



Pilot Database on Regional Government Finance and Investment: Key findings

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■ Background information

The OECD has developed a new international pilot database on Regional Government Finance and Investment (REGOFI). Publicly available on OECD.stats (Regional section), this database provides reliable, standardised and comparable data on regional government finance across the European Union and the OECD countries. Data on expenditure, investment, revenue and debt for the regional government level have been collected for 24 OECD and EU countries, covering the 2010-16 period. The database is accompanied by a technical report which is presented below. The report presents key findings from the Pilot database. The report and database were presented on 22 November 2019 to the Delegates of the Regional Development Policy Committee, and approved on 19 December 2019. This project has been supported by DG for Regional and Urban Policy, of the European Commission.

■ Acknowledgements

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Table of contents

Table of contents	5
Executive summary	7
Introduction	9
PART I. Inside the REGOFI database and working method	11
<u>1</u> Coverage of the REGOFI Database	12
1.1. Which countries are included in the REGOFI database?	12
1.2. Regional governments in the OECD and EU are very diverse	13
<u>2</u> Working method	25
2.1. Three major steps to carry out the study work	25
2.2. Socio-economic and fiscal indicators	28
2.3. Scope of government fiscal data, measures and time series	29
PART II. Trends in regional government public finance 2010-2016	32
<u>1</u> Regional government expenditure and investment	33
1.1. Regional government expenditure	33
1.2. Regional government investment	44
<u>2</u> Regional government revenue	50
2.1. Regional government revenue	50
2.2. Focus on regional tax revenue	56
<u>3</u> Regional government debt	64
3.1. Regional debt is very uneven across countries, in particular between federal and unitary countries	64
3.2. The composition of regional government debt	69
References	78
FIGURES	
Figure 1.1. The demographic and geographic size of regional governments (2018)	14
Figure 2.1. Methodology: three different steps for two main outcomes	26
Figure 2.2. REGOFI database	28

Figure 1.1. Regional government expenditure as a % of GDP and a % of total public expenditure (2016)	34
Figure 1.2. Regional government expenditure in USD PPP per capita (2016)	36
Figure 1.3. Regional government expenditure as a % of GDP and total public expenditure between 2010 and 2016 (change in percentage points)	37
Figure 1.4. Regional government expenditure as a % of SNG expenditure (2016)	38
Figure 1.5. Breakdown of regional government expenditure by economic classification (2016, % of regional government expenditure)	40
Figure 1.6. Regional government expenditure by functional classification (unweighted average, 2016)	41
Figure 1.7. Breakdown of regional government expenditure by functional classification, COFOG (2016)	43
Figure 1.8. Regional government investment as a % of GDP and a % of public investment (2016)	44
Figure 1.9. Regional government investment in USD PPP per capita (2016)	45
Figure 1.10. Regional government investment as a % of SNG investment (2016)	46
Figure 1.11. Regional government investment as a share of GDP and public investment, between 2010 and 2016 (change in percentage points)	47
Figure 1.12. Regional government investment by functional classification (2016)	48
Figure 1.13. Share of regional government investment dedicated to economic affairs in selected countries (2010-2016)	49
Figure 2.1. Regional government revenue as a % of GDP and a % of total public revenue (2016)	50
Figure 2.2. Regional government revenue in USD PPP per capita (2016)	51
Figure 2.3. Regional government revenue as a share of GDP and total public revenue between 2010 and 2016 (change in percentage points)	52
Figure 2.4. Regional government revenue as a % of SNG revenue (2016)	53
Figure 2.5. Breakdown of regional government revenue by type (2016)	55
Figure 2.6. Regional government tax revenue as a % of GDP and a % of general government tax revenue (2016)	56
Figure 2.7. Regional government tax revenue in USD PPP per capita (2016)	61
Figure 2.8. Regional government tax revenue as a % of SNG tax revenue (2016)	62
Figure 2.9. Regional government tax revenue as a share of GDP and total public tax revenue between 2010 and 2016 (change in percentage points)	63
Figure 3.1. Regional government debt as a % of GDP and a % of total public debt (2016)	65
Figure 3.2. Regional government debt in USD PPP per capita (2016)	66
Figure 3.3. Regional government debt as a % of GDP and a % of public debt (change in percentage points, 2010-16)	68
Figure 3.4. Regional government debt as a % of SNG debt (2016)	69
Figure 3.5. Breakdown of regional government debt by categories in selected countries (2016)	70

TABLES

Table 1.1. Regional governance structures in OECD and EU countries	16
Table 1.2. Breakdown of responsibilities across SNG levels: a general scheme	19
Table 2.1. Sources of fiscal data on Regional Government accounts	26
Table 2.2. Main fiscal indicators	29

Executive summary¹

The Regional Government Finance and Investment Database (REGOFI) provides comparative data on regional government accounts in 24 countries, covering a total of 494 regional governments in the OECD and the European Union. Data are accessible online² and include standardised indicators on regional government expenditure, revenue, investment, and debt, over the period 2010-16.

Regional government structures in the OECD and the EU

- Regionalisation is an increasing trend in the EU and OECD. It is associated with the need to coordinate place-based policies adapted to the specific conditions of regions and to generate economies of scale in the provision of public services.
- The REGOFI database includes data on regional governments only, i.e. regional bodies governed by elected political bodies, and having their own budget, assets, administrative staff and decision-making power to carry out their responsibilities. The term “regional government” encompasses both state government in federal and quasi-federal countries (9 in the database) and decentralised regional level in unitary countries (15 countries).
- Regional governance structures are very diverse across countries, depending first on the form of the State (federal vs unitary). Asymmetric regionalisation is on the rise, both in federal and unitary countries.
- In federal countries, state governments generally have extensive responsibilities in key areas such as education, social protection, economic development, transport, environment, and housing. In unitary countries, regions tend to have “specialised responsibilities” related to the provision of services of regional interests, such as secondary education and vocational training, regional spatial planning and economic development, secondary healthcare, and regional public transport.
- The extent and type of regional responsibilities also depend on the existence of a regional deconcentrated level, in parallel to the regional decentralised level. In many countries, numerous responsibilities are shared between regions and central/federal government and between regions and lower levels of governments, calling for effective multi-level governance arrangements.
- The regional government landscape is not static but continuously evolving under the effects of institutional (decentralisation and recentralisation) and territorial reforms (regional mergers).

Regional government expenditure and investment

- Regional governments play a significant role in public expenditure, accounting for 7.6% of GDP and nearly 19% of public expenditure in 2016³, amounting to USD 3 442 per capita. Regional governments accounted for 41% of subnational government expenditure. There are great discrepancies between federal and unitary countries and across all countries in general. In federal countries, regional governments carry 69% of subnational government expenditure while they account for around 25% of subnational expenditure in unitary countries.

¹ This project was funded by the European Commission.

² The REGOFI database is publicly available on OECD.stats.

³ All averages are unweighted, unless otherwise specified.

- Changes in spending ratios between 2010 and 2016 were heterogeneous across countries, reflecting the differentiated impacts of the crisis (consolidation) and decentralisation (increase in spending responsibilities).
- Staff expenditure is the biggest expenditure item of regional governments (28%), followed closely by the purchase of goods and services (21%), and subsidies and current transfers (18%).
- Regional governments spend primarily on education (23%), economic affairs (20%), social protection and general public services (both 16%). In federal countries, education, social protection and health are the main spending areas, while in unitary countries, a large share of regional spending goes to economic affairs, education, and general public services.
- In 2016, regional government investment accounted for 22.4% of total public investment, 0.7% of GDP and around 35% of subnational government investment. The share of regional government investment in GDP decreased on average over the period 2010-16 under the effects of the crisis, but it increased in Belgium, Germany, Sweden and Denmark. In 2016, regional governments primarily invested in the sector of economic affairs (26%), including investments in transport, economic development, energy and construction. This sector represents more than half of regional investment in Norway and Australia.

Regional government revenue

- In 2016, regional government revenue represented 7.6% of GDP and 19.3% of public revenue, amounting on average to USD 3 462 per capita, with strong variations between federal and unitary countries and across countries. Belgium and Norway experienced the highest growth of regional government revenue as a share of public revenue and GDP between 2010 and 2016. On the contrary, Turkey and Croatia experienced the greatest drops in those same ratios.
- In 2016, regional government revenue accounted for 41.1% of SNG revenue but 69.2% in federal countries vs 23.0% in unitary countries.
- Regional governments are funded primarily by grants and subsidies (50%), and tax revenue (35%). Tariffs and fees represent only 8% of regional government revenue, while property income and other income represented 4% and 3%. It is interesting to note that there is no large difference between the group of federal countries and that of unitary countries. Main discrepancies are at the country level. In some countries regions are funded mainly through grants while in other countries regions are mainly funded by taxes (shared or own-source taxation).
- Taxes are the main source of regional government revenue in Sweden, Germany, France, Canada and Switzerland. On the other hand, regional governments in Turkey, Denmark and the Slovak Republic do not receive tax revenues and are almost exclusively funded by grants and subsidies.

Regional government debt

- Regional government outstanding debt accounts for 11.7% of GDP and 13.2% of total public debt in 2016, representing USD 5 474 per capita. It represented around 41% of subnational government debt in 2016.
- Regional government debt is very uneven between federal countries and unitary countries and across countries. In federal countries, regional government debt accounted for 25.8% of public debt and 23.4% of GDP in 2016, compared to respectively 2.1% of public debt and 1.4% of GDP in unitary countries.
- Over the period 2010-16, the weight of state/regional debt in total public debt increased the most in Switzerland, Canada, Spain and, to a lesser extent, Norway, Belgium and Sweden.
- Debt securities make up the bulk of regional government debt in Canada and in Germany, whereas loans are the most notable debt component at the regional level in Austria, Belgium, Poland and Spain.

Introduction

The trend towards regionalisation

Regionalisation reforms have been an important trend in multi-level governance in recent decades in Europe, but also in other regions of the world, in particular Asia, America and to a lesser extent Africa (OECD/UCLG, 2019^[1]). This phenomenon is closely associated with the need to co-ordinate place-based policies adapted to the specific conditions of regions and to generate economies of scale in the provision of public services (OECD, 2019^[2]). The Regional Authority Index (RAI), which measures the degree of power of regional authorities across 10 dimensions in 81 countries, confirms this trend at the global level in the longer term. Out of these 81 countries, it shows that 52 countries have experienced a net increase in the degree of regional authority since the 1970s. The average RAI-score has increased considerably in recent decades: between 1970 and 2010, the index value increased from 10.3 to 22.6 in America, from 15.5 to 29.3 in Asia, and from 17.3 to 27.1 in Europe (Hooghe, Marks and Schakel, 2009^[3]; Hooghe et al., 2016^[4]).

Regionalisation has taken many forms, from regional deconcentration of state administration to strong regional autonomy- In between these two extremes, there is regionalisation through inter-municipal co-operation and “regional decentralisation” i.e. the creation of new elected administrative regions but also the empowerment of existing ones through the assignment of new spending responsibilities, especially in economic development (OECD, 2017^[5]).

Such regionalisation reforms have been particularly important in Europe, under the influence of the European Union and cohesion policy. Today, all these different forms of regionalisation, from the softer to the stronger form, are present, and may also coexist (e.g. deconcentrated and decentralised regionalisation). There is however a general trend towards more decentralised regionalisation in Europe with the creation of a level of elected administrative regions in several countries, notably in Central and Eastern European countries as well as the strengthening of existing regions, which have gained more powers and spending responsibilities. These changes have been associated with reforms of subnational finance systems, in an effort to provide adequate fiscal capacities to bear these additional powers and responsibilities.

The global financial crisis, and the fiscal consolidation measures that followed have had a strong impact on the regionalisation process. In some cases, it has led to reinforcing the regional level such as in Greece. In other cases, it has led to a reverse trend in some countries, with a reduction of the role of the regions. In several instances, regional reforms have evolved towards the up-scaling of existing regions, or an attempt to merge regions.

There are few comparative data on regional governments at the international level

While it is important to be able to better understand these regionalisation trends, assess the contribution of regional governments to regional development potential and measure fiscal regional disparities across OECD and EU countries, there is a significant data gap. Fiscal data related to regional governments are particularly lacking. This constrains cross-country analyses and policy discussions/decision-making on the fiscal side of regionalisation policies. It is also straining the fiscal sustainability of regional governments, even as regional governments continue to take on greater responsibility regarding general government policies and budgets.

The OECD has developed subnational government finance databases at OECD, EU and global levels⁴, which provide subnational government information on an aggregate basis. Until now, there had been no disaggregated data for the different levels of subnational government (municipal, intermediary and regional) based on the system of national accounts data harmonised according to international standards (SNA 2008 or ESA 2010). It is only possible to collect data for the state level in federal countries. In unitary countries with multiple subnational layers, there is no distinction within the so-called “local government” sub-sector, which encompasses data for regional, intermediary and municipalities. As a result, comparative data on regional government accounts are limited to federal countries, excluding unitary countries from comparative analysis.

Building a pilot database on regional governance finance and investment to close the gap and going more “micro”

To carry out international comparative analysis of regional government finance, it is thus necessary to build an ad hoc database by collecting data at the national level and aggregating them in an international database, according to a common methodological framework.

The Regional Government Finance and Investment Database (REGOFI) is a unique attempt to provide comparative data on regional government accounts in EU and OECD countries. It is still a pilot exercise, as there are still some countries that are missing and some methodological issues as described below. The database includes data for 24 EU and OECD countries that have a state or regional government level. Relying on the adopted standards of the SNA, the database provides time-series information on regional government expenditure, revenue, investment and debt over 2010-2016.

This project is complementary with another project launched by the OECD, which focuses on spending indicators to assess municipal decision-making authority and measure decentralisation at the municipal level, in particular on the expenditure side in the unitary European Union and OECD member countries.

This pilot database is the first step. Data collection will need to continue to expand to cover subsequent years, increase country coverage, and improve the methodology. One major improvement will be also to go more micro by collecting disaggregated data for individual regional governments.

The report comprises two main parts.

- The first part describes the coverage of the REGOFI database and the methodology that has been used to build the database. It also includes an overview of the regional government diversity in the OECD and EU in terms of demographic and geographic size, governance structure and responsibilities, among others.
- The second part provides an overview of the current state of, and trends in, regional government finance across the EU and the OECD including data on expenditure, investment, revenue and debt.

⁴ OECD database and brochure “Subnational governments in OECD countries: key data; database accessible at <http://dx.doi.org/10.1787/region-data-en>

OECD “Key Data on Local and Regional Governments in the European Union”

OECD-UCLG World Observatory of Subnational Government Finance and Investment (SNG-WOFI). The database is accessible at the address: www.sng-wofi.org

PART I. Inside the REGOFI database and working method

The Regional Government Finance and Investment Database is a unique attempt to collect and analyse data on regional government finance at an international level. It gathers data for 24 countries and 494 regional governments, out of a total of 567 regional governments in the OECD and the EU.

The section below first describes the coverage of the REGOFI database. By examining their specificities in terms of size, governance structure and responsibilities, the database highlights the characteristics of regional governments in the EU and the OECD. Many of these regional governments share common responsibilities with the central and local government levels. The section also addresses the evolution of the regional government landscape, which continues to evolve under the effects of institutional and territorial reforms.

The second section details the working method, describing the different steps that have been necessary to build the database, including the identification of sources for data collection, the selection of indicators, the design of standardised grids for data entry, and the creation of the online database on OECD.stat, using OECD statistical tools. It then focuses on the definition of indicators, including both basic socio-economic indicators and fiscal indicators. Finally, the section provides methodological indications to better grasp the scope of fiscal government statistics and measures referred to in this analysis.

1 Coverage of the REGOFI Database

The Regional Government Finance and Investment Database covers a total of 24 countries. Out of those 24 countries, nine are federal and quasi-federal and 15 are unitary. It includes 22 OECD countries and two non-OECD countries (Romania and Croatia), both members of the European Union. Overall, the REGOFI database includes 15 EU member countries and nine OECD non-EU member countries.

1.1. Which countries are included in the REGOFI database?

Countries that are included in the REGOFI database are countries that have a level of elected administrative regions that covers the entire national territory. It means that they are a legal entity elected by universal suffrage. They are governed by political bodies, including a deliberative assembly and an executive body. They have their own budget and assets, administrative staff and decision-making power to carry out their responsibilities, which have been transferred to them or which are determined by the Constitution. Depending on the national regulatory framework, regional governments can raise own-source revenues, such as taxes, fees and user charges, incur liabilities by borrowing on their own or engage in financial transactions.

The term “regional government”, which is used in the report, encompasses both federated regional level (or “state government”) in federal and quasi-federal countries and decentralised regional level (province, county, regions, etc.) in unitary countries.

This definition explains why some countries are not included in the database such as Chile, where, despite the current regionalisation process, regional executive bodies are still not elected by universal suffrage and cannot be considered autonomous bodies yet.

It also explains why countries, such as Finland and Portugal, are not included in the database. In these countries, there are some autonomous regions but they cover only part of the territory and have a special ad hoc status due to their geographical, culture and historical specificities (Aland region in Finland, and the two outermost regions of Madeira and Azores in overseas Portugal).

The United Kingdom is also a particular – and unique – case among OECD members. The regional level includes Northern Ireland, Scotland and Wales as “devolved nations” with their own national executive and legislative bodies, their own government, budget, staff and assets, yet they are neither “state” governments as in a federal context nor “regional” governments as in a unitary one. Furthermore, their accounts are included in the central government sector of the United Kingdom’s national accounts system.

As a result of this strict definition, the database does not include other types of regional entities, such as deconcentrated state regional administration, regional co-operation structures or pure statistical regions (Box 1.1).

Overall, REGOFI covers a total of 494 regional governments, compared to a total of 567 for all OECD and EU countries (Table 1.1). Hungary and Greece are not included in the database because the study team was not able to find disaggregated fiscal data for regional governments.

Box 1.1. Regional entities excluded from the database

“Deconcentrated regions” or regional state administrations are not included in the database because they are not elected but are central government units, i.e. a hierarchical part of the national administration but based in the region. They carry out tasks that are delegated by the central government and can also provide national public services at the regional level. They are not legal entities or corporate bodies and therefore, they do not have their own political leadership and own decision-making power. They do not have their own budgets (which are included in the national budget), do not raise own revenues and their staff is part of the national civil service.

In the same vein, the database does not include regional bodies that are established for managing or co-ordinating specific issues such as regional councils set up for the management of EU funds (e.g. regional development councils in Lithuania), regional bodies that are inter-municipal co-operation structures (e.g. current regional councils in Finland, which are statutory joint municipal authorities established at a regional scale).

Finally, it does not include regions that are established for statistical or electoral purposes only with no governance structure at all.

Source: (OECD, 2018b^[6])

1.2. Regional governments in the OECD and EU are very diverse

Regional governments in the OECD and EU are very diverse in terms of demographic and geographic size, governance structure, responsibilities and financial arrangements, among others (Table 1.1).

Regional characteristics differ markedly from one country to another but also within countries. In fact, several countries have asymmetric regionalised governance systems such as Spain, Italy, France, Australia, Canada, etc. (OECD, 2019^[2]; OECD, 2018c^[7]).

