citizens and by making government more easily accessible. In certain cases, decentralisation can be a “glue” that holds countries together.

Recent empirical evidence indicates that revenue decentralisation could be associated with smaller regional economic disparities. This could be because own-source revenue may spur growth especially in poorer regions and enhance the convergence process towards the best performing regions. Another potential benefit of decentralisation is the ability to carry out more effective regional development policies, as local and regional actors are better able to design regional policies that respond to local needs. Institutional quality seems to explain part of the story: decentralisation appears to foster convergence when institutional quality is high, while it tends to exacerbate territorial disparities in environments with low institutional quality, fuelling local capture.

Decentralisation may also diminish opportunities for rent-seeking and corruption in public administration. For instance, a larger subnational share of public expenditures has been found to correlate with lower corruption. Again, these results depend on the way decentralisation is designed and implemented. For example, very complicated multilevel governance models with unclear assignments have been found to be more prone to corruption.

Finally, decentralisation may provide a useful way for experimenting with public policies. At best, “learning by doing” processes of decentralised policy innovation can result in important information spillovers from good practices. The “information externalities” created by decentralisation can benefit not just subnational governments themselves but also central government.

Anticipating and minimising the risks

Central/federal governments are responsible for the framework conditions that will determine how decentralisation systems operate. There are some challenges associated with both the design and implementation of decentralisation that need to be carefully addressed.

From a general aspect, decentralisation presents a challenge to subnational governments because it requires certain economic, political and administrative capacities. The lack of sufficient administrative, technical or strategic capacities is probably one of the bigger challenges in the field of decentralisation. Building capacities, including “learning-by-doing”, should be a priority. This takes time and therefore needs a long-term commitment from central and subnational government levels. There are a number of ways to strengthen government capacities at all levels, and the capacity building policies need to be tailored to the various needs of regions. Such policies require the right framework conditions for decentralisation to be in place.

The fiscal dimension is very often the weak or even missing link of decentralisation. One of the most frequent challenges, particularly in developing countries or countries at an early stage of decentralisation, but also in developed countries, is the misalignment between responsibilities allocated to subnational governments and the resources available to them. Unfunded or under-funded mandates – where subnational governments are responsible for providing services or managing policies but without the requisite resources – are common.

A high reliance on central government transfers may also reduce subnational government incentives for responsible fiscal behaviour. Subnational governments need own-source revenues because this contributes to accountability and efficiency of local public service provision. While a general rule for the optimal degree of tax autonomy is difficult to define, local authorities should rely on their own revenues for financing their services at the margin.

Another important challenge of decentralisation is formed by overlapping assignments between levels of government. Lack of clarity in the assignment of responsibilities makes service provision and policymaking costlier; it also contributes to a democratic deficit by creating confusion among citizens regarding which agency or level of government is responsible. Unbalanced decentralisation, where the various policy areas are decentralised in different ways, can also weaken regional development policies.

Decentralisation may result in loss of certain economies of scale and fragmentation of public policies. This could happen especially if subnational governments are unable to co-operate with each other. Determining optimal subnational unit size is a context-specific task; it varies not only by region or country but by policy area, as well. National governments have an important role in establishing legal, regulatory arrangements and incentives to foster co-operation across jurisdictions, in particular within functional regions.

Ten guidelines for effective decentralisation conducive to regional development

The question is not whether decentralisation is good or bad in itself, rather it is a question of the conditions under which decentralisation can promote local democracy, efficient public service delivery and regional development. The policy experiences and research results that have accumulated over the past decades can help policymakers to implement decentralisation reforms in a way that avoids the major pitfalls. When it is properly designed and implemented, there is evidence that decentralisation policies have a number of benefits, from improved subnational public service delivery and greater citizen engagement to reduced corruption and a positive impact on growth.

To support countries in identifying the conditions that help make decentralisation work, the OECD has developed ten guidelines for implementing decentralisation. The guidelines are more than just recommendations. Each section covers the rationale of each guideline, practical guidance, pitfalls to avoid, good practices and a checklist for action, tailored to both federal and unitary countries. They are presented in a summarised version below:

Guideline 1: Clarify the responsibilities assigned to different government levels

- The way responsibilities are shared should be explicit, mutually understood and clear for all actors. Equally important is clarity in the different functions that are assigned within policy areas – financing, regulating, implementing or monitoring.
- Clear assignment is critical for accountability, monitoring and effectiveness of investment and service delivery policies. The more a responsibility area is shared across different government levels, the greater clarity is needed to reduce duplication and overlaps.
- Clarity does not mean that shared responsibilities should be avoided, as this is by definition impossible. It means that the way responsibilities are shared should be explicit, mutually understood and clear for all actors, including citizens
- Since multi-level governance systems are constantly evolving, a periodic review of jurisdictional assignments should be made to ensure flexibility in the system.