Demographic and geographic sizes of regional governments are very heterogeneous across and within countries

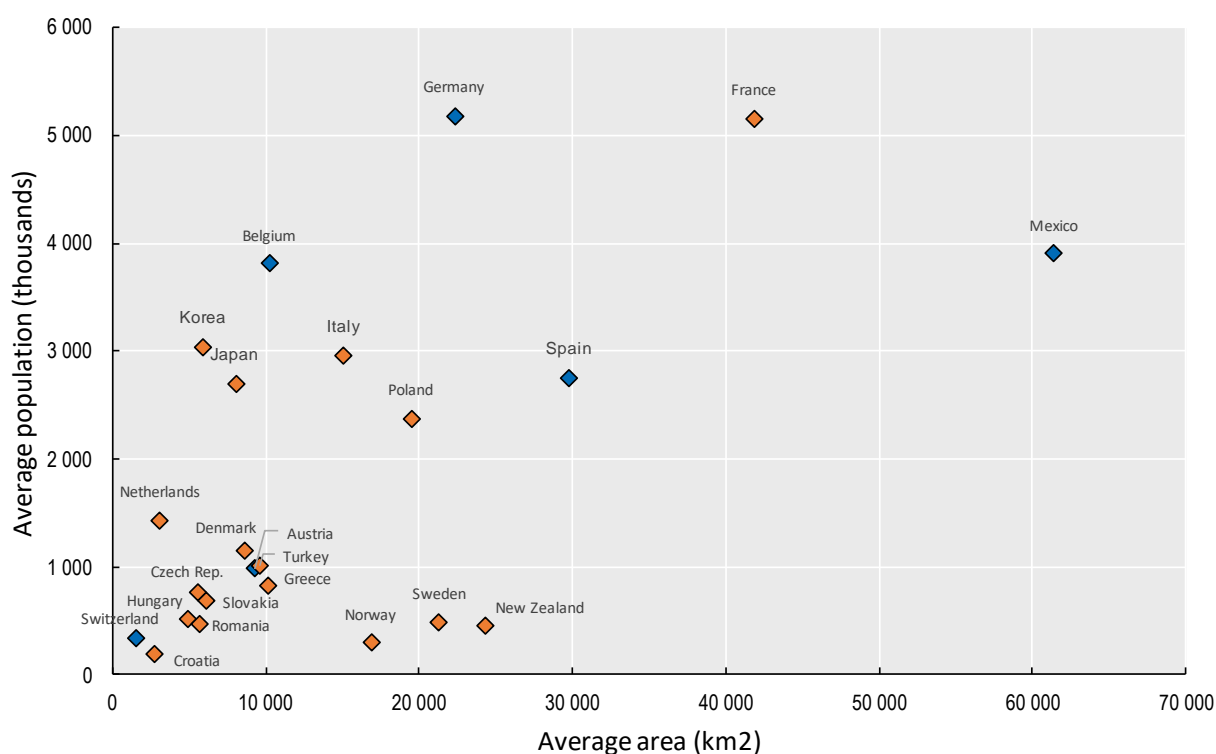
There is no norm or ideal size for regional governments in terms of area or population. As shown in Figure 1.1, there is a great diversity of geographic or demographic regional sizes in the OECD and EU, even across federal countries: regions are large and populated in the United States; large but moderately populated in Australia and Canada; populated but small in Germany and Belgium; and small both in terms of area and population in Austria and Switzerland.

Among unitary countries, the largest regions in terms of population and area are found in France (since the 2015 regional reform). Regions in Korea, Japan, Italy, and Poland have an average population of between 2.4 and 3 million inhabitants. Spain, a quasi-federation, is close to this group. Regions in Norway, Sweden, and New Zealand have less than 500 000 inhabitants on average but their size exceeds 15 000 km². The smallest and least populated regions are found in Croatia, Romania, Hungary, Slovak Republic, and the Czech Republic.

These regional averages conceal, however, great discrepancies between regions within countries, especially when regions correspond to metropolitan areas. Metropolitan regions are often the smallest regions of each country in terms of area while being the most populated (Vienna, German city-states, Zagreb, Bucharest, Budapest, Prague, Oslo, etc.).

In 13 countries included in the database, regional government boundaries correspond to the territorial unit for statistics of level 2 i.e. TL2 in the OECD (NUTS2 and NUTS in the European Union). In 10 other countries, the regional government level corresponds to the statistical territorial level 3. These 10 countries are all unitary countries, except one, Switzerland. In New Zealand, regional councils belong either to level 2 or level 3, depending on their size (Table 1.1)

Figure 1.1. The demographic and geographic size of regional governments (2018)



Note: United States, Australia, and Canada are not shown on the graph because of the large average size of state governments: in 2018, around 197 000 km² and 6.550 million inhabitants; Canada: 768 0000 km² and 2.850 million inhabitants; Australia: 967 650 km² and 3.125 million inhabitants. In Turkey, regional average sizes include the special administration provinces and the provincial metropolitan cities. The regional average size in France does not include the five overseas regions.

Blue markers: federal countries; Orange markers: unitary countries

Source: OECD calculations based on (OECD, 2019b^[8]) and (OECD, 2019c^[9])

Regional governance structures are diverse, depending first on the form of the State

The first main differentiating factor between “regional governments” is the form of the national State, i.e. if they belong to a federal country or a unitary one (OECD, 2017^[5]; OECD, 2019^[2]).

In federal countries, sovereignty is shared between the federal government and the federated states, which have their own constitution in most cases (e.g. Canada is an exception), parliament and government. The self-governing status of the states may not be altered by a unilateral decision of the federal government. Powers and responsibilities are assigned to the federal government and the state government either by the provision of a constitution or by judicial interpretation. In general, federal governments have exclusive and listed responsibilities while federated states have extensive competencies. However, it is not the case in every federation. In Austria, according to the Constitution, large exclusive competencies are assigned to the federal government (public security, taxes, civil and penal law, industrial affairs, education, and

healthcare) and the residual ones are assigned to the *Länder* (spatial planning, environment, agriculture, emergency service, and local police, municipal affairs, etc.). In all OECD federal countries, local governments are governed by the states, and not by the federal government. Spain is a special case. Spain is constitutionally a unitary state but it can be considered a “quasi-federal” country, with powerful Autonomous Communities that have, however, less room for manoeuvre than in federations, in particular for governing provinces and municipalities.

Unitary countries are governed as a single power in which the central government is ultimately supreme. They are “one and indivisible” entities, and sovereignty is not shared. Citizens are subject to the same unique power across the national territory. This does not preclude the existence of regional and local governments, which can be elected directly by the population and have some political and administrative autonomy. Yet subnational governments only exercise the powers that the central government chooses to delegate or devolve to them. Governance structures are based on a directly elected deliberative body (regional assembly or council) and an executive body, which can be elected by the regional council by and from among its members or which can be elected by direct universal suffrage. Some unitary countries even recognise autonomous regions that have more powers than the other regions because of geographical, historical, cultural or linguistic reasons, such as in Finland, France and Portugal.

While local governments are governed by state governments in federal countries (see above), in most unitary states, there is no hierarchical link between regions and other local governments. However, there are some exceptions. In Romania for example, while, in principle, counties and local councils have no hierarchical link between them, counties co-ordinate the activities of communal, town and municipal councils. In the Netherlands, provinces are in charge of administrative and financial supervision of municipalities and water boards, and play a key role in vertical co-ordination.

Table 1.1. Regional governance structures in OECD and EU countries

	# of SNG layers	# of regions	Detailed names	Territorial Units for Statistics
9 federal and quasi-federal countries (included in REGOFI database)				
Australia	2	8	6 states and 2 federal territories	TL2
Austria	2	9	9 states (<i>bundeslander</i>) including Vienna ⁵	TL2
Belgium	3	6	3 regions (<i>régions, gewesten</i>) and 3 communities (<i>communautés, gemeenschappen</i>) ⁶	TL2
Canada	2	13	10 autonomous provinces and 3 territories	TL2
Germany	3	16	16 states (<i>länder</i>)	TL2
Mexico	2	32	32 states (<i>estados</i>)	TL2
Spain (quasi-federal)	3	17	17 Autonomous Communities (<i>comunidades autonomas</i>)	TL2
Switzerland	2	26	26 states (<i>canton, kanton, cantone</i>)	TL3
United States	3	50	50 states	TL2
<i>Sub-total</i>		177	177	
15 unitary countries (included in the REGOFI database)				
Croatia	2	21	20 counties (<i>zupanije</i>) and the Capital city (<i>grad</i>) ⁷	TL3
Czech Republic	2	14	13 regions (<i>krai</i>) + Prague	TL3
Denmark	2	5	5 regions (<i>regioner</i>)	TL2
France	3	18	18 regions (<i>régions</i>)	TL2
Italy	2	20	20 regions (<i>regioni</i>)	TL2
Japan	2	47	47 prefectures (<i>todofuken</i>)	TL3
Korea	2	17	17 regional entities of various forms	TL3
Netherlands	2	12	12 provinces (<i>provincies</i>)	TL2
New Zealand	2	11	11 regional councils	TL2/TL3

⁵ Regional accounts include data for eight states, and do not include Vienna, which has a dual status of both a state and a municipality.

⁶ Regional accounts include data for the six federated states and their related entities.

⁷ Data for Croatia only comprise counties, including the county of Zagreb. The City of Zagreb is not included in the database.

Norway	2	19	18 counties (<i>fylker</i>) + Oslo ⁸	TL3
Poland	3	16	16 regions (<i>województwo</i>)	TL2
Romania	2	42	41 counties (<i>judete</i>) + Bucharest ⁹	TL3
Slovak Republic	2	8	8 regions (<i>samosprávne kraje</i>)	TL3
Sweden	2	21	21 county counties / regions (<i>landsting</i>), including Gotland Island	TL3
Turkey	2	81	51 Special Provincial Administrations (SPAs) and 30 Provincial Metropolitan Municipalities (PMMs) ¹⁰	TL3
<i>Sub-total</i>		351	351	
Total		528¹¹	528	
5 countries (not included in the REGOFI database)				
Finland	1	1	1 autonomous county of Åland	TL2/TL3
Greece	2	13	13 regions (<i>periphéria</i>)	TL2
Hungary	2	20	19 counties (<i>megyék</i>) and Budapest	TL3
Portugal	1	2	2 autonomous regions (<i>regiões autónomas</i>)	TL2
United Kingdom	3	3	3 devolved nations	TL2
<i>Sub-total</i>		39	39	
Total		567	567	

Source: (OECD/UCLG, 2019^[1])

⁸ Oslo is both a municipality and a county at the same time. Oslo carries out both municipal and regional responsibilities. However, Oslo is not included in the regional government accounts. As a result, fiscal indicators for the regional level are underestimated. On the other hand, including Oslo would also overestimate regional accounts, as it would include data related to municipal activities of Oslo as a city.

⁹ Bucharest has a special dual status of municipality and county but is not included in the regional accounts. As a result, fiscal indicators for the regional level are underestimated.

¹⁰ The 30 Provincial Metropolitan Municipalities (PMMs), composed of the metropolitan municipality and its constituent district municipalities, are not included in the regional government accounts.

¹¹ Out of these 528 regional governments, 34 are excluded from the regional government accounts, and therefore not included in the database. They comprise the 30 Provincial Metropolitan Municipalities and the four capital cities that have a dual status as a municipality and region (Bucharest, Zagreb, Vienna and Oslo),

Asymmetric regionalisation is growing

Asymmetric regionalisation means regions within the same country have different political, administrative or fiscal powers. There is a greater convergence between unitary and federal countries towards greater differentiated governance at the regional level (OECD, 2019^[2]; OECD, 2018^{c[7]}). In federal systems, asymmetric regionalisation appears more “natural”. In fact, asymmetry is often a basic characteristic of federations. There are, however, different degrees of asymmetry, with highly asymmetric federal systems (Belgium, Canada, India, Russia, Spain) and more symmetric federations (Australia, Austria, Germany, Switzerland, USA). However, even the most “symmetric federations” have elements of asymmetry (e.g. USA) or are developing some new ones. In Germany for example, 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) for the Länder. This right to stray from federal legislation is an innovative new instrument for the Länder, introducing a degree of asymmetry into German federalism (OECD/UCLG, 2019^[10]).

In unitary countries, symmetry is often one of the leading principles of the unitary state (with unity and integration). However, some unitary states have strong elements of asymmetry, in particular, to recognise a different status to territories with a strong history/identity (Italy, UK) as well as peripheral territories such as outermost regions, islands, and outlying regions (France, Portugal, Finland). Today, asymmetric regionalisation is increasing in unitary countries to empower regions with greater capacities or to improve the governance of metropolitan regions.

Regional responsibilities vary tremendously across countries according to several differentiating factors

The range and type of regional competencies vary strongly from one country to another, and this variation is greater at the regional level than at the local level (Allain-Dupré, 2018^[11]). The detailed breakdown of regional responsibilities by country is provided in Appendix B. Regional responsibilities may also vary across regional governments within countries, as a result of asymmetric regionalisation.

There are different factors that explain these variations: the degree and model of decentralisation, the form of the state, the number of subnational government layers, and the existence of a state territorial administration at regional level, among others.

In more decentralised countries, regions tend to have more responsibilities than in centralised countries. It is not, however, a general rule, and decentralisation and regionalisation are not always related. There are some decentralised countries whose decentralisation model is based more on municipalities than on regional entities, such as in Nordic countries. In Denmark and Sweden, the role of municipalities has always been stronger than that of regions. In addition, in Denmark, it has been strengthened in recent years at the expense of regional governments, which lost their taxation power and several other major responsibilities.

In general, regional responsibilities are quite extensive in federal countries versus unitary countries. In most federal countries, federal governments have exclusive and listed competences (foreign policy, defence, money, judiciary system, etc.) while state governments have extensive responsibilities in many key areas, including education, social protection, economic development, transport, environment, housing, public order (regional police), civil protection, etc. In all OECD federal countries, state governments are in charge of defining local governments’ status, organisation, responsibilities, and financing. Local governments are considered “creations” of the federated states falling directly under their jurisdiction. In Spain however, this responsibility is shared between Autonomous Communities and the central government. Local government functions and finances are decided within the framework of the national law (Article 148 of the Spanish constitution).

Another factor that can explain the assignment of responsibilities at the subnational level is the number of subnational layers. In two-tier subnational government systems, the regional level between the municipalities and the central government, because it operates on a larger scale, usually provides services of regional interest that benefit from economies of scale, generate spillovers, involve redistribution and are required to meet the same standards across the entire jurisdiction (Kitchen and Slack, 2006^[12]; OECD, 2017^[13]).

In three-tier systems, the breakdown of responsibilities can be complex, especially between the intermediary and regional levels. Table 1.2 presents a general breakdown of responsibilities across the subnational government levels (municipal, intermediary and regional). It may result in an unclear allocation of responsibilities, and even duplication, overlap and co-ordination challenges. However, in these countries, the regional level tends to gain more power and responsibilities at the expense of intermediary governments, which are now mainly responsible for administrative and delegated tasks, and have small budgets and in general no, or only limited, taxation powers (OECD, 2017^[5]). This is the case in Poland, Spain, and Belgium for example. In Italy, the provincial level has been abolished as a self-governing level by the Law N°56/2014 effective since 2015. Provinces are now inter-municipal co-operation bodies, carrying out fewer functions than previously. In France, with the recent 2015 law called “New Territorial Organisation of the Republic” (NOTRe), regions gained greater responsibilities and powers at the expense of departments, in particular regarding regional economic development, territorial planning and environmental protection. Regions also have a new regulatory power allowing them to adapt national legislation to the local context.

Table 1.2. Breakdown of responsibilities across SNG levels: a general overview

Municipal level	Intermediary level	Regional level
<ul style="list-style-type: none"> • A wide range of responsibilities: <ul style="list-style-type: none"> ○ General clause of competence ○ Eventually, additional allocations by the law • Community services: <ul style="list-style-type: none"> ○ Education (nursery schools, pre-elementary and primary education) ○ Urban planning & management ○ Local utility networks (water, sewerage, waste, hygiene, etc.) ○ Local roads and city public transport ○ Social affairs (support for families and children, elderly, disabled, poverty, social benefits, etc.) ○ Primary and preventive healthcare ○ Recreation (sport) and culture ○ Public order and safety (municipal police, fire brigades) ○ Local economic development, tourism, trade fairs ○ Environment (green areas) ○ Social housing ○ Administrative and permit services 	<ul style="list-style-type: none"> • Specialised and more limited responsibilities of supra-municipal interest • An important role of assistance towards small municipalities • May exercise responsibilities delegated by the regions and central government • Responsibilities determined by the functional level and the geographic area: <ul style="list-style-type: none"> ○ Secondary or specialised education ○ Supra-municipal social and youth welfare ○ Secondary hospitals ○ Waste collection and treatment ○ Secondary roads and public transport ○ Environment 	<ul style="list-style-type: none"> • Heterogeneous and more or less extensive responsibilities depending on countries (in particular, federal vs unitary) • Services of regional interest: <ul style="list-style-type: none"> ○ Secondary / higher education and professional training ○ Spatial planning ○ Regional economic development and innovation ○ Health (secondary care and hospitals) ○ Social affairs (e.g. employment services, training, inclusion, support to special groups, etc.) ○ Regional roads and public transport ○ Culture, heritage and tourism ○ Environmental protection ○ Social housing ○ Public order and safety (e.g. regional police, civil protection) ○ Local government supervision (in federal countries)

Source: (OECD, 2018^[14]) (OECD, 2019^[21]) (OECD/UCLG, 2019^[10])

In unitary countries, regions tend to have “specialised responsibilities” while the general clause of competence, or “subsidiarity principle”, applies more to the municipal level. Generally, regional governments are responsible for providing services of regional interest, which can benefit from economies

of scale. For example, regional services typically include secondary, higher education and professional training; regional spatial planning; regional economic development; secondary care and hospitals, regional social services, regional employment services, regional roads, regional public transports, regional promotion, culture and tourism, environmental protection, etc. (Table 1.2).

Regional governments also play a role in strategic planning and regional development, which involve stakeholders from within and outside the region, from the public and private spheres, and from all levels of government. Through this role, they play a major role in increasing employment and productivity and driving economic growth at the regional and national levels.

The extent and type of regional responsibilities also depend on the existence of a regional deconcentrated level, in parallel to the regional decentralised level. Many OECD and EU countries have such state administration at regional level that can perform significant tasks (Box 1.2).

Box 1.2. State territorial administration at regional level in some OECD and EU countries

- In **Croatia**, there is a State Administration Office at the county level, which performs the tasks of the central government whose Head is appointed by the government.
- In **Denmark**, the 15 county prefectures were transformed into five regional prefectures by the 2007 public administration reform. In 2013, a new reform of the state territorial administration established one central office in Åbenrå and eight regional representations.
- In **Finland**, the regional level of deconcentrated state administration is composed of six Regional State Administrative Agencies (AVI) and 15 Centres for Economic Development, Transport and the Environment (ELY).
- **France** has maintained a strong and powerful prefectural administration at regional and departmental levels led by a prefect (préfet), as well as local directorates of various ministries placed under their authority, so-called “deconcentrated services”.
- In **Greece**, the central government has seven deconcentrated administrations at the territorial level. Led by a General Secretary appointed by the Ministry of the Interior, they are mainly responsible for co-ordination of state territorial administration, multi-level co-ordination, administrative supervision of SNGs, management of public assets, administrative issues, environmental affairs and representation of the central government.
- In **Hungary**, the State deconcentrated administration at territorial level was reformed in 2010 as part of the STAR reform. The former administrative entities became integrated into the so-called 20 county government offices (or in the case of Budapest: district government office).
- In **Norway**, the deconcentrated administration at the regional level is represented by the county governor (*fylkesman*). In addition to co-ordinating the activities of other central government bodies at the county level, the county governor supervises local government activities according to Article 59 of the Local Government Act. Within the framework of the current reform, the number of *fylkesmen* will be reduced from 18 to 10.
- **Poland** 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.
- In **Romania**, the central government established 41 prefectures, which oversee the deconcentrated public services of the central public administration in each county.
- In **Spain**, the central government has a state territorial administration. General Delegates represent deconcentrated central government administration at the regional level.
- In **Sweden**, 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 co-ordinating central government activities in the counties.
- In **Turkey**, deconcentrated state entities are managed by governors appointed by the central government. These governors maintain a major role as the heads of the Executive Committee of SPAs.