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- The way different responsibilities across policy areas are decentralised should be balanced.

Guideline 2: Ensure that all responsibilities are sufficiently funded

- Access to finance should be consistent with functional responsibilities. Division of financing responsibilities should ensure that there are no unfunded or under-funded assignments or mandates.
- The formulae for determining central government transfers, grants and earmarked funds from the centre to lower levels of government should be transparent and non-discretionary.

Guideline 3: Strengthen subnational fiscal autonomy to enhance accountability

- Subnational governments should have a certain degree of autonomy in the design and delivery of their public service responsibilities within the limits set by normative regulations, such as minimum service standards.
- Subnational governments need own-source revenues beyond grants and shared tax revenues – and they need to develop other sources of revenue to have a balanced basket of revenues.

Guideline 4: Support subnational capacity building

- Central government should assess capacity challenges in the different regions on a regular basis. Policies to strengthen capacities should be adapted to the various needs of territories. Governments should seek to reinforce the capacities of public officials and institutions in a systemic approach, rather than adopting a narrow focus on technical assistance.
- Staff training in the basics of local public financial management should be established. Open, competitive hiring and merit-based promotion should be ensured.
- Special public agencies accessible to multiple jurisdictions should be encouraged in areas of needed expertise (e.g. regional development agencies, PPP units).

Guideline 5: Build adequate coordination mechanisms across levels of government

- Since most responsibilities are shared, it is crucial to establish governance mechanisms to manage joint responsibilities. Creating a culture of co-operation and regular communication is essential for effective multilevel governance and successful long-term reform. Tools for vertical co-ordination include for example dialogue platforms, fiscal councils, standing commissions and intergovernmental consultation boards, and contractual arrangements.
- It is important to avoid multiplying co-ordination mechanisms with no clear role in the decision-making process.

Guideline 6: Support cross-jurisdictional cooperation

- Horizontal co-ordination can be carried out using specific matching grants, and by promoting inter-municipal and interregional co-operation. Metropolitan governance should be promoted as well. The legal system at the national level should allow such tools.
- Rural-urban partnerships should be promoted as a form of cross-jurisdiction collaboration to enhance inclusive growth by bringing multiple benefits, such as. expanding the benefits of agglomeration economies, to overcome co-ordination failures and strengthen capacity

Guideline 7: Strengthen innovative and experimental governance, and promote citizens' engagement

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- Citizens should be empowered through access to information. Ensure that elected local councils have the ownership and control of citizen participation and engagement initiatives.
 - Participatory budgeting has the potential to strengthen inclusive governance.

Guideline 8: Allow and make the most of asymmetric decentralisation arrangements

- Asymmetric decentralisation should be supported by effective vertical and horizontal co-ordination mechanisms and needs to go hand in hand with an effective equalisation system.
- An asymmetric decentralisation approach should be based on dialogue, transparency and agreements between all main stakeholders, and be part of a broader strategy of territorial development.
- The way asymmetric responsibilities are allocated should be explicit, mutually understood and clear for all actors. To the greatest extent possible, participation in an asymmetric arrangement should remain voluntary

Guideline 9: Consistently improve transparency, enhance data collection and strengthen performance monitoring.

- National governments should develop performance-monitoring systems to monitor decentralisation and regional development policies: they need to remain simple with a reasonable number of requirements/indicators.
- Higher level governments need to monitor subnational performance in critical service areas based upon a minimum set of standardised indicators and provide timely feedback, as well as benchmark inter-local performance in service delivery.
- Subnational governments need to be subject to higher-level regulations and fiscal rules to ensure fiscal discipline and fiscal sustainability.

Guideline 10: Strengthen fiscal equalisation systems and national regional development policies to reduce territorial disparities

- The equalisation programme must not be looked at in isolation from the broader fiscal system, especially conditional transfers. Equalisation arrangements need to be carefully designed to promote the tax and development efforts of subnational governments. Fiscal equalisation policies need in particular to be accompanied by pro-active regional development policies to offset the potential negative incentives of such systems.