Source: Adapted from (OECD/UCLG, 2019^[10])

In that context, regional governments often need to deal with state regional administration, to avoid overlap and ensure better co-ordination at the regional level. In some countries, the co-existence of decentralised and deconcentrated systems may be even closer when regional governments are both deconcentrated and decentralised. These “mixed” or “dual” regional entities comprise both a deconcentrated administration representing the central government (the executive power) and the elected autonomous self-government (the deliberative power). This is the case for example in Chile (a reform is, however, on-going since 2016) and Turkey.

Numerous responsibilities are shared among levels of government

In many cases, regional responsibilities and functions (regulating, operating, financing and reporting) are shared with another institutional government level, be it central, or local. Because subnational governments are embedded in national legislative frameworks, truly exclusive competences rarely exist, even in federal countries. Countries share responsibilities for functional or financing reasons, through explicit legislation or through residual policy acquisition (Allain-Dupré, 2018^[11]).

Municipal and regional levels often share responsibilities in the areas of transport and infrastructure, environment and water, culture and tourism, communication, or economic development. Responsibilities are more likely to be shared with the central government, in the areas of education, economic affairs and transport, public order, health, social protection, spatial planning and land use (OECD, 2019^[2]). Some tasks can also be delegated by the central government to the regions.

For example, a characteristic of the Dutch system is that many areas of responsibility are shared between the central governments, the provinces and the municipalities. Although the regional level enjoys autonomy and has substantial leeway, as long as it complies with national law, the central level is entitled to intervene at the local and regional level. In France, several competences are shared between the different subnational levels but also with the central government (education, social affairs, roads, etc.).

In federal countries, there are also shared responsibilities, either under constitutional or legislative mandate or, in practice. In Spain, shared competencies between the central state and the autonomous regions include education, social services, universities, and municipal/provincial supervision. In the United States, although the 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. In Switzerland, the Constitution also provides for shared competences between the Confederation and the cantons. Therefore, they assume joint responsibility in some areas (regional traffic, regional development, environmental protection, flood protection, etc.). In Mexico, states were devolved shared responsibilities with the federal state in primary education in 1992 and healthcare in 1996. They also have joint responsibilities with the federal government including poverty alleviation, social protection, water management and economic affairs. In Austria, the Länder have the constitutionally guaranteed right to execute some federal laws in the areas of education, hospitals, social welfare, housing and urban development. As a result, health care and education 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, the Federal Ministry of Education has legislative authority for school education. 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 (OECD/UCLG, 2019^[1]).

This can raise some issues of unclear allocation of responsibilities between the central, regional, intermediary and local levels of governments, or even duplication and overlap in responsibilities. In Croatia, Korea and Japan, for example, there are frequent overlaps in responsibilities, both vertically and horizontally across regions, resulting in a complex system of delegation. In France, one rationale of the recent territorial reform (NOTRe law) was to clarify regional responsibilities. It resulted in the abolition of the general clause of competence for the regions, deemed to generate overlapping and duplication of spending. Many regional and municipal areas are shared with the central government (e.g. education, health and transport), resulting in overlaps, especially with the state deconcentrated administration. In Australia, the 2008 Intergovernmental Agreement on Federal Financial Relations (IGAFFR) attempted to better specify the responsibilities of the Commonwealth and states for specific sectors. However, there is still a significant overlap in mandates between the federal government and the states, in particular in healthcare.

Such unclear allocation of responsibilities and functions is particularly notable for policy areas that are the most “shared” across levels of government, in particular, infrastructure (transport), education, spatial planning, health, social protection or labour market policy (Allain-Dupré, 2018^[11]). This mutual dependency raises issues in terms of effective multi-level governance and co-ordination across levels of government. It requires a clear assignment of functions, mutual understanding of who does what, as well as well-developed co-ordination mechanisms (OECD, 2019^[2]). In this perspective, several OECD and EU countries have established platforms or forums for inter-governmental vertical – or horizontal – co-ordination mechanisms, in particular between the central/federal and regional governments, which are more or less formalised. In federal countries, inter-governmental co-ordination between the federal government and state governments is often institutionalised while in unitary countries, such mechanisms are less formalised. Intense co-ordination may also occur through informal relationships as is often the case in Nordic countries where consultation, co-ordination, co-operation and joint decision-making are embedded in inter-governmental practices.

The regional government landscape is not static but continuously evolving under the effects of institutional and territorial reforms

Reviewing and restructuring multi-level governance systems to produce more functional and effective governments at subnational level is a permanent process in the OECD and EU countries. Institutional reforms (re-organisation of powers and responsibilities across levels of government through decentralisation or recentralisation processes) and territorial reforms (re-organisation of territorial structures, by “re-scaling” administrative boundaries) are going on all the time. These reforms affect all subnational government as well as the state territorial administration level when it exists. Territorial and institutional reforms often go hand in hand. An institutional reform can be partly driven by a territorial reform (and vice-versa), as an increasing amount of tasks transferred to subnational governments may put pressure on increasing their size and capacity so that they can cope with these additional responsibilities.

Many regional reforms took place over the past few decades, especially in Central and Eastern European countries. Their joining the European Union has led many of these countries to develop planning regions, or even to create (or reinstate) elected regional authorities (Czech Republic, Hungary, Poland, Slovak Republic), as a way, among other objectives, to access EU funds for regional development.

Regional reforms also took place in the OECD and EU in recent years. Decentralised regions were created in Greece in 2011, with new responsibilities and resources. In Belgium, the Sixth Reform of the State, in effect since 2014, transferred additional responsibilities to regions in several areas and increased regions’ own-source tax resources. In the Netherlands, regions were strengthened with the latest 2015 decentralisation process, which devolved to them more focused powers in regional economic development and co-ordination. The attempts to consolidate the Dutch provinces into larger regions however failed in 2014. In France, regional mergers (from 22 regions to 13 in France mainland) were accompanied by a strengthening of their responsibilities in 2015. In Sweden, with the last regional reform effective since 2019, counties, now called regions, all have the same governance structure and are being reinforced, in particular in regional development issues. In Norway, the number of regions will be reduced from 18 regions to 11 by 2020. The rationale behind the reform is to strengthen the regions as functional units and to provide more coherent housing and labour market policies. In Chile, a law transforming the “mixed” regional system into a full self-government system was adopted in 2017, 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 and a law reforming the funding system should follow. Direct elections of the regional governors are slated for October 2020.

There are also on-going discussions on developing a regional level (elected or based on other governance arrangements) or consolidating the existing regional level in the short or longer terms, in countries such as in Portugal, Finland, Romania and Bulgaria. In Portugal, debates concerning decentralisation reforms

returned to the top of the policy agenda with two main objectives: fostering decentralisation by assigning more tasks to municipalities and inter-municipal associations, and strengthening regional level governance. Finland has discussed establishing elected regions for many decades, and the current Finnish Constitution allows for this to happen. The previous Finnish government prepared the reform intensively between 2015 and 2019, and the current government, formed in May 2019, is determined to continue that work in order to create 18 regional councils (OECD, Forthcoming^[15]). In Romania, the new General Strategy for Decentralisation 2015-16 was drafted to transfer new responsibilities and assets to subnational governments and create new autonomous regions. It was rejected as such by the Constitutional Court, but a new decentralisation and regionalisation project is being implemented based on a new General Strategy for Decentralisation. In Bulgaria, one of the four objectives of the new 2016-2025 decentralisation strategy is to increase the role and capacity of regional institutions for the implementation of co-ordinated policy for regional development through adequate powers, responsibilities and resources. This could lead to the creation of deconcentrated institutions at the regional level and possibly pave the way for a second level of self-governance to emerge in the longer term (OECD/UCLG, 2019^[10]).

Generally speaking, the regional government level has been gaining in importance recently, yet in some countries the opposite has occurred as part of reforms. This has been the case for example in Denmark, in 2007, with a reduction in the responsibilities assigned to regions with the local government reform in favour of central government. In January 2019, the government announced the healthcare reform, which will abolish the five current regions with elected councils. In Hungary, the 2012 Constitutional reform and the Cardinal Law on Local Governments have profoundly transformed the subnational government framework, reducing its scope, functions and financing resources. Counties lost several major competences (healthcare, social initiatives and secondary education) to be mainly in charge of regional and territorial development, which makes them key actors of territorial development.

2 Working method

The Regional Government Finance and Investment Database compiles consolidated accounts of the regional government sector for 24 countries. It was conceived as a pilot exercise, to assess the feasibility of building such a database with consolidated accounts for the regional government sector as a whole. Possible future steps may include the collection of individual accounts of regions for each country.

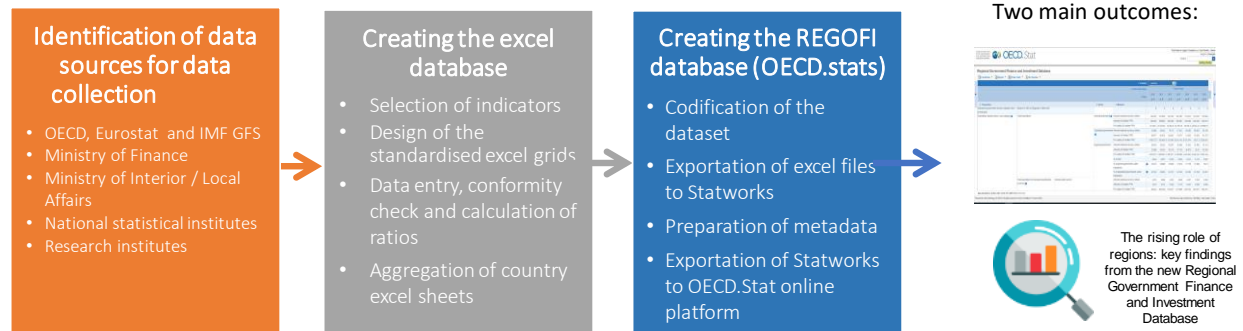
As briefly explained earlier, the SNA system (System of National Accounts) is based on a set of internationally agreed concepts, definitions, classifications and accounting rules, in order to allow for international comparison on government expenditure, revenue, budget balance, and debt, and across different sectors. Based on the SNA standards, statistics on general government are provided for four sub-sectors: the central government sector, the state government sector (for federal countries such as the United States or Germany), the local government sector, and the social security sector.

Yet, similarly to other international frameworks, the SNA fails to cover all specificities related to the multi-layer governance structure in each country. The international comparability of national accounts, although necessary, comes at the cost of a simplification, which often leaves out features of subnational governments. Within the local government sector, there is no disaggregation for different layers, although these may be very diverse. This concerns particularly unitary countries such as Poland, Italy, Japan or France, where the regions, municipalities, and intermediary levels of government are bundled together. This over-simplification not only clouds the relevance of different sub-layers of government but also fails to account for the contributions of the regions, which may have significant decision-making powers, be it in terms of expenditure or revenues, as in Japan.

2.1. Three major steps to carry out the study work

The Regional Government Finance and Investment Database was built through three major steps: (i) identification of data sources for data collection (ii) creating the excel database (iii) creating the REGOFI database on OECD.stats (Figure 2.1). The outcomes are twofold: a publicly available database on regional public finance; a synthesis note describing the study work and presenting regional public finance trends from an international comparative perspective.

Figure 2.1. Methodology: three different steps for two main outcomes



Source: Authors

Identification of data sources for data collection

The first step consisted in identifying relevant data sources for data collection. For eight federal countries out of nine (excluding the United States), aggregated public finance statistics on state governments are provided through standard national accounts databases, such as the OECD national accounts and the IMF Government Finance Statistics. Thus, the regional government accounts can be directly extracted by selecting the corresponding state government sector for each country. The United States is an exception among the federal countries of the sample, as standard regional accounts include both the states and their corresponding local governments in a consolidated sector. Therefore, the first step involved identifying, from the Census Bureau, exclusive state-level public finance statistics.

For unitary countries, this first step consisted in assessing the availability and comparability of regional government accounts using different sources ranging from National Statistical Offices, Ministries of Finance, Ministries of Interior, and relevant academic and research institutions. This assessment led us to adjust our sample based on the countries for which data was not available or not reliable enough. Data and information sources for each country and different indicators are listed in Table 2.1 below.

Table 2.1. Sources of fiscal data on Regional Government accounts

Form of State	Countries	Transactions	Data Sources
Federal State	Australia	Regional government Accounts	IMF Government Finance Statistics
	Austria		OECD Stats
	Belgium		OECD Stats
	Canada		OECD Stats
	Germany		OECD Stats
	Mexico		OECD Stats
	Spain		OECD Stats
	Switzerland		OECD Stats
	United States		Census Bureau
	Unitary State		Croatia
Czech Republic		Czech Statistical Office	
Denmark		Statistics Denmark	
France		Portail de l'État au service des collectivités	
Italy		Italian National Institute of Statistics	
Japan		Statistics Japan - Japan Statistical Yearbooks	

	Korea		Ministry of Interior and Safety - Local Finance 365
	Netherlands		Dutch Statistical Office (CBS-Statline)
	New Zealand		Stats New Zealand: Local Authority Financial Statistics (LAFS)
	Norway		Data provided by experts at Statistics Norway
	Poland		Statistics Poland
	Romania		Ministry of Regional Development and Public Administration of Romania - General Public Administration Directorate
	Slovak Republic		INEKO (Institute for Economic and Social Reform)
	Sweden		Statistics Sweden
	Turkey		Republic of Turkey: Ministry of Treasury and Finance
All countries	Population		OECD Stats
	GDP (national currency)		OECD Stats
	GDP Growth Rate		OECD Stats
	GDP deflator		OECD Stats
	Exchange Rates		OECD Stats
	Unemployment Rate		International Labour Organisation (ILO)

Creating the Excel database: the selection of indicators, the design of standardised Excel grids and data entry

The second step consisted in selecting the fiscal variables of interest. In addition to socio-economic indicators, several transactions and fiscal indicators were selected (see Table 2.2). The number of countries differs across transactions (expenditure, revenue, debt). In particular, data on transactions relative to debt and investment are not available for the regional governments for some countries.

Standardised Excel grids were then defined to provide a common template for data entry for each country. Then, country data have been entered into the Excel grid for all transactions (socio-economic indicators, expenditure, revenue and debt) and for the entire time series (2010-2016).

The following phase consisted in entering the collected data into the standardised Excel grid and in calculating the different ratios. During this process, it was necessary to check the conformity with the SNA standards for unitary countries or the United States. In most unitary countries in the sample, the budgetary lines for regional governments were translated and transposed from the national framework to international standards to the greatest extent possible. For the United States, some calculations were necessary to approach SNA standards (see Appendix A for more details by country).

Country Excel grids were then aggregated to build an Excel database, covering all transactions and 2010-2016 period.

Creating the REGOFI database on OECD.stats

The final step consisted in coding the dataset to allow country Excel grids to be downloaded into a statistical database, using the OECD integrated Database Management Tool called StatWorks Statistical Tools. Country Excel datasheets were imported into StatWorks and automatically processed by the application. Qualitative metadata were defined to describe the empirical data in OECD.Stat. Metadata can be viewed for datasets, dimensions and variables alongside the table.

Data are then exported from StatWorks to the OECD.Stat online platform to allow data consultation and extraction, using the existing tools:

- Build tables by selecting variables and customising the table layout
- Extract and download data
- View detailed metadata on methodology and sources.

Outcomes

The outcomes are twofold:

- a Regional Government Finance and Investment Database on OECD.stats which is publicly available. It is expected to be updated on a regular basis.
- a synthesis note describing the study process and presenting regional public finance trends from an international comparative perspective.

Figure 2.2. REGOFI database

The screenshot shows the OECD.Stat REGOFI database interface. The main table displays data for Austria, Federal State, from 2010 to 2015. The table is organized into columns for Transaction, Sector, Measure, and Year. The data is presented in a grid format with various measures and sectors.

Transaction	Sector	Measure	2010	2011	2012	2013	2014	2015	2016
Subnational government structure (please select an indicator)	Number of SNG at Regional or State level		9	9	9	9	9	9	9
Expenditure (please select a sub-category)	Total Expenditure	General government	156.351	157.846	163.192	167.292	174.672	176.632	179.085
		Amount (national currency, billion)	156.351	157.846	163.192	167.292	174.672	176.632	179.085
		Amount (US dollars PPP)	185.633	189.862	200.568	209.881	218.668	220.426	226.873
		Per capita (US dollars PPP)	22 282.1	22 633.46	23 802.6	24 758.19	25 593.4	25 543.22	25 958.55
		Subnational government	53.969	54.052	55.72	57.447	59.395	60.902	64.126
		Amount (national currency, billion)	53.969	54.052	55.72	57.447	59.395	60.902	64.126
		Amount (US dollars PPP)	64.077	65.015	68.481	72.071	74.355	76.262	81.237
		Per capita (US dollars PPP)	7 663.723	7 750.496	8 127.064	8 501.743	8 702.704	8 837.3	9 295.661
		Regional government	28.475	28.552	29.387	30.969	31.053	31.489	34.151
		Amount (national currency, billion)	28.475	28.552	29.387	30.969	31.053	31.489	34.151
		Amount (US dollars PPP)	33.888	34.343	36.118	37.724	38.875	39.43	43.264
		Per capita (US dollars PPP)	4 043.537	4 094.097	4 286.321	4 449.998	4 549.955	4 569.235	4 950.245
		% of GDP	9.623	9.207	9.222	9.283	9.321	9.147	9.587
		% of general government, same transaction	18.212	18.089	18.008	17.974	17.778	17.888	19.07
		% of subnational government, same transaction	52.762	52.824	52.741	52.342	52.282	51.704	53.257
		Amount (national currency, billion)	4.475	4.466	4.332	4.554	4.287	3.934	3.854
		Amount (US dollars PPP)	5.313	5.372	5.324	5.713	5.367	4.926	4.883
		Per capita (US dollars PPP)	635.42	640.356	631.811	673.899	628.154	570.877	558.707

Source: REGOFI database on OECD.stats

2.2. Socio-economic and fiscal indicators

The database comprises two main categories of indicators: basic socio-economic indicators and fiscal indicators.

Basic socio-economic indicators

The database contains several basic socio-economic indicators: population, GDP growth rate, per capita GDP and unemployment rate. Some of these indicators are used as “auxiliary” indicators for calculating ratios, in particular population, current (nominal) GDP in local currency at market prices and exchange rate in dollars PPP.

Fiscal indicators

The database contains three main categories of transactions: expenditure, revenue and debt. Each transaction comprises sub-categories, in particular, expenditure by economic and functional classifications, revenue by type and debt by type of liability. The detailed breakdown of each main transaction is described in Table 2.2 below.

Table 2.2. Main fiscal indicators

Main categories	Transactions
Expenditure	Total expenditure
Expenditure by economic classification	<p>Total expenditure by economic classification: current expenditure + capital expenditure.</p> <p>Current expenditure: compensation of employees + intermediate consumption + current social expenditure (social benefits and transfers in kind - purchased market production) + subsidies and other current transfers + other expenditure (taxes + financial charges including interest + adjustments for the change in net equity of households in pension funds).</p> <p>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.</p> <p>Intermediate consumption: Intermediate consumption consists of the goods and services consumed as inputs by a process of production, excluding fixed assets whose consumption is recorded as consumption of fixed capital</p> <p>Capital expenditure: capital transfers + direct investment</p> <p>Capital transfers: investment grants and subsidies in cash or in-kind made by governments to other institutional units.</p> <p>Direct investment: gross capital formation and acquisitions, minus 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 several countries.</p>
Expenditure/investment by functional classification (COFOG)	<p>Total expenditure by functional classification: sum of the 10 sectors defined in the classification of the functions of government (COFOG). Comprises both current and capital expenditure.</p> <p>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.</p>
Revenue	Total revenue: tax revenues + grants and subsidies + user charges/tariffs and fees + property income + social contributions.
Revenue by category	<p>Tax revenues: taxes on production and exports (GD2R/D2) + current taxes on income, wealth, etc. (GD5R / D5) + capital taxes (GD91R / D91).</p> <p>Tax revenue includes both own-source tax revenue (or “autonomous”) and tax revenue shared between central and subnational governments.</p> <p>Grants and subsidies: current grants and subsidies + capital transfers and subsidies.</p> <p>User charges/tariffs and fees: market output, output for own final use and payments for non-market output.</p> <p>Property income: interest, distributed income of corporations (e.g. dividends), rents on subsoil assets (e.g. royalties)</p> <p>Other revenues / social contributions</p>
Debt	<p>Debt: based on the SNA 2008/ESA2010, 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.</p> <p>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).</p>

2.3. Scope of government fiscal data, measures and time series

Scope of government fiscal data

The data that have been collected refer to the scope of “public administration”, i.e. the “general government” sector as a whole (S.13 according to the SNA), which comprises four sub-sectors:

- “Central government” (S.1311) 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” (S.1312) 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” (S.1313) 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 (S.1314).

The term “subnational government” refers to the sum of two sub-sectors: state governments in federal countries (S.1312) and local governments (S.1313) in federal and unitary countries. In unitary countries, the subnational government sub-sector is the same as the local government sub-sector.

It is important to note that data for the general government sector, the local government sub-sector as well as for the state government sub-sector are consolidated. In federal countries, data for the subnational government sector (sum of S.1312 and S.1313) are not consolidated. In unitary countries, data for the regional government are a sub-component of the “local government sector” which is not consolidated (the sum of regional, municipal and other sub-components of the local government sector may exceed the consolidated total of the local government sector). Ratios comparing regional government data to the general government sector and subnational/local government sub-sector may, therefore, overestimate the share of regions in the different transactions.

Measures

Fiscal data are expressed through different measures: in USD PPP per inhabitant and as ratios.

- PPPs (Purchasing Power Parities) are the rates of currency conversion that equalise the purchasing power of different countries by eliminating differences in price levels between countries. Converting using USD PPP allows for a comparison between OECD countries that are not members of the EU. This also facilitates the computation of weighted averages for different sub-groups of countries such as OECD and EU member states, or unitary countries.
- Regional government ratios are calculated in relation to GDP, general government sector and subnational government sector. As indicated above, ratios comparing regional government data to the general government sector and subnational/local government sub-sector may overestimate the share of regions in the different transactions, because of consolidation issues.

Time series

The scope and time coverage of data differs across countries based on their availability: data for Croatia are only available for the years 2014 to 2016, and those for Japan are currently available until 2015 only.

Averages presented in the report

Both unweighted (WA) and arithmetic averages (UWA) are presented on the graphs in this report. Most often, unweighted averages are used in the comments.

Averages were calculated for different samples: OECD countries, OECD federal and quasi-federal countries, OECD unitary countries and EU countries.

The number of countries included in these different country samples may differ across indicators (expenditure, staff expenditure, expenditure by functional classification, tax revenues, debt, etc.). In particular, data for investment and debt are missing in several countries. Therefore, the number of countries is indicated in the calculation of the different averages.

PART II. Trends in regional government public finance 2010-2016

In light of the increase of regionalisation in OECD and EU countries over the past decades, part of a general trend towards more effective decentralisation, regional governments are playing an increasing role in service delivery and investment in a number of sectors.

The section below describes the financial situation of regional governments in the OECD and EU, based on the country sample. It focuses on regional government expenditures, regional government investment, regional government revenue and, finally, regional government debt.

This analysis exclusively concerns the consolidated regional government sector in each country and does not reflect the wide disparities that may exist across individual regions within the same country.

Based on data over the period 2010-16, it provides an overview of the changes in these figures in light of the economic crisis and fiscal consolidation measures that followed, and put in perspective with the reforms and policies on territorial organisation carried out over this period.

As regional governments in several countries are at the forefront of addressing future challenges related to economic development and energy transition, it provides a basis for comparison and reflection on regional governments' financing capacity and responsibilities.

1 Regional government expenditure and investment

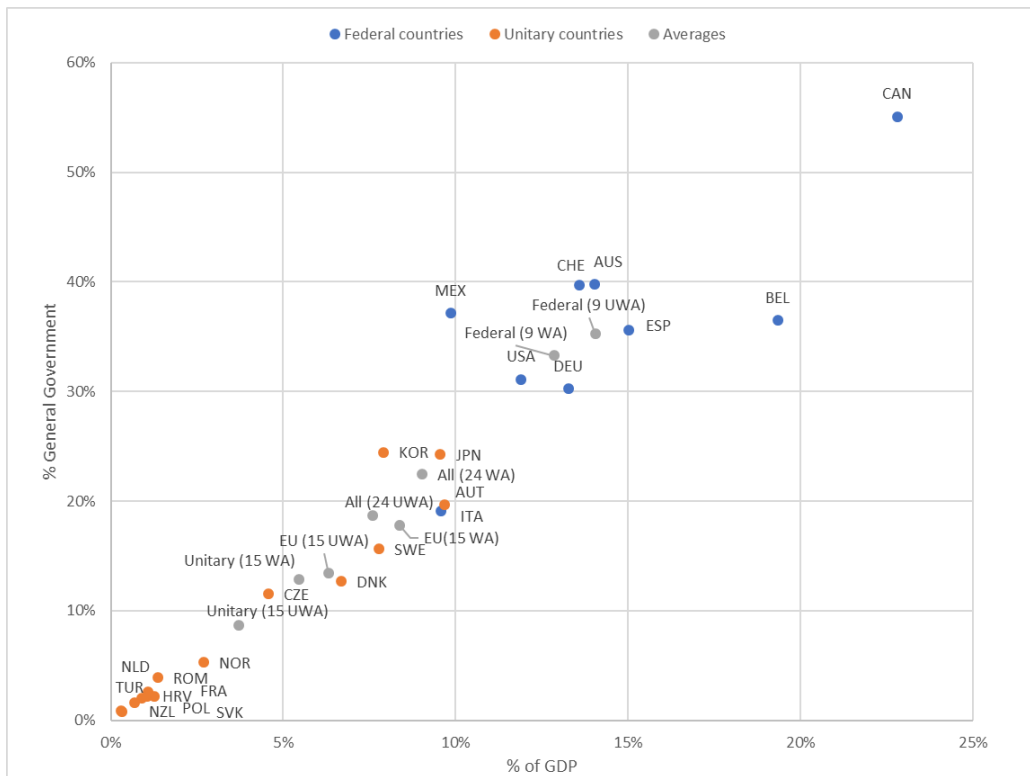
1.1. Regional government expenditure

Regional governments are significant public actors, accounting for 7.6% of GDP and nearly 19% of public expenditure

In 2016, among the sample of EU and OECD countries, regional government expenditure stood at an average of USD 3 442 per capita, representing 7.6% of GDP and 18.6% of total public expenditure (Figure 1.1, unweighted average).¹² These ratios reflect the significant role of regional governments in the OECD and EU. However, spending indicators may be misleading (Box 1.1). In addition, the in-depth analysis shows particularly marked variations across groups of countries and individual countries. In particular, regional government spending varies with country size, forms of government (federal or unitary), territorial organisation and the nature of responsibilities granted to regional governments.

¹² Fiscal indicators for the regional level in some countries may be underestimated when the capital has a dual status of municipality and region (e.g. Norway, Romania, Croatia, and Austria). Regional accounts exclude the capitals to avoid overestimating regional fiscal data. Including them would overestimate regional accounts, as it would include transactions related to municipal activities of the capital.

Figure 1.1. Regional government expenditure as a % of GDP and a % of total public expenditure (2016)



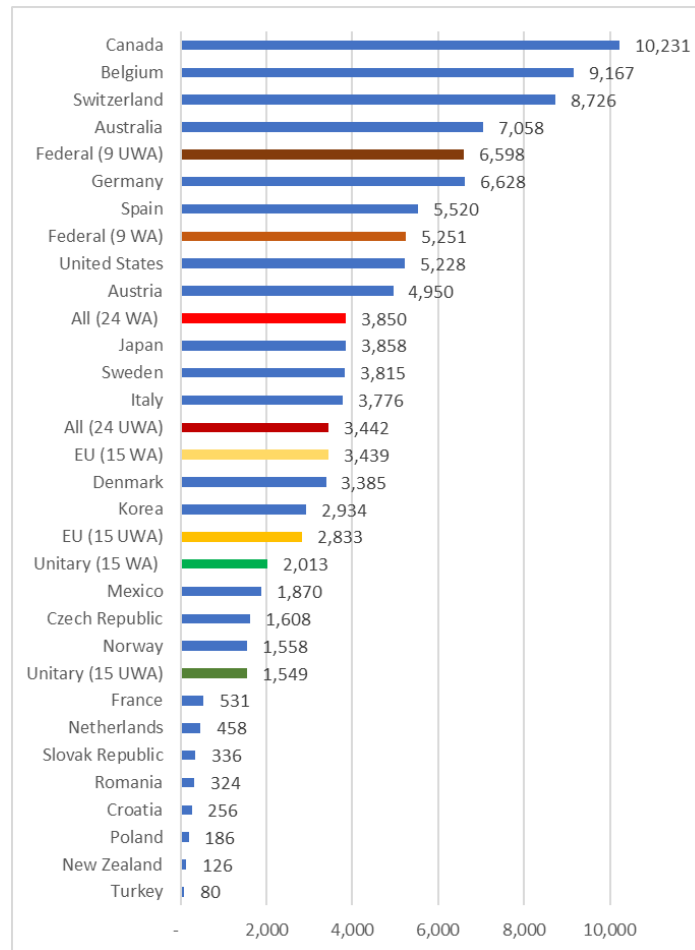
Second, because of consolidation issues (see Part 1. 0), ratios comparing regional government data to the general government sector and subnational/local government sub-sector may overestimate the share of regions in the different transactions, including spending.

Third, while the data provide an overview of the extent to which regional governments are involved in public spending, they do not reflect their real degree of decision-making power, and their full capacity to devise and finance policies within their respective jurisdictions. Changes in the spending shares of certain functions do not necessarily imply a change in effective responsibility because “decentralised” expenditure can be just in reality “deconcentrated” or “delegated” expenditure made on behalf of the central government. The Regional Authority Index (Hooghe, Marks and Schakel, 2009^[3]; Hooghe et al., 2016^[4]) provides a comprehensive measure of regions’ degree of “power” or regional authority. The OECD is also developing new strands of work focusing on spending indicators to assess municipal decision-making authority as well as on spending autonomy of subnational governments (see [CFE/RDPC\(2019\)19](#) Uncovering the unknown: Spending indicators on municipal decision-making authority and [COM/CTPA/ECO/GOV/CFE\(2019\)6/ANN1](#) Spending Autonomy of Sub-central Governments: Conceptualisation and Measurement).

Finally, fiscal indicators for the regional level in some countries may be underestimated when the capital city has a dual status of both a municipality and a region (Norway, Romania, Croatia, and Austria). In such cases, regional accounts often exclude the capitals to avoid overestimating regional fiscal data, as it would include transactions related to municipal activities of the capital. In addition, in Turkey, it should be noted that the Provincial Metropolitan Municipalities (PMMs) are not included in the regional accounts.

The average per capita expenditure in federal countries is three times higher than that of unitary states, amounting to USD 6 598 and USD 1 549, respectively, in 2016 (unweighted averages). Canadian provinces and territories have the highest per capita expenditure within the sample (USD 10 231), while Turkey’s provinces have the lowest (USD 80) (Figure 1.2).

Figure 1.2. Regional government expenditure in USD PPP per capita (2016)



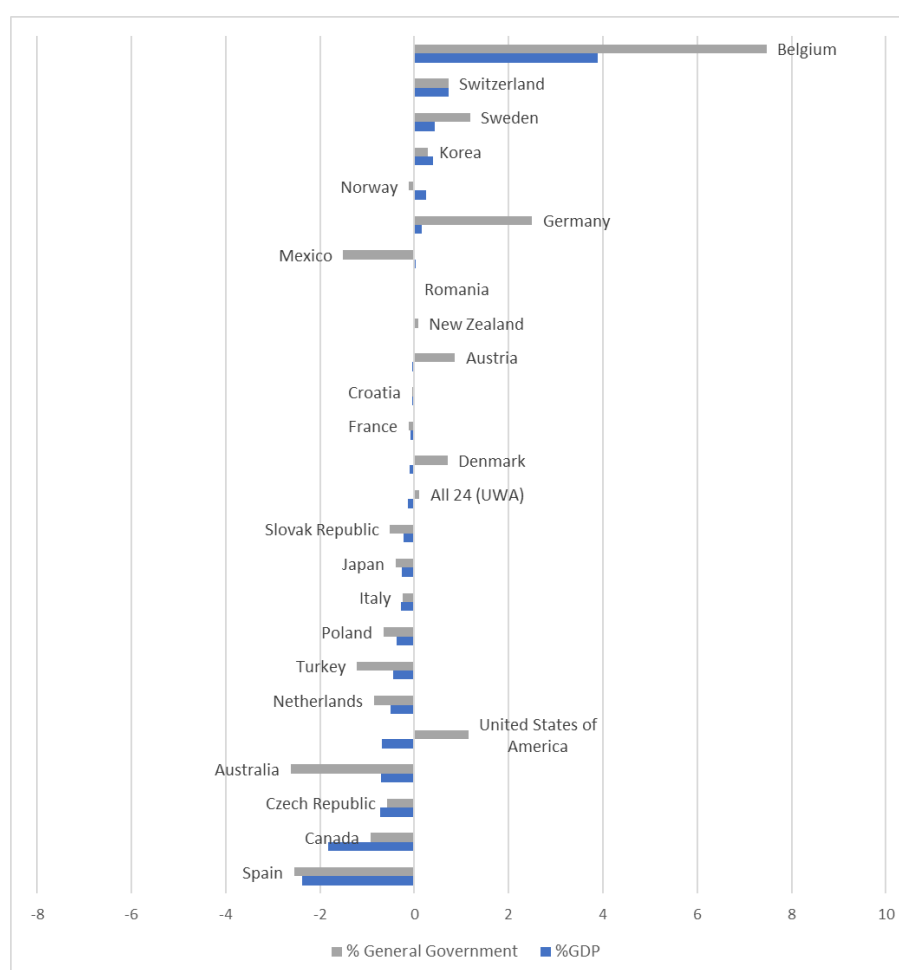
Note: Data for Japan are for 2015. Averages are computed with duplicated 2015 data for Japan in 2016. UWA: Unweighted average. WA: Weighted average.

Source: Regional Government Finance and Investment Database

The average changes in the ratios of regional government spending in GDP and public spending between 2010 and 2016 have been heterogeneous across countries.

In Belgium, the share of regional government spending in GDP and public expenditure increased by respectively 4 and 7 percentage points over the period. This change may be explained by the implementation in 2011 of the Sixth State Reform (in effect since 2014), which devolved new responsibilities from the federal government to the regions and communities. On the other hand, Spain, Canada and Czech Republic have recorded the strongest decrease in percentage points (Figure 1.3). In Spain, where Autonomous Communities play an important role in total public expenditure (they were responsible for 36% of total public expenditure in 2016), this decrease reflects the result of fiscal consolidation measures that were implemented as part of the 2015-2018 Stability Program (regional government expenditure in 2016 decreased by 4% compared to 2015). Additional consolidation measures were approved in 2017, to continue the budget cutting process until 2021 in the aim of reaching the deficit target (Kingdom of Spain, n.d.^[16]).

Figure 1.3. Regional government expenditure as a % of GDP and total public expenditure between 2010 and 2016 (change in percentage points)



Note: Croatia (2014-2016); Japan (2010-2015). Averages are computed with duplicated 2015 data for Japan in 2016. UWA: Unweighted average. WA: Weighted average.

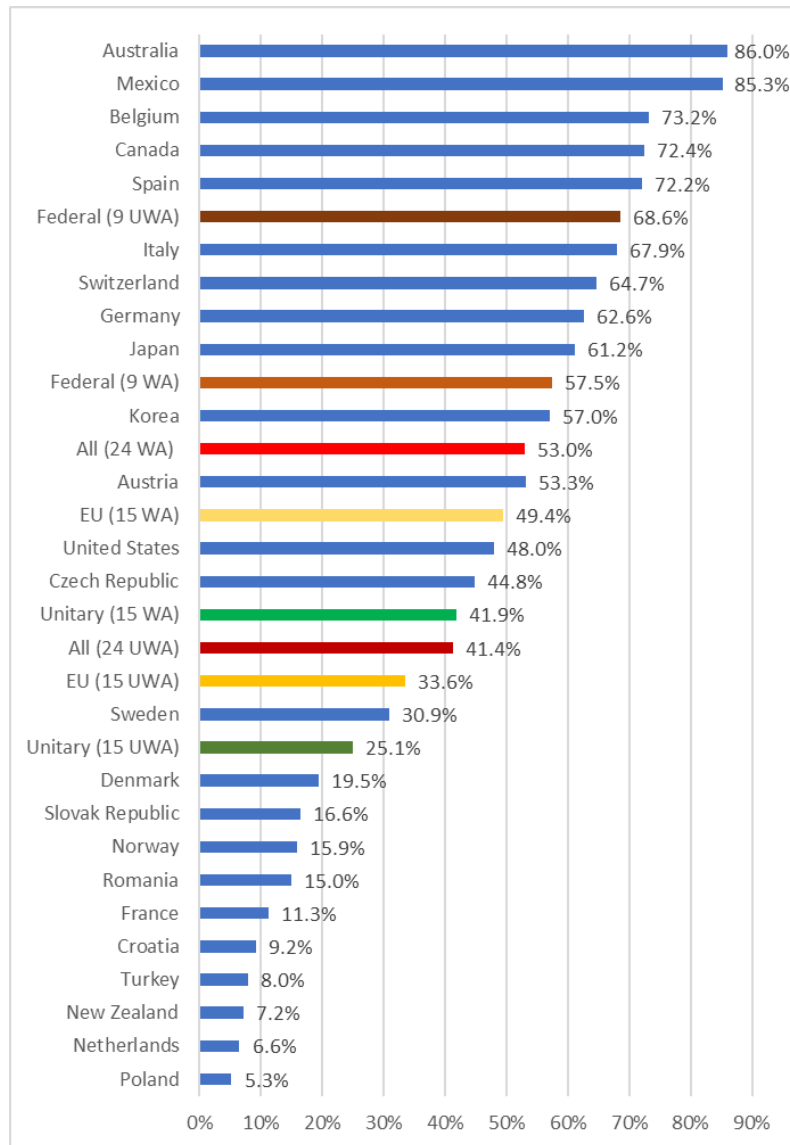
Source: Regional Government Finance and Investment Database

Regional governments account for around 41% of subnational expenditure

In 2016, regional governments accounted for 41.4% of subnational expenditure (unweighted average). There are however significant discrepancies across countries, especially between federal and unitary countries (Figure 1.4). In federal countries, regional governments carry a large share of subnational government expenditure, accounting for almost 69% of subnational government expenditure (unweighted average). On top of the list are Australia and Mexico, where the states carry more than 80% of total SNG expenditure. These countries are followed by Belgium, Canada and Spain where regional government expenditure accounted for more than 70% of total SNG expenditure. On the other hand, in the United States, states account for slightly less than half of total subnational expenditure, reflecting a strong contribution from municipalities.