Checklist for policy-makers

Guideline 1. Clarify the responsibilities assigned to different government levels

| Checklist | Yes | Partially | No |
|--|-----|-----------|----|
| Legislative powers of various orders are clearly demarcated by: <ul style="list-style-type: none"> • Constitution • National legislation • Other (executive orders, agreements) • All of the above? | | | |
| For shared functions, is there clarity in the division of powers: <ul style="list-style-type: none"> • Who sets the policy • Who decides on the standards • Who is responsible for oversight • Who is responsible for financing • Who is responsible for service provision • Who produces the service • Who monitors and evaluates service delivery • How do citizens provide feedback | | | |
| For each of the shared functions and sub-functions, are there institutional mechanisms in place for: <ul style="list-style-type: none"> • Consultation/co-ordination • Burden sharing • Conflict resolution | | | |
| Sub-functions within each function are decentralised to a similar extent | | | |
| Subnational governments are empowered to pursue integrated approaches to local economic development | | | |
| There is a separation of decision making for capital and operating expenditures | | | |
| The authority to hire, fire and set terms of reference and day-to-day management/supervision for own employees rests at the same level for each function | | | |
| There a separation of decision making among various levels on planning, policy, finance and provision for each function | | | |

Guideline 2. Ensure that all responsibilities are sufficiently funded

| Checklist | Yes | Partially | No |
|---|-----|-----------|----|
| There are no unfunded mandates <ul style="list-style-type: none"> • At the provincial/regional levels • At the local levels | | | |
| Some subnational governments do not fail to reach service standards | | | |
| There is a large variation in tax bases between subnational governments | | | |
| Equalisation transfers are in place <ul style="list-style-type: none"> • For cost equalisation • For revenue base equalisation | | | |
| The formulae for determining central government transfers, grants and earmarked funds from the centre to lower levels of government are transparent | | | |
| There are tax base sharing options available for residence base personal income taxes and carbon taxes <ul style="list-style-type: none"> • To provincial/regional governments • To local governments | | | |

| Guideline 3. Strengthen subnational fiscal autonomy to enhance accountability | | | |
|---|-----|-----------|----|
| Checklist | Yes | Partially | No |
| On tax bases assigned to them, subnational governments have autonomy to: <ul style="list-style-type: none"> ● Set revenue bases ● Set tax rate ● Be responsible for tax collection ● Set supplementary rates on higher order bases ● Set user charges/fees for own services | | | |
| Subnational government own revenues finance a large share of their expenditures | | | |
| Higher order transfers are mostly: <ul style="list-style-type: none"> ● Formula based ● Unconditional ● Stable ● Predictable | | | |
| Subnational governments have the freedom to access capital market finance: <ul style="list-style-type: none"> ● Borrowing for long term infrastructure projects ● Issue bonds | | | |
| Subnational governments have the autonomy: <ul style="list-style-type: none"> ● To decide on sectoral allocations ● To decide on level and composition of spending on any category of own service ● To set service standards depending on service ● To choose modes of production (outsourcing, own production, co-production) ● To decide on procurement within limits set by central governments ● To decide on local planning taking into account regional and national planning strategies ● To enter into co-operation agreements with governments and beyond governments | | | |

| Guideline 4. Support Subnational Capacity-building | | | |
|--|-----|-----------|----|
| Checklist | Yes | Partially | No |
| Subnational governments have the administrative capacity to: <ul style="list-style-type: none"> ● Prepare physical and financial plans and to evaluate alternative plans ● Develop and implement appropriate policies ● Develop regulatory and legal frameworks ● Develop and manage partnerships ● Co-ordinate the activities of multiple stakeholders ● Prepare own budgets ● Determine revenue requirements for budgetary balance and raise any additional revenues ● Determine own capital financing needs ● Access capital market finance on a need basis ● Determine staffing needs ● Develop a human resource management framework ● Facilitate alternative service delivery mechanisms ● Carry out internal controls and internal audits ● Ensure integrity and transparency of procurement processes ● Carry out periodic evaluation of own programs | | | |
| Subnational governments have the strategic capacity to: <ul style="list-style-type: none"> ● Develop strategic plans for local and regional economic development | | | |

| | | | |
|--|--|--|--|
| <ul style="list-style-type: none"> ● Set realistic objectives and goals | | | |
| <p>Subnational governments have the financial management capacity to:</p> <ul style="list-style-type: none"> ● Decide on better practices for financial accounting and reporting ● Issuing and managing debt | | | |