In unitary countries, regional government expenditure accounts for around 25% of subnational expenditure (unweighted average). That indicator is below 10% in Croatia, Turkey, New Zealand, Netherlands and Poland.

Figure 1.4. Regional government expenditure as a % of SNG expenditure (2016)



Note: Data for Japan are for 2015. Averages are computed with duplicated 2015 data for Japan in 2016. UWA: Unweighted average. WA: Weighted average.

Source: Regional Government Finance and Investment Database

Staff expenditure is regional governments' biggest expenditure item

The analysis of regional government expenditure by economic classification indicates that in 2016 employee compensation (28%, unweighted average) represented the largest share of regional government expenditure. Spending related to the purchase of goods and services (21%, unweighted average) closely follows, as well as that of subsidies and current transfers (18%, unweighted average). Capital expenditure accounted for 15% of regional government expenditure and current social expenditure (social benefits) for 11% (unweighted averages). (Figure 1.5)

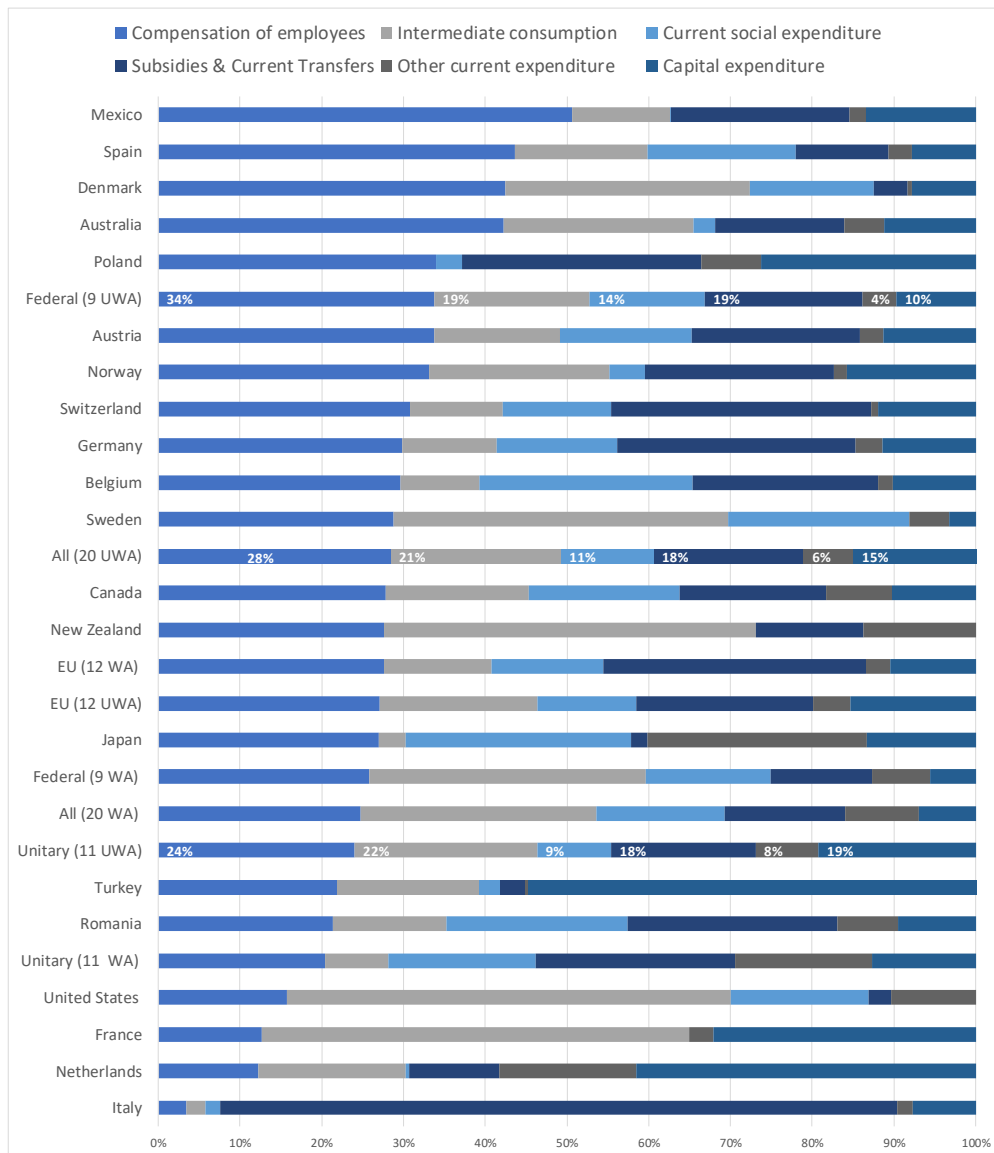
The importance of staff expenditure in subnational spending is quite common, but less so at the regional level. In 2016, staff expenditure accounted for 37% of subnational government spending in the OECD (unweighted average), i.e. almost 10 percentage points more than for regional governments alone. By

contrast, the share of subsidies and current transfers is much higher at the regional level than for subnational governments as a whole (18% vs 10%) while capital expenditure is at the same level (OECD, 2018_[17]).

There are large disparities between groups of countries and across individual countries. In federal countries, staff expenditure is the largest spending area and accounts for 34% of regional government expenditure (unweighted average). Staff expenditure is followed by the purchase of goods and services (i.e. intermediate consumption) and subsidies and current transfers (19% each, unweighted averages). In unitary countries, staff expenditure also takes the lead, accounting for 24% of total regional government expenditure (unweighted average), followed by the purchase of goods and services (22%), capital expenditure (19%), and subsidies and current transfers (18%, unweighted averages).

There are major disparities across countries. The budgetary ratio allocated to staff expenditure ranged from 51% in Mexico to 3% in Italy. The weight of subsidies and current transfers in the unitary countries' average may be driven by Italy, where regional government spending in subsidies and current transfers accounted for more than 83% of total regional government expenditure in 2016. This is partly due to transfers that cover health expenditure, which are primarily a regional government responsibility. In Italy, healthcare is funded through the National Health System from national to regional and local levels. Social expenditure at the regional government level is particularly relevant in Japan, Sweden, Romania and Belgium where that ratio reached more than 20% of total regional government spending in 2016. In Mexico, Spain, Denmark, Australia, Poland, Austria, Norway and Switzerland, staff expenditure stood for more than 30% of total regional government spending. In terms of GDP, the intermediate consumption to GDP ratio was the highest in the United States (5%) followed by Canada (4%). In Spain, Canada, Australia, Belgium and Mexico, all federal and quasi-federal countries, the staff expenditure to GDP ratio also surpassed 5%.

Figure 1.5. Breakdown of regional government expenditure by economic classification (2016, % of regional government expenditure)



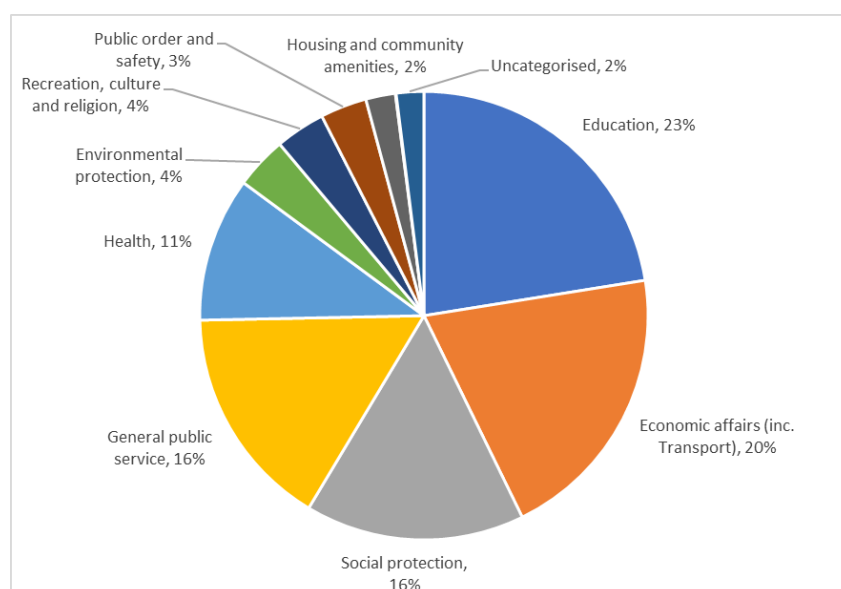
Note: There is no data on capital expenditure for the United States. Data for Japan covers 2010-2015. Averages are computed with duplicated 2015 data for Japan in 2016. UWA: Unweighted average. WA: Weighted average.
 Source: Regional Government Finance and Investment Database

Regional government areas of spending

The breakdown of expenditure by functional classification (COFOG) provides an overview of the role of regional governments in key economic and social functions. It partly reflects the responsibilities carried out by regional governments. Partly, because some significant regional responsibilities do not mobilise major spending, in particular when they are mainly related to co-ordination and co-operation, planning or other strategic functions.

The breakdown of regional government spending by functional classification (COFOG) in 2016 points to education as the largest spending sector of regional governments among the countries of the sample¹³, occupying 23% of regional government spending (unweighted average). In most countries, education is a shared responsibility between different levels of governments, with a relatively large share devolved to subnational governments. Education is followed by economic affairs (20%, unweighted average), social protection and general public services, both amounting to 16% of regional government expenditure (unweighted average), and by health (11%, unweighted average) (Figure 1.6).

Figure 1.6. Regional government expenditure by functional classification (unweighted average, 2016)



Averages are computed with duplicated 2015 data for Japan in 2016. UWA: Unweighted average. WA: Weighted average.
Source: Regional Government Finance and Investment Database

This order of priority holds for federal countries where 26% of regional government spending goes to education (unweighted average). Other main spending areas are social protection (20%, unweighted average) and health (18%, unweighted average). In unitary countries, regional government spending is primarily allocated to economic affairs (27%), education (20%), general public services (18%) and social protection (12%, unweighted averages).

Regional government spending by functional classification varies across countries (Figure 1.7). Overall, regional government spending in the educational sector in 2016 ranged from 5% of regional government expenditure in Poland, to 48% in Norway, whereas in New Zealand, for instance, regional governments have no responsibility in this area. Spending in general public services ranged from 3% of regional government expenditure in the United States, and 6% in Japan and Norway, up to 45% in Turkey.

Health is a key spending area for regional governments in Spain (37% of total regional government expenditure), Austria (29%) and Australia (28%), as well as in Italy (not included in the sample). Furthermore, regional government spending in public order and safety accounts for more than 8% of total regional government expenditure in Australia, Germany, Switzerland, and is relatively high also in Japan

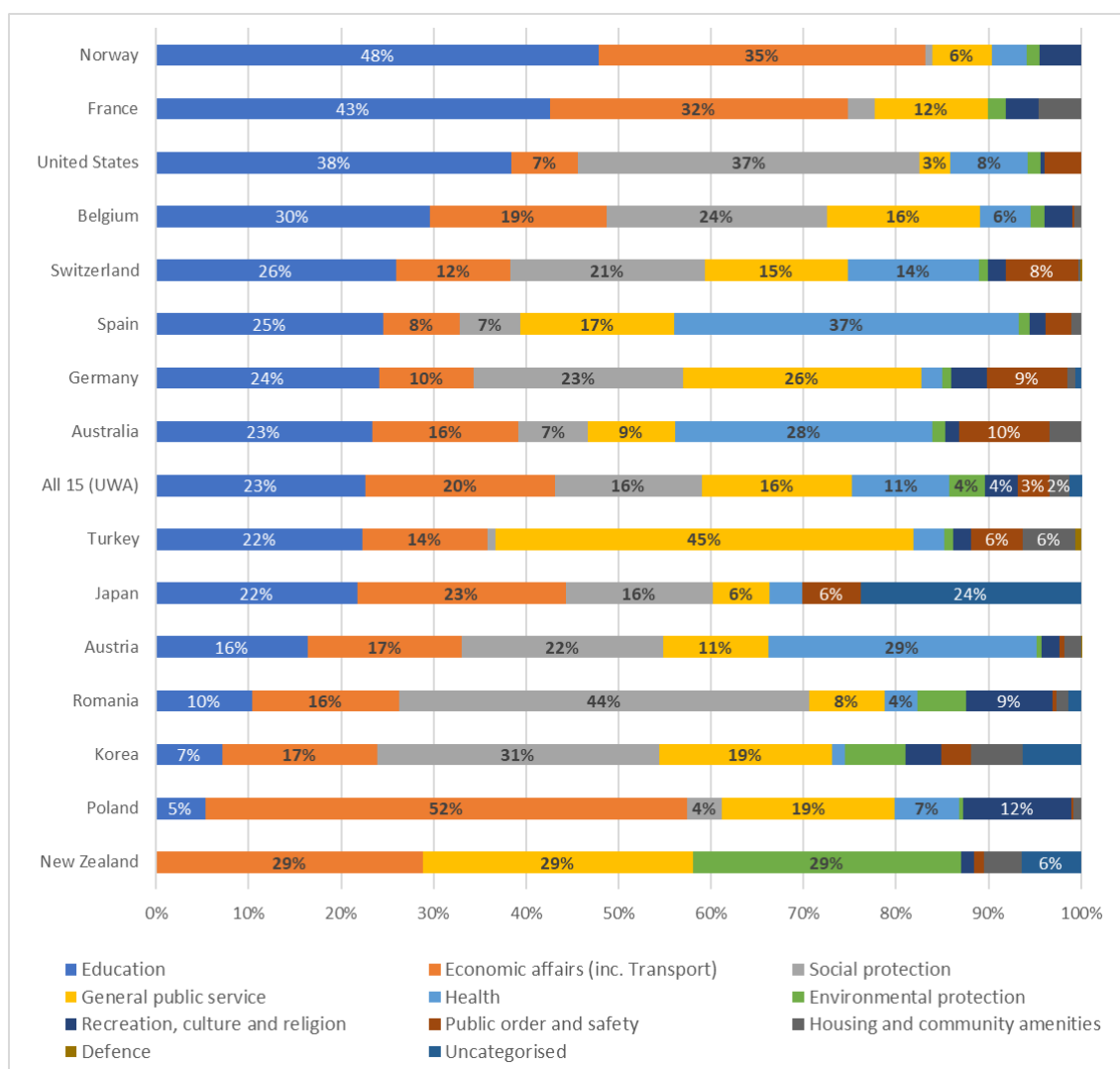
¹³ 15 countries: Australia, Austria, Belgium, France, Germany, Japan, Korea, New Zealand, Norway, Poland, Spain, Switzerland, and Turkey and United States.

and in Turkey. However, in Norway, France, Belgium and Poland, the role of regional governments in this area is insignificant.

It is to be noted that in 2016, regional governments in unitary countries such as Poland, Romania, Norway, France and Japan dedicated an extensive share of their expenditure to economic affairs (which include mostly transport, communication, or also energy). This share amounts to 52% for Poland, 35% in Norway and 32% in France.

In terms of spending to GDP ratio, regional government spending in education tops the list, accounting for 2.0% of GDP (unweighted average), followed by social protection (1.5%, unweighted average). There are wide disparities between federal and unitary countries. In federal countries, regional government education spending accounted for 3.5% of GDP in 2016, social protection 2.6%, and health 2.3% (unweighted averages). These federal averages are much higher than the unweighted averages of unitary countries, which reach their highest at 0.7% of GDP for economic affairs, and 0.6% of GDP for both education and social protection. A striking finding for unitary countries in 2016 is that regional spending in economic affairs accounted for more than 1% of GDP in Korea, and regional government spending in education in Norway amounted to 1.3% of GDP.

Figure 1.7. Breakdown of regional government expenditure by functional classification, COFOG (2016)



Note: Partial data for Japan, New Zealand and Korea. Japan (2010-2015). Averages are computed with duplicated 2015 data for Japan in 2016. UWA: Unweighted average. WA: Weighted average. Source: Regional Government Finance and Investment Database

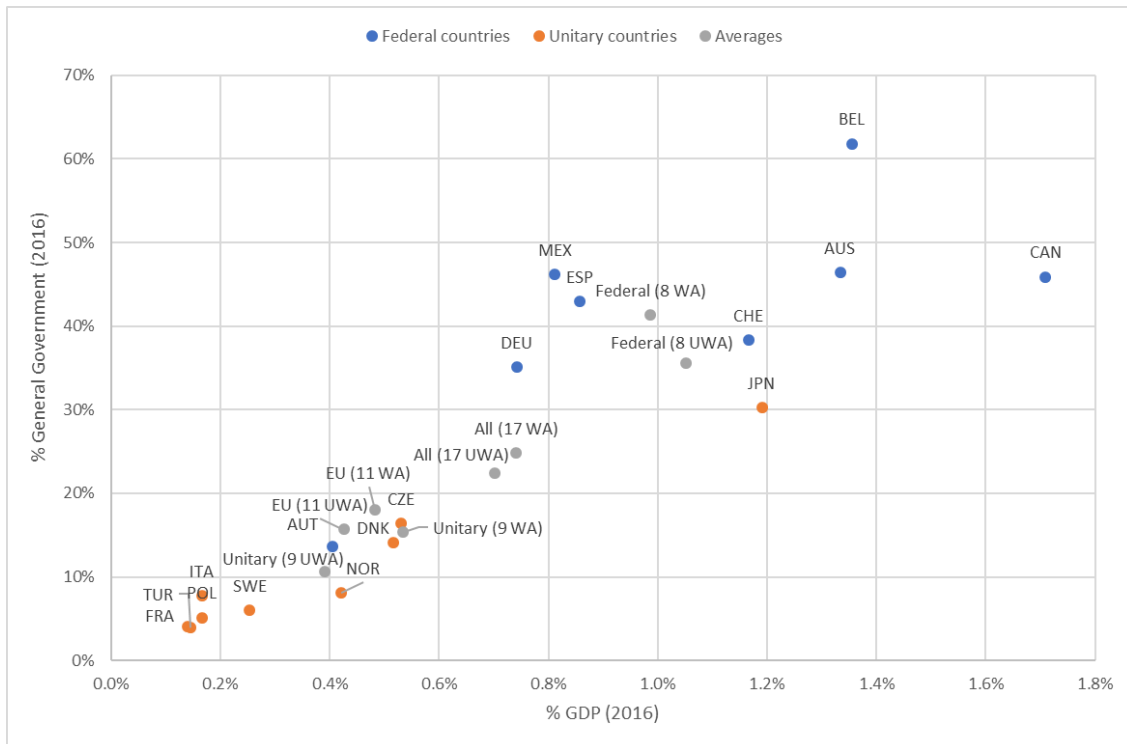
1.2. Regional government investment

Regional governments accounted for 22.4% of total public investment in 2016

Public investment is a shared responsibility across levels of government, as acknowledged by the OECD Council Recommendation on Effective Public Investment across Levels of Government (OECD, 2019^[18]).

Subnational governments, and in particular regions, play a key role, besides the central/federal and local governments (Box 1.2). In 2016, among the countries from the sample with available data¹⁴, regional government investment accounted for 22.4% of total public investment, and 0.7% of GDP on unweighted averages (Figure 1.8). These ratios are much higher in federal countries, where state governments carry out a large share of investment projects, accounting for around 35.6% of total public investment in 2016, which is three times higher than the unweighted average of unitary countries (10.6%).

Figure 1.8. Regional government investment as a % of GDP and a % of public investment (2016)



Note: Japan and Mexico (2010-2015). Averages are computed with duplicated 2015 data for Mexico and Japan in 2016. UWA: Unweighted average. WA: Weighted average.

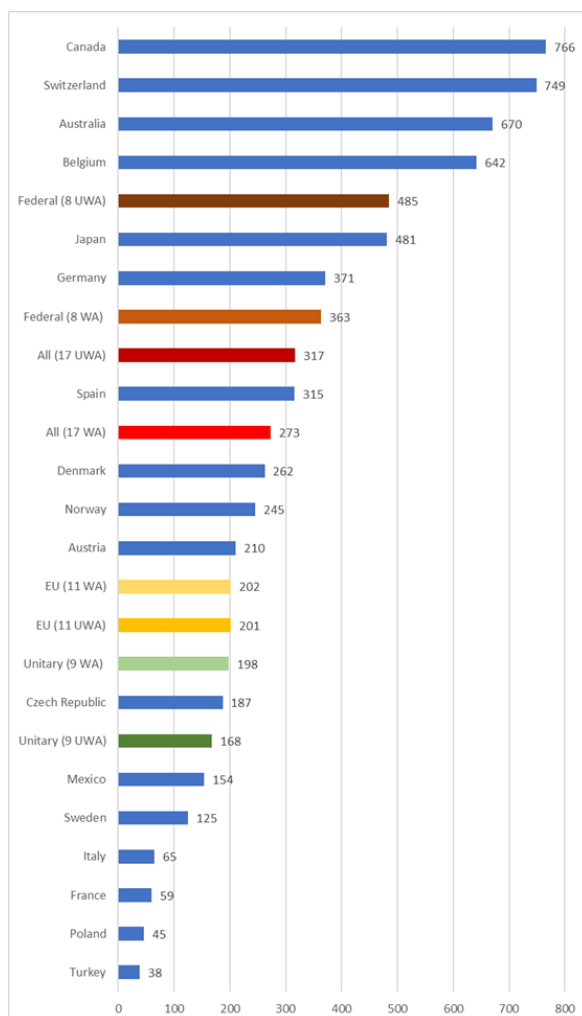
Source: Regional Government Finance and Investment Database

The share of regional government investment in GDP was relatively low, at 0.7% of GDP on average in 2016 (unweighted average). It reached 1.1 % of GDP for federal states, whereas it accounted for 0.4% of GDP for unitary countries (unweighted averages). For the sub-sample of EU member states, regional government investment ratios stood at 15.6% of public investment and 0.4% of GDP in 2016 (unweighted averages). Among unitary countries, Japan is an exception, where investment at the prefecture-level

¹⁴ 17 countries: Austria, Belgium, Germany, Spain, Switzerland, Mexico, Australia, Canada, Czech Republic, Denmark, France, Italy, Japan, Norway, Poland, Sweden, Turkey.

accounted for 1.2% of GDP and 30.2% of public investment. In Japan, subnational governments, in general, are a driving force behind public investment as they represented 68.7% of total public investment in 2016 and 2.6% of GDP.

Figure 1.9. Regional government investment in USD PPP per capita (2016)



Note: Japan and Mexico (2010-2015). Averages are computed with duplicated 2015 data for Mexico and Japan in 2016. UWA: Unweighted average. WA: Weighted average.

Source: Regional Government Finance and Investment Database

Regional government investment spending per capita averaged USD 317 in 2016 (unweighted average). In unitary countries, this ratio stood at USD 168 while for federal countries, it was at USD 485 in 2016. Per capita investment is the highest in Canada and Switzerland (above USD 700), followed by Australia and Belgium (above USD 600). The lowest among federal countries is Mexico where regional government investment per capita in 2016 was only USD 154, below the unitary countries' average (Figure 1.9).

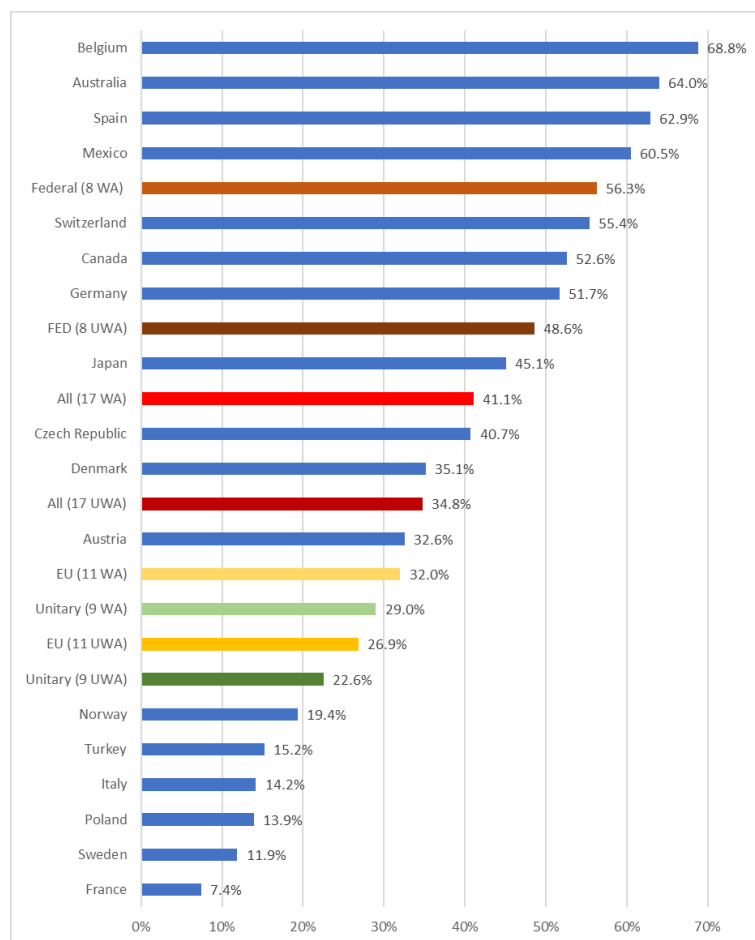
Box 1.2. Definition of direct investment

Direct investment is defined as gross capital formation and acquisitions, less disposals of non-financial non-produced assets during a given period. However, the way public investment is measured across countries varies. Gross fixed capital formation (GFCF) is often used as the best available proxy for direct public investment. In some countries, however, only capital expenditure data were available, and it was not possible to disaggregate capital transfers from direct investment. There is also some variation as to where expenditure on operations and maintenance is recorded.

Regional governments account for 34.8% of subnational investment

Regional governments are also prominent investors at the subnational level, accounting for 34.8% of SNG investment in 2016 (unweighted average). In Belgium, Spain, Australia and Mexico, state and regional governments are responsible for more than 60% of all subnational investment. Japan and the Czech Republic stand out in that list as the only unitary countries where the regional to subnational investment ratio is greater than 40% (Figure 1.10).

Figure 1.10. Regional government investment as a % of SNG investment (2016)



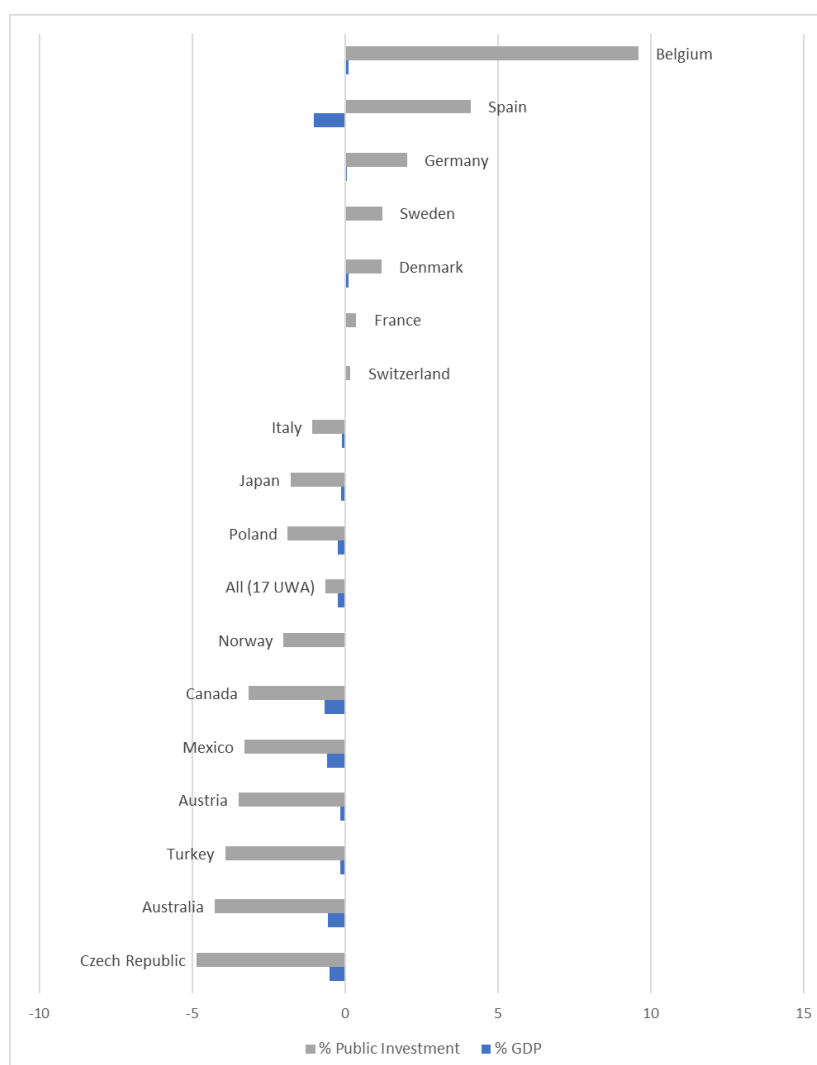
Note: Japan and Mexico (2010-2015). Averages are computed with duplicated 2015 data for Mexico and Japan in 2016. UWA: Unweighted average. WA: Weighted average.

Source: Regional Government Finance and Investment Database

Regional government investment as a share of GDP decreased on average between 2010 and 2016

The trends in yearly average indicate that regional government investment as a share of GDP has decreased for the majority of federal and unitary countries in recent years. This fall reflects the strong pressure that was put on global investment following the 2008 financial crisis and the fiscal consolidation packages that followed. The strongest decreases in the regional government investment to GDP ratio was in Spain, Canada, Mexico, Czech Republic and Australia. On the other hand, the change in the regional government investment to GDP and public expenditure ratios are positive for Belgium, Germany, Sweden and Denmark (Figure 1.11).

Figure 1.11. Regional government investment as a share of GDP and public investment, between 2010 and 2016 (change in percentage points)



Note: Japan and Mexico (2010-2015). Averages are computed with duplicated 2015 data for Mexico and Japan in 2016. UWA: Unweighted average. WA: Weighted average.

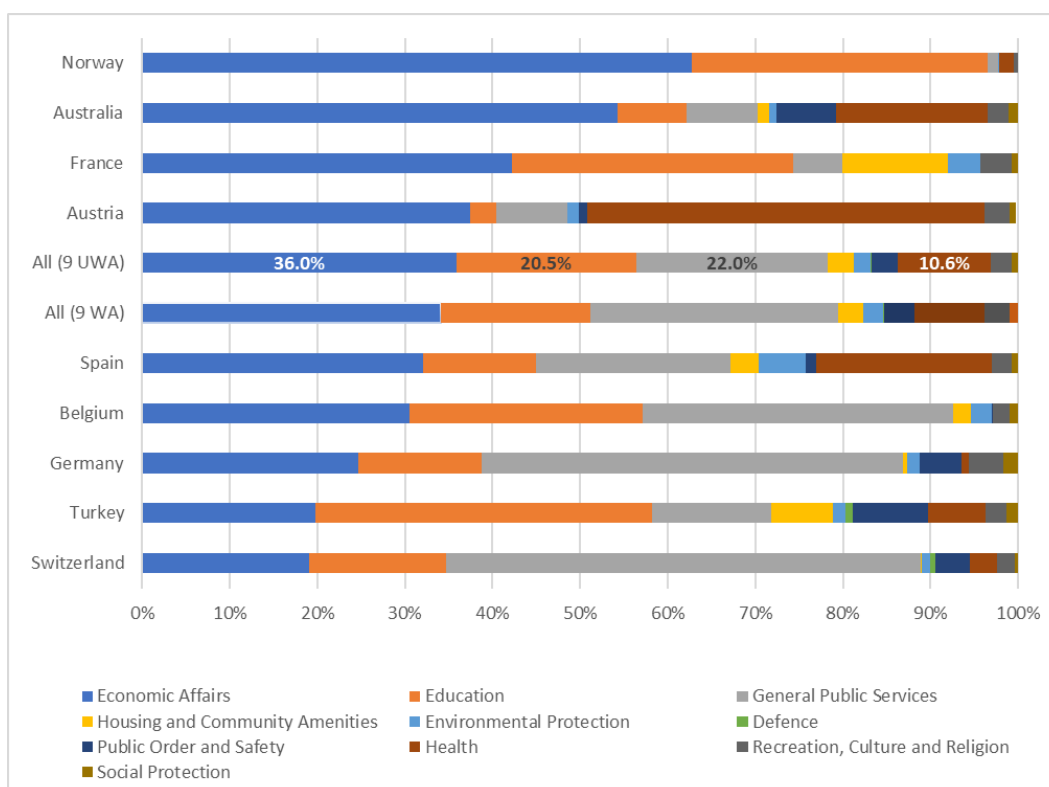
Source: Regional Government Finance and Investment Database

Regional government investment by functional classification

The sector of economic affairs is the priority sector for regional government investment in 2016, accounting for 36% of the total for the sample of countries with available data¹⁵ (unweighted average). Economic affairs include, among others, investment in transport (construction of roads, railways, water transport, and airport), communications, economic development, energy, and construction.

In Norway and Australia, regional government investment in economic affairs represented more than 50% of total regional government investment in 2016 (Figure 1.12). The share of regional government investment in economic affairs is the lowest in Switzerland in 2016 (19% of total cantonal investment), while cantonal governments invested massively in general public services (54% of total cantonal investment). Norwegian counties had the highest share of regional government investment in economic affairs over the 2010-16 period, and economic affairs accounted for 63% of their investment in 2016, while the remaining were almost entirely dedicated to investment in education. The recent decentralisation reform in Norway strengthened the counties' capacities in several economic areas, including transport, roads and business development, research and innovation, and agriculture.

Figure 1.12. Regional government investment by functional classification (2016)



Note: Australia (2010-2015). Averages are computed with duplicated 2015 data for Australia in 2016. UWA: Unweighted average. WA: Weighted average.

Source: Regional Government Finance and Investment Database.

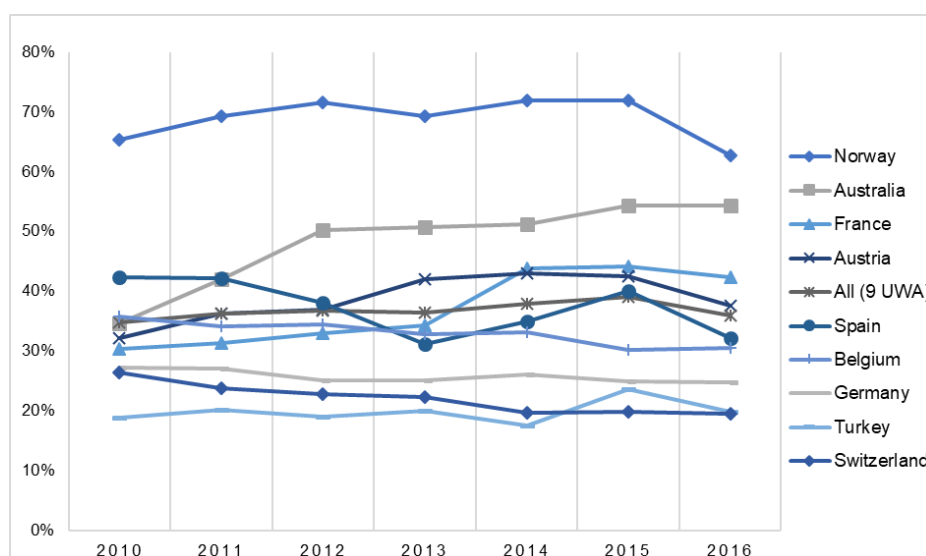
In addition to economic affairs, investment in general public services and education are other main regional government investment areas. Investment in general public services represented 22% of total regional government investment in 2016 (unweighted average), with the highest share in Switzerland (55%) and

¹⁵ 9 countries: Austria, Belgium, Germany, Spain, Switzerland, Australia, France, Norway and Turkey.

the lowest in Norway (1%). Education, on the other hand, represented almost 21% of total regional government investment (unweighted average). This share ranged from 38% in Turkey to 3% in Austria. Health accounted for almost 11% of regional government investment in 2016 (unweighted average). It is the main investment spending category of federated states in Austria (45% of regional government investment).

Recreation, culture and religion, housing and community amenities, and environmental protection are the least prominent investment areas at the regional level, representing on average between 2% and 3% of total regional government investment (unweighted averages).

Figure 1.13. Share of regional government investment dedicated to economic affairs in selected countries (2010-2016)



Note: Australia (2010-2015). Averages are computed with duplicated 2015 data for Australia in 2016. UWA: Unweighted average. WA: Weighted average.

Source: Regional Government Finance and Investment Database.

In Australia, states and federal territories have invested increasingly in economic affairs, especially transport, since 2011, and it represented 55% of total regional government investment as of 2015. In France, regional government investment had decreased overall from 2010 to 2013 before rising again from 2014 to 2016. There has also been a significant increase in the share of regional government capital expenditure dedicated to economic affairs, from 30% in 2010 to 42% in 2016 (Figure 1.13). In the coming years, French regions are expected to keep increasing their investment spending in this sector, in particular on transport, as well as for the energy transition. On the other hand, investment in general public services decreased by 14 percentage points in France over the 2010-16 period (Assemblée Nationale, 2019_[19]).