Guideline 5. Build adequate co-ordination mechanisms across levels of government

| Checklist | Yes | Partially | No |
|---|-----|-----------|----|
| <p>There are formal institutions of vertical co-ordination among national, regional and local governments. If yes, are these mandated by the:</p> <ul style="list-style-type: none"> ● Constitution ● National legislation ● Executive order? | | | |
| <p>The mandates of these institutions are:</p> <ul style="list-style-type: none"> ● Specifically stated ● Broadly specified in terms of objectives <p>There are separate institutions of vertical co-ordination for central and line/sectoral ministries? If yes:</p> <ul style="list-style-type: none"> ● Are there mechanisms for feedback of sectoral ministries into central agency decision making and vice versa? <p>Are these institutions mandated to meet?</p> <ul style="list-style-type: none"> ● On a regular basis ● On a need basis only <p>Are agreements reached at these meeting?</p> <ul style="list-style-type: none"> ● Disseminated to the public ● Monitored for implementation compliance <p>Are the following tools used for facilitating vertical co-ordination?</p> <ul style="list-style-type: none"> ● Conditional transfers ● Partnership agreements ● Formal contracts ● National and regional directives ● Monitoring using indicators for service outcomes ● <i>Ex ante</i> and <i>ex post</i> analysis <p>Does central government have the capacity to set guidelines, monitor the outcomes and alter policies if problems occur?</p> | | | |
| <p>Is higher-level government actively engaged in the co-ordination institutions?</p> | | | |

Guideline 6. Support cross-jurisdictional co-operation

| Checklist | Yes | Partially | No |
|--|-----|-----------|----|
| <p>There are formal institutions of horizontal co-ordination:</p> <ul style="list-style-type: none"> ● Among regions ● Among local/municipal governments <p>There are formal mechanisms or incentives to encourage co-ordinated response. If so, by:</p> <ul style="list-style-type: none"> ● Regions ● Municipalities ● Municipality and its stakeholders (private for profit, non-profit, etc.) | | | |
| <p>The legal system allows co-operation and mergers between subnational governments</p> | | | |
| <p>There is readily available information of externalities and economies of scale in subnational government service provision and investments</p> | | | |
| <p>There is a national reform plan of optimal subnational government structure, and horizontal co-ordination is based on such plan</p> | | | |
| <p>Functional regions are identified and used in investment policy</p> | | | |

| | | | |
|--|--|--|--|
| There are publicly available indicators on public service production, service coverage, needs, quality and efficiency | | | |
| There is a nationwide plan for metropolitan policy, based on functional areas | | | |
| There are regional and national dialogue frameworks in place for metropolitan area development | | | |
| Urban-rural partnerships are enabled | | | |
| Financial support and incentives are established for planning and executing reforms on metropolitan governance | | | |
| Systems are transparent and rules are clearly communicated to citizens | | | |
| Co-operative bodies are led by decision-makers who are elected by local residents or they are otherwise made responsible to residents they serve | | | |
| Efficiency benchmarking is carried out periodically and data of such analysis is openly available | | | |

Guideline 7. Strengthen innovative and experimental governance, and promote citizens' engagement

| Checklist | Yes | Partially | No |
|--|-----|-----------|----|
| Some subnational governments practice participatory budgeting If yes, the process impacts budget priorities and allocation | | | |
| The subnational government uses ICT/e-government tools for: <ul style="list-style-type: none"> ● Measuring and monitoring performance ● Reporting on performance ● Improving access, efficiency and quality of public services ● Enhancing citizens engagement | | | |
| The subnational government strengthens citizen voice, choice and exit options through: <ul style="list-style-type: none"> ● Citizens' charter ● Service standards ● Annual performance report ● External performance audits ● All decisions including procurement, costs of concessions posted on the web ● Citizens friendly output budgets and service delivery performance report ● Open public hearing | | | |
| Subnational governments engage citizens for: <ul style="list-style-type: none"> ● Consensus building dialogues and conferences ● Deliberative mapping of policy and program options ● Deliberative polling on issues ● Deliberative (focus groups) meetings on public policy issues ● Uses electronic/digital media for engagement ● Meetings on vision for the future or to discuss a specific theme ● Participatory appraisal ● Participatory strategic planning ● Service users' panels for service evaluations ● Youth empowerment ● Convene a citizens' jury/panel to consult or to pass judgement on local services ● Form and convene networks of local beyond government service providers | | | |