Beyond direct investment, the average regional fixed investment per capita was USD 349 USD in the country sample in 2016 (unweighted average), ranging from USD 12 in Sweden to USD 802 in Canada. Regional fixed investment to GDP ratio decreased in most countries throughout the period 2010-2016, including in Spain, Mexico and Canada. On the other hand, regional fixed investment as a share of GDP and public fixed investment increased in Denmark, Germany and Belgium throughout the same period.

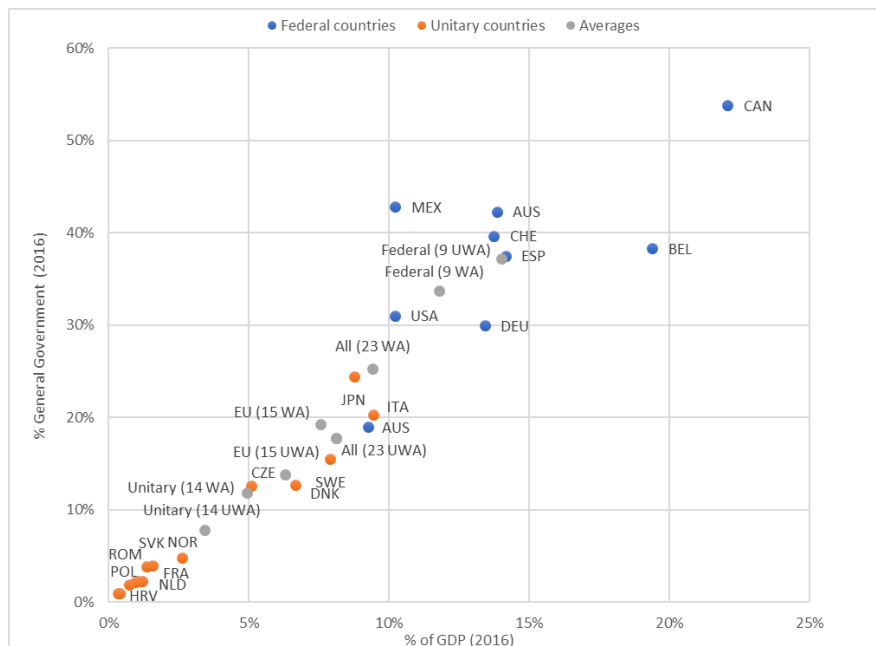
2 Regional government revenue

2.1. Regional government revenue

Regional government revenue amounted to 7.6% of GDP and 19.3% of public revenue in 2016

In 2016, the revenue of regional governments in the countries in the sample represented 7.6% of GDP and 19.3% of public revenue (Figure 2.1, unweighted averages). The unweighted per capita average of regional government revenue amounted to USD 3 462 (Figure 2.2).¹⁶

Figure 2.1. Regional government revenue as a % of GDP and a % of total public revenue (2016)



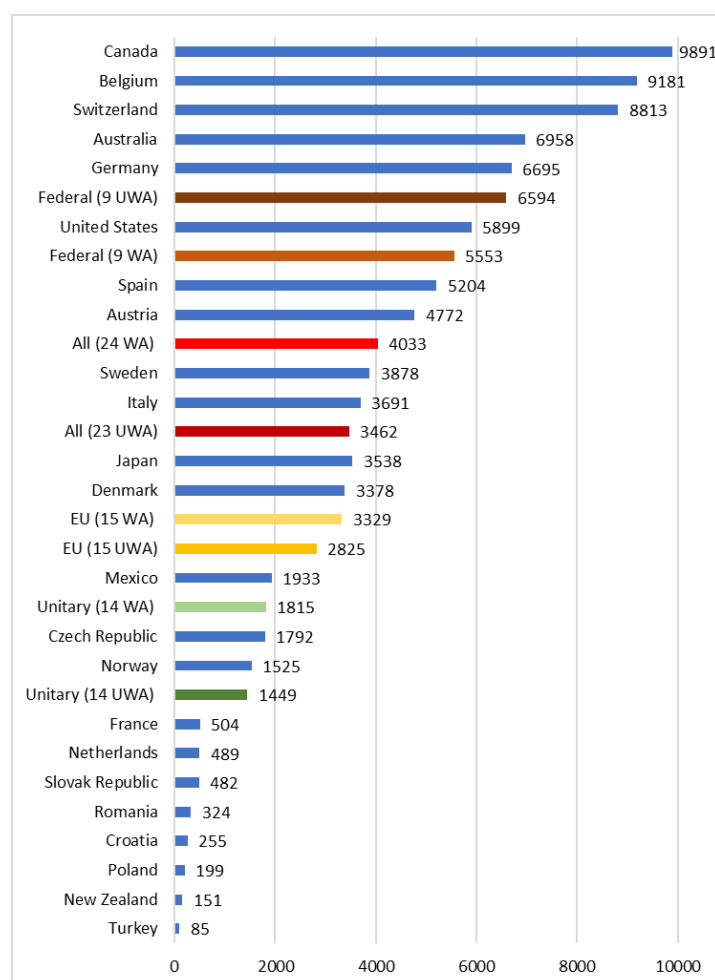
Note: Japan (2010-2015). Averages are computed with duplicated 2015 data for Japan in 2016. UWA: Unweighted average. WA: Weighted average.

Source: Regional Government Finance and Investment Database

¹⁶ Fiscal indicators for the regional level in some countries may be underestimated when the capital has a dual status of municipality and region (e.g. Norway, Romania, Croatia, and Austria). Regional accounts exclude the capitals to avoid overestimating regional fiscal data. Including them would overestimate regional accounts, as it would include transactions related to municipal activities of the capital.

Those ratios are much higher in federal countries where the state and provincial governments generally have significant revenue-raising abilities, compared to unitary countries. Federal countries such as Canada, Belgium, Switzerland, Australia, Germany and the United States have the highest per capita regional government revenue within the sample. However, in unitary countries such as Italy and Japan, regional government revenue accounted for approximately 20% or more of total public revenue, and close to or above 9% of GDP, in line with their weight in total public expenditure, as described above.

Figure 2.2. Regional government revenue in USD PPP per capita (2016)

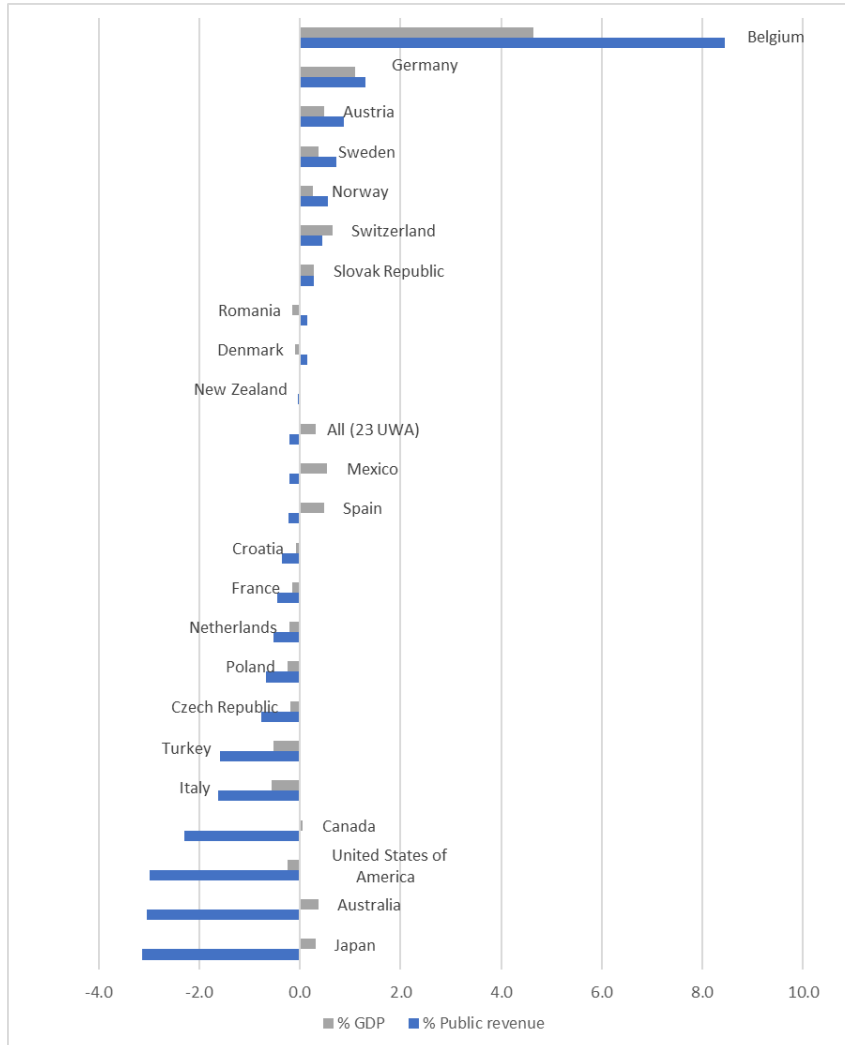


Note: Japan (2010-2015). Averages are computed with duplicated 2015 data for Japan in 2016. UWA: Unweighted average. WA: Weighted average.

Source: Regional Government Finance and Investment Database

Exploring the trends in yearly averages, the data shows that regional government revenue slightly decreased as a percentage of total public revenue over the period 2010-16, while it has increased as a share of GDP (Figure 2.3). However, regional governments were not affected in the same way across countries. Belgium is the only country to have experienced significant growth in regional government revenue in percentage points of public revenue and GDP over the period 2010-2016, reflecting reforms to strengthen the role of regions and communities. Regional government revenues as a share of GDP and public revenue have also increased in Germany, Austria, Sweden, Norway, Switzerland and Slovak Republic. On the other hand, the share of regional government revenue in GDP and public revenue has decreased the most in Japan, Australia, the United States and Turkey.

Figure 2.3. Regional government revenue as a share of GDP and total public revenue between 2010 and 2016 (change in percentage points)



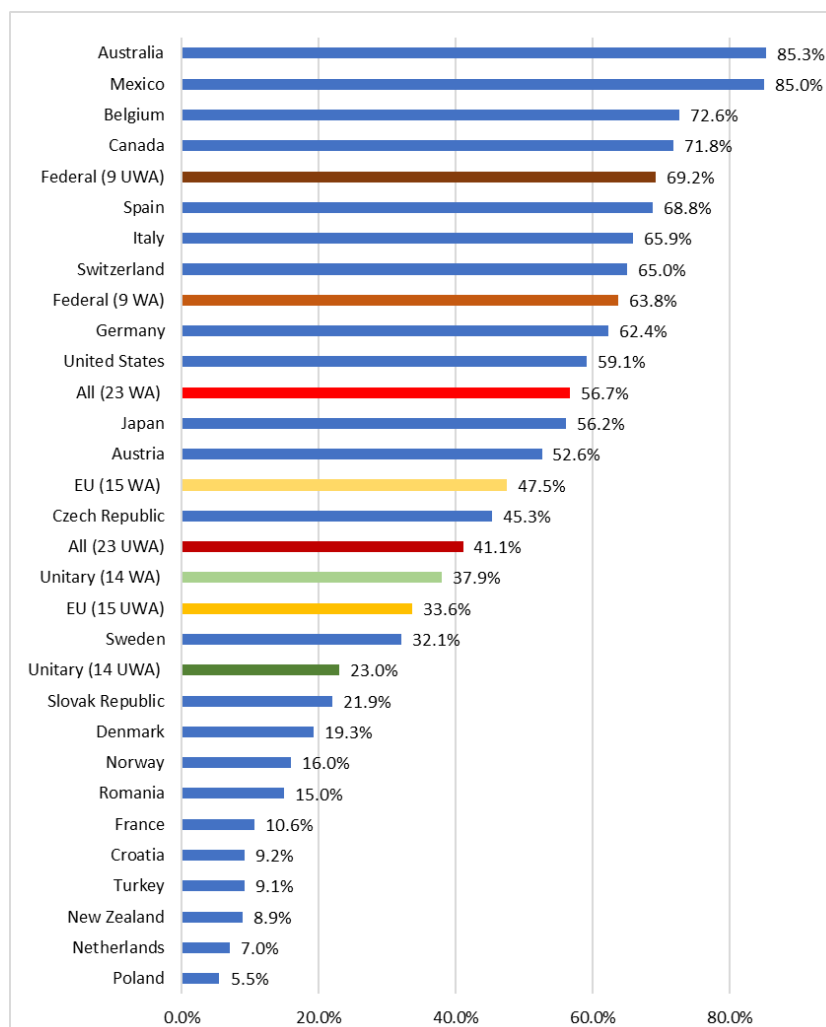
Note: Japan (2010-2015). Averages are computed with duplicated 2015 data for Japan in 2016. UWA: Unweighted average.
Source: Regional Government Finance and Investment Database

Regional government accounted for around 41% of subnational government revenue

In 2016, regional government revenue accounted for 41.1% of SNG revenue (unweighted average). There are significant disparities between federal and unitary countries. In federal countries, regional government revenue accounts for 69.2% of subnational revenue (unweighted average). This ratio is the highest in Australia and Mexico where the states account for more than 85% of subnational revenue. In Belgium, Canada and Spain, this share is nearly 70%. On the other hand, in Germany, in the United States and especially in Austria, this share is lower, around 60% of total subnational revenue for Germany and the United States, and 53% for Austria (Figure 2.4).

In unitary countries, regional government revenues account for 23.0% of subnational revenue (unweighted average). That indicator is below 10% in Croatia, Turkey, New Zealand, Netherlands and Poland, which highlights the relatively weak role of regional governments, compared to municipalities, in these countries.

Figure 2.4. Regional government revenue as a % of SNG revenue (2016)



Note: Japan (2010-2015). Averages are computed with duplicated 2015 data for Japan in 2016.

Source: Regional Government Finance and Investment Database

Grants and subsidies are the primary source of regional government revenue, accounting for 50% of their total revenue

Subnational governments in general, including states and regional governments, are funded by five main sources of revenues: tax revenue, grants and subsidies, user charges and fees, property income and other revenues. There is no clear-cut border between the different sources of revenue, but rather a continuum ranging from very little autonomy (earmarked grants) to high autonomy (own-source taxes for which subnational governments have the power to set rates and bases). It is important and more sustainable for subnational governments to have a balanced system based on a diversity of revenue sources, instead of relying on a single source of revenue (OECD, 2019^[2]).

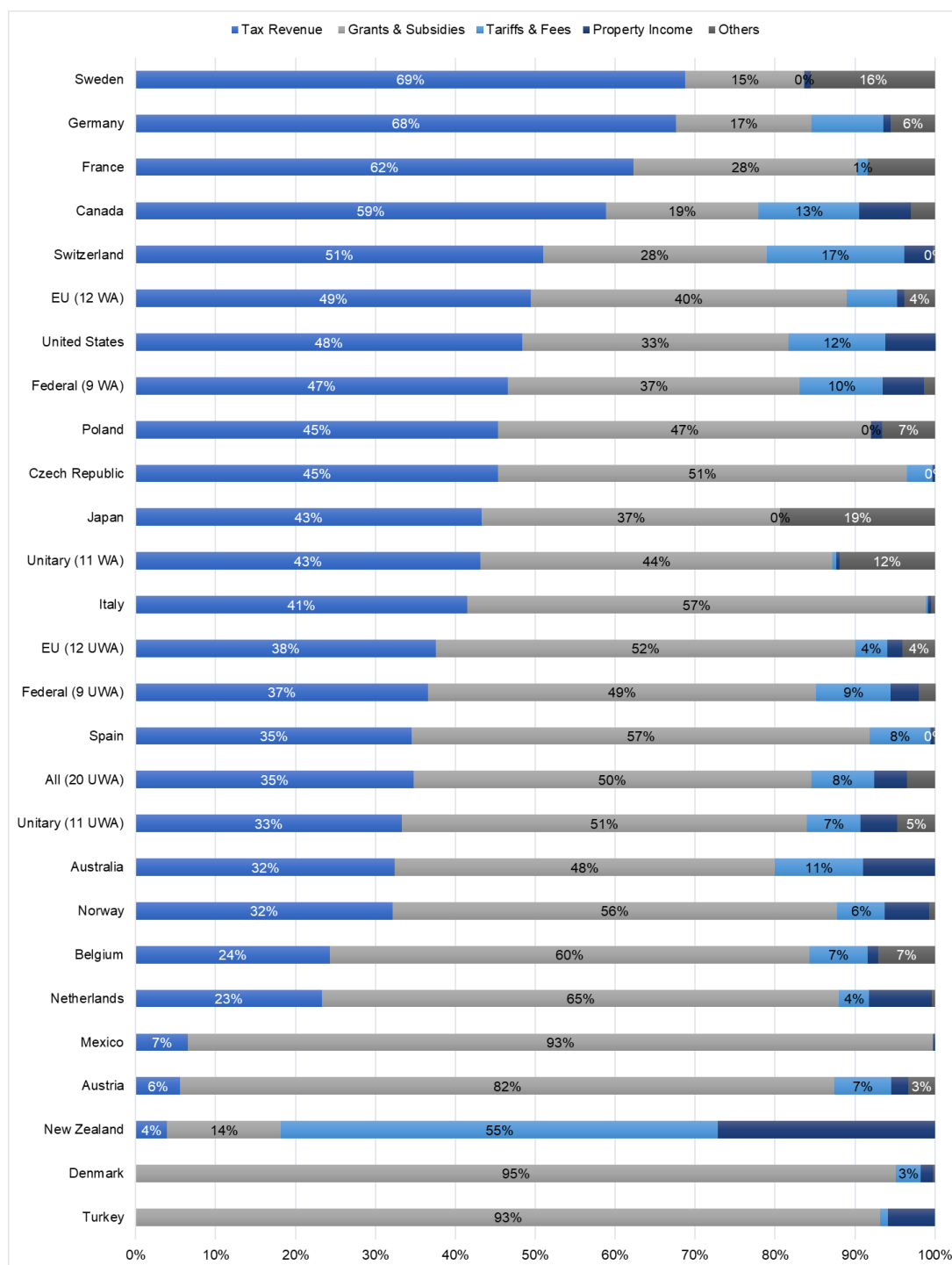
In the sample of countries included in the database, regional government revenues comprise mainly grants and subsidies, and tax revenue, which amounted to 50% and 35% respectively of regional government revenues in 2016 (unweighted averages). Tariffs and fees account for a very small share of regional government revenues (8%), property income represents 4% of regional government revenue, and other income 3% (Figure 2.5, unweighted averages).

In federal countries, grants and subsidies account for 49% of total regional government revenue, and tax revenue for 37% in 2016 (unweighted averages). For unitary countries, grants and subsidies account for up to 51% of total regional government revenue, while 33% came from taxes (unweighted averages). It is interesting to note that there is no large difference between the group of federal countries and that of unitary countries. Main discrepancies are at the country level, with countries where regions are funded mainly through grants and other mainly funded by taxes (shared or own-source taxation).