| Guideline 8. Allow and make the most of asymmetric decentralisation arrangements | | | |
|--|-----|-----------|----|
| Checklist | Yes | Partially | No |
| The type of asymmetric decentralisation is well defined (administrative, fiscal, political) | | | |
| The scale of asymmetric decentralisation is clear (regional, metropolitan, local levels) | | | |
| The number and types of asymmetric arrangements/instruments remain limited | | | |
| The way delegated responsibilities are allocated to specific subnational governments is clear and explicit | | | |
| There are vertical co-ordination mechanisms in place | | | |
| There are horizontal co-ordination mechanisms in place | | | |
| An equalisation system is in place | | | |
| There are incentives to foster the participation subnational governments (SNGs) in asymmetric arrangements schemes | | | |
| The participation of SNGs in asymmetric arrangements schemes remains voluntary | | | |
| There is a well-defined and transparent approval system for prospective subnational governments | | | |

| Guideline 9. Consistently improve transparency, enhance data collection and strengthen performance monitoring | | | |
|--|-----|-----------|----|
| Checklist | Yes | Partially | No |
| Subnational governments publish timely data on key performance indicators for its major public services | | | |
| Subnational governments maintain an open website to register complaints | | | |
| Subnational governments pro-actively disseminate performance information and seeks citizens' feedback | | | |
| The freedom of information legislation is guided by the principle of maximum disclosure – all information is accessible subject only to a narrow set of exceptions | | | |
| The principle of maximum disclosure takes precedence in the event of conflict with other legislation | | | |
| Exceptions are clearly and narrowly defined | | | |
| Public entities are required to publish key information needed to assess integrity, efficiency and equity of their operations | | | |
| Requests for information are processed rapidly within defined time frame | | | |
| The costs of requesting information are reasonable and affordable by an average citizen | | | |
| Meetings of government entities are open to public and media | | | |
| Individuals who release information on abuse of public office or other malfeasance are protected | | | |
| Subnational government performance indicators are used | | | |
| Subnational governments work through competitive provision, results-based management and benchmarking | | | |

| Guideline 10. Strengthen national regional development policies and equalisation systems to reduce territorial disparities | | | |
|---|-----|-----------|----|
| Checklist | Yes | Partially | No |
| Active regional development policies are in place to support the development of lagging regions as a complement to equalisation policies | | | |
| The objectives and fundamental principles of fiscal equalisation are clearly defined. If so, by: <ul style="list-style-type: none"> • Constitution | | | |

| | | | |
|--|--|--|--|
| <ul style="list-style-type: none"> • National law • Executive order/regulations | | | |
| The legislation defines the type of programme | | | |
| <p>The programme is intended to be:</p> <ul style="list-style-type: none"> • Gross equalisation (national transfers to have-not jurisdiction but no explicit equalisation tax on richer jurisdictions) • Net equalisation (fiscal capacity of poorer jurisdictions is upgraded while richer jurisdictions are downgraded) • Mixed | | | |
| <p>Total pool of transfer funds is determined</p> <ul style="list-style-type: none"> • By equalisation standard • Arbitrary | | | |
| <p>Fiscal capacity is equalised</p> <ul style="list-style-type: none"> • Potential per capita revenue from each base • Actual per capita revenues • By macro indicators | | | |
| <p>Fiscal need is determined</p> <ul style="list-style-type: none"> • Considered as equal per capita • Ad hoc determination • Regression based approaches | | | |
| <p>The overall complexity of the programme is perceived as:</p> <ul style="list-style-type: none"> • High complexity • Medium complexity • Low complexity | | | |
| There is a sunset clause | | | |
| There is a stability clause | | | |
| There are ceilings and floors to circumvent large yearly fluctuations in entitlements | | | |
| <p>Who recommends the formula?</p> <ul style="list-style-type: none"> • Independent grant commission or similar body • Ministry in charge | | | |

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