Among other sources of revenue, tariffs and fees accounted for more than half of total regional government revenue in New Zealand in 2016. New Zealand regional councils also receive a significant share of property income, as they often own highly-profitable assets such as ports. Switzerland has the second-highest ratio of tariffs and fees among the country sample, as they amounted to 17% of all cantonal revenues in 2016 (Figure 2.5). Levy fees and charges are also an important source of revenue for states in the United States that collect relatively little tax revenue. States receive highway tolls, trust revenues, service charges for education and hospital-related services, interest revenue, tuition paid to state universities and property income, and increasingly rely on proceeds from lotteries (OECD/UCLG, 2019_[10]).

Royalties from the exploitation of natural resources are another significant source of revenues for states and territories in Australia, and for provinces in Canada, which receive direct payments from mining companies. Finally, provinces in the Netherlands receive significant revenues from dividends from utility companies, in particular, energy companies (OECD/UCLG, 2019_[10]).

Figure 2.5. Breakdown of regional government revenue by type (2016)



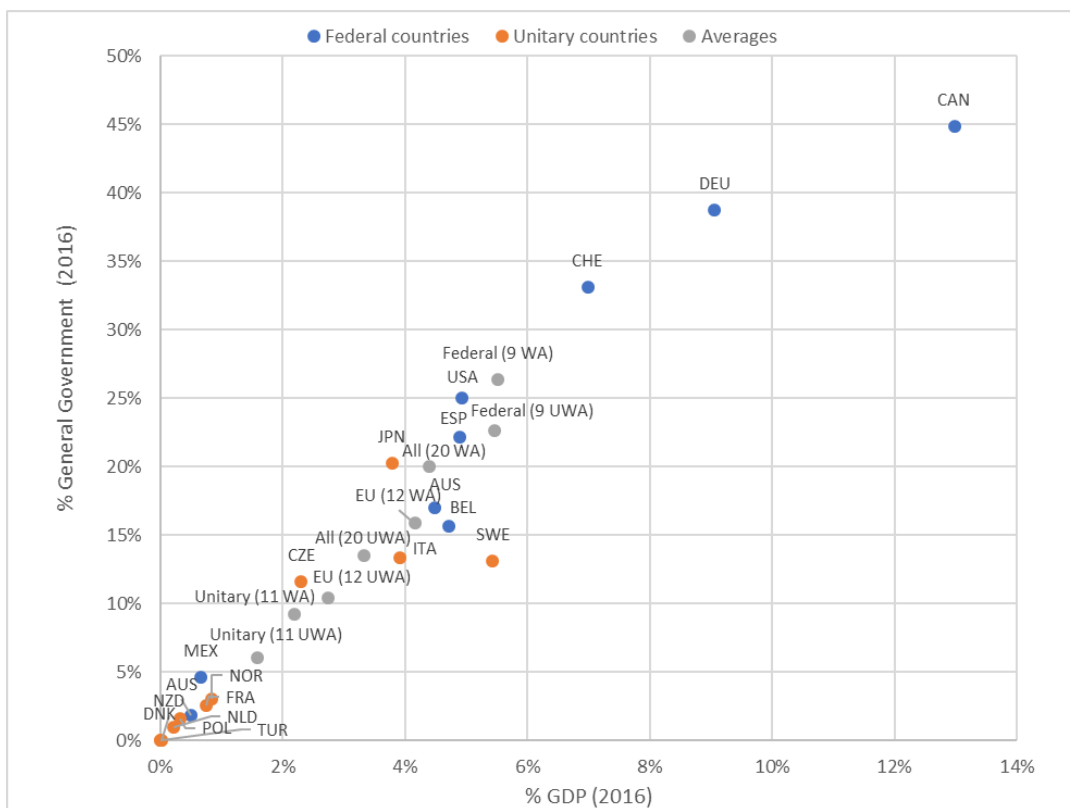
Note: Japan (2010-2015). Averages are computed with duplicated 2015 data for Japan in 2016. In Romania, other revenues are not disaggregated and may well include tariffs and fees and other revenue sources. UWA: Unweighted average. WA: Weighted average. Source: Regional Government Finance and Investment Database

2.2. Focus on regional tax revenue

Regional government tax revenue account for 13.5% of total public tax revenue and 3.3% of GDP

The share of regional government tax revenue in national aggregates varies significantly across countries within the sample (Figure 2.6). In 2016, regional government tax revenue accounted for 13.5% of total public tax revenue in 2016, and 3.3% of GDP (unweighted averages). Regional government tax revenue amount on average to USD 1 595 per capita on unweighted average in 2016.

Figure 2.6. Regional government tax revenue as a % of GDP and a % of general government tax revenue (2016)



Note: Japan (2010-2015). Averages are computed with duplicated 2015 data for Japan in 2016. UWA: Unweighted average. WA: Weighted average.

Source: Regional Government Finance and Investment Database

However, this figure varies significantly between countries. In federal countries, state government tax revenues represent on average 22.6% of total public tax revenue, against 6.1% for unitary countries, in 2016 (unweighted averages). In Canada, Germany and Switzerland, the share of regional tax revenue in total public tax revenue is above 30%, with the highest ratio in Canada (44.8%). Canada also tops the list in the regional government tax-to-GDP ratio (13% in 2016). Mexico and Austria are exceptions among federal countries, with low shares of tax revenue in total regional government revenue compared to their counterparts in federal countries.

In unitary countries, the weight of regional government tax revenue in GDP and public tax revenue is insignificant in countries such as Turkey, Slovak Republic, Denmark and New Zealand where regional

governments have no tax revenues. For instance, since the 2007 local government reforms, regions in Denmark cannot levy taxes directly and are financed through grants and contributions from the central government and the municipalities.

Japan stands out among unitary countries with a large share of regional tax revenue. Prefectural tax revenues stood at 20.3% of public tax revenues in 2016, well above federal countries such as Australia, Belgium and Mexico. Apart from Japan, the ratio of regional government tax revenue in total public tax revenue is also above 10% in Italy, Sweden and Czech Republic.

Shared taxation between the central and regional level is widespread in OECD and EU countries. In many cases, taxes such as the personal income tax (PIT), the corporate income tax (CIT), and the value added tax (VAT) are shared between the central and the regional government levels. Shared taxation is quite common in federal countries¹⁷. Australia and the United States are however an exception, as there are no tax sharing arrangements between the federal and state government levels (Box 2.1). Shared taxation, in particular of the PIT, is also prevalent in unitary countries (Box 2.2).

¹⁷ The delineation between “revenue sharing” (transfer of tax revenue) and “tax sharing” (sharing of tax revenue) is sometimes unclear. In the case where tax revenues pass through the state budget and are transformed and redistributed in the form of grants or subsidies, they are not considered tax revenue but transfers. This has been clarified by the SNA reform in 2008 and since its implementation in 2014, several countries have seen their tax revenues reclassified as transfers and no longer as shared taxes. For example, Austria has seen the share of subnational tax revenue in total subnational revenue fall sharply from 54% to 10% because of this change. The same occurred in Slovak Republic (from 46% to 7%).

Box 2.1. Regional government tax revenues in federal countries

The tax regime applied to the state governments varies across OECD and EU countries. Shared-taxation arrangements between the central and regional level prevail in some countries, whereas other regional governments have a majority of own-source taxes or a mix of both shared and own-sources.

In **Canada** and **Germany**, most regional government taxes are shared taxes. In **Canada**, the bulk of regional government tax revenue is made up of the personal income tax (PIT), the corporate income tax (CIT), provincial sales tax and payroll tax, which are all shared taxes. Provinces have significant tax autonomy and discretion over tax rates and credits. In **Germany**, regional government tax revenues include shares of the PIT, CIT and VAT, which make up 84% of regional tax revenue. *Länder* also collect own-source taxes, the most consequential being the real property transfer tax, the inheritance tax, the betting and lottery tax, the beer tax and a fire protection tax.

In federal countries such as **Australia** and the **United States**, there are no shared-taxation arrangements, and regional governments only receive own-source tax revenues, over which they have a large discretionary power. Unlike other federal countries, property-related taxes make up the bulk of regional government tax revenue in **Australia** (land property tax, and tax on financial and capital transactions). States and territories also receive payroll taxes (29% of state tax revenues), vehicle-related taxation (15%) and taxes on specific services (15%), over which they have the power to set the rates and bases. In the **United States**, the main source of regional government tax revenue comes from the PIT, followed by the sales tax. Other major taxes include excise taxes, license taxes, the corporate income tax, motor fuel tax, and several taxes on natural resource extraction.

Regional government tax revenues include both shared and own-source taxes in **Belgium** and **Spain**. In **Belgium**, regional governments have both shared and own-source tax revenue. Regions and communities receive a share of the national PIT and, since 2014, regions also have the right to levy their own regional additional tax on PIT. Regions also have own-source tax revenue from registration duties on sales of real estate, inheritance and gift tax, vehicle tax, and withholding tax on real estate.

In **Spain**, Autonomous Communities are allocated both own-source and shared tax revenues. Tax revenue shared with the central government include a share of the PIT, VAT revenues, and the excise tax. ACs own-source tax revenues also include the wealth tax, inheritance and gift tax, tax on capital transfers, gambling tax, vehicle excise tax and the hydrocarbon retail sales tax. Two regional governments, Basque Country and Navarra, enjoy a higher degree of fiscal autonomy due to their “foral” regime.

In **Switzerland**, cantons can levy any kind of tax not exclusively attributed to the Confederation (double taxation is prohibited). Cantons’ taxes include, in order of priority, PIT, CIT, and the property tax. Other taxes include 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, and taxes on motor vehicles.

On the other hand, regional government tax revenues are more limited in **Austria** and **Mexico**. In **Austria**, states receive a negligible amount of tax revenue, primarily composed of a share of the income tax (PIT). In **Mexico**, the bulk of state tax revenue comes from the payroll tax, followed by the tax on motor vehicles, a share of the property tax, and a tax on financial and capital transactions and property purchases. Other minor taxes for state governments include a lodging tax, a tax on industrial activities, and a gambling tax. Despite the transfer of new tax powers with reforms in 2007 and 2013, and their autonomy over tax rates and bases for some taxes (property tax, vehicle tax and payroll tax), Mexican states remain reluctant to exercise their taxation powers.

Source: (OECD/UCLG, 2019^[10])

The main own-source taxes for regional governments encompass a large variety of taxes, including property transfer taxes, inheritance taxes, betting and lottery taxes, motorised vehicles taxes, sales taxes, consumption taxes, taxes on natural resources, excises taxes (alcohol, motor fuel, tobacco) and a tax on financial and capital transactions. Recurrent taxes on immovable properties are usually a local tax rather than a regional tax, and represent a small share of regional government tax revenue, except in Australia and New Zealand, where land and real-estate property taxes are levied at the regional level.

Box 2.2. Regional government tax revenues in unitary countries

Tax revenue is an important source of revenue for regional governments in some unitary countries from the sample, such as Sweden, France, Poland and Japan, while regional governments in Turkey or New Zealand have no or very few taxing powers. Among countries with tax resources, regional governments can receive either shared, own-source taxes or a mix of both shared and own-source taxes.

The tax revenues of regional governments in Norway, Sweden, Croatia, Czech Republic and Japan come mainly from the PIT. In **Norway**, the primary source of tax revenue is the shared personal income tax (PIT). Each year, the Parliament decides the maximum tax income rates at central, municipal and county levels. In **Sweden**, counties raise the PIT, which is an own-source tax. Counties are free to set the income tax rates but the central government controls the tax base. In **Croatia**, the regional government's tax revenue is primarily composed of a share of the PIT (17%, compared to 60% for municipalities), in addition to some own-source taxes including the tax on inheritance and gifts, motor vehicles, boats and vessels, and gambling machines. Counties have no power over tax rates, on the contrary to municipalities and towns, which can set their own tax rates. In **Czech Republic**, all regional government tax revenue comes from shared taxes between the central, regional and local levels. Shared taxes include the PIT, withholding PIT, CIT, tax on self-employed income and VAT. Regions receive approximately one-tenth of the proceeds from each tax, which are then redistributed to individual regions according to a share set out by related legislation. In **Poland**, regional government tax revenue is exclusively composed of shared taxes, encompassing a share of the PIT and of the CIT. In **Japan**, the main prefectural tax is the shared resident income tax, assessed on both individuals and businesses. Prefectures also have own-source taxes such as the enterprise tax, a local consumption tax, an automobile tax, light-oil delivery tax, and the prefectural tobacco tax.

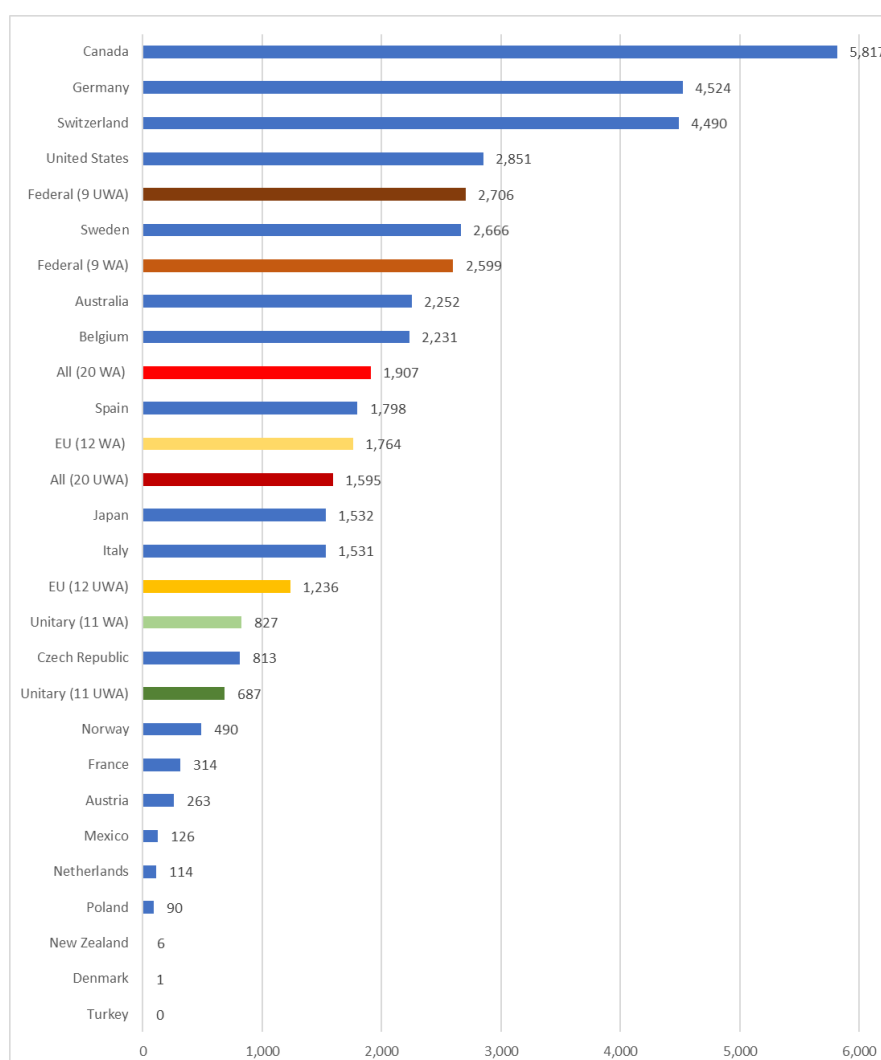
Regions in France and Italy have more own-source revenue. In **France**, regions collect both shared and own-source tax revenues. Shared taxes include a share of the internal consumption tax on energy products (TICPE), a surcharge tax on the apprenticeship tax and, since 2018, a share of VAT. In addition, regional government own-source taxes include business taxes on real estate and business added-value. In **Italy**, regions have a large array of own-source taxes, including a regional tax on economic activities (IRAP), over which they have the discretion to increase or reduce the rate within a certain range. Italian regions also receive regional taxes on vehicles, waste landfills and waste incineration plants, and a regional PIT surtax.

In other countries, regional governments are funded by other minor taxes. In the **Netherlands**, provincial taxes come almost entirely from the surtax on the motor vehicle tax, the rate of which is capped by the central government. In **New Zealand**, regional councils' tax revenues are essentially composed of land and real estate property taxes, over which they have a large degree of discretion. In **Korea**, provincial taxes comprise the acquisition tax, the registration and license tax, leisure tax, and local consumption taxes, as well as some earmarked taxes (community resource and facility and local education taxes).

Source: (OECD/UCLG, 2019^[10])

Canadian provinces and territories rank first with tax revenue per capita close to USD 6 000 in 2016. They are followed by Germany and Switzerland, with regional government tax revenue above USD 4 000 per capita. (Figure 2.7).

Figure 2.7. Regional government tax revenue in USD PPP per capita (2016)



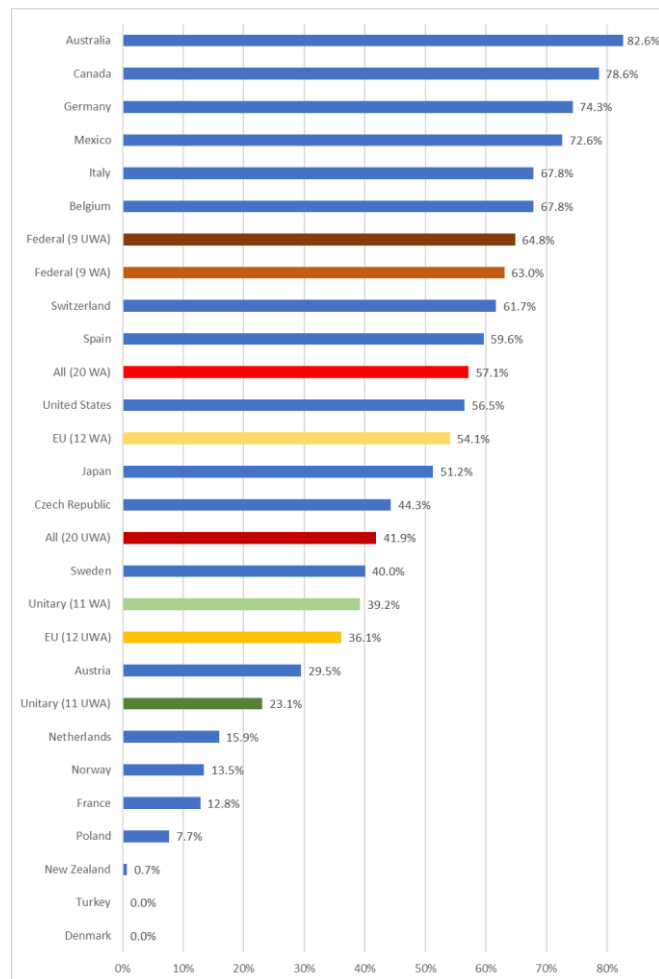
Note: Japan (2010-2015). Averages are computed with duplicated 2015 data for Japan in 2016. UWA: Unweighted average. WA: Weighted average.

Source: Regional Government Finance and Investment Database

Regional government tax revenues represented 41.9% of subnational government tax revenue in 2016

Regional government tax revenue accounted for 41.9% of subnational tax revenue (Figure 2.8, unweighted average) in 2016. This share is particularly significant in Australia, Canada, Germany and Mexico, where regional governments account for more than 70% of total SNG tax revenues. Regional government tax revenue in Italy as a share of SNG tax revenue is also very high, at the same level or higher than federal countries such as Belgium, Switzerland or the United States.

Figure 2.8. Regional government tax revenue as a % of SNG tax revenue (2016)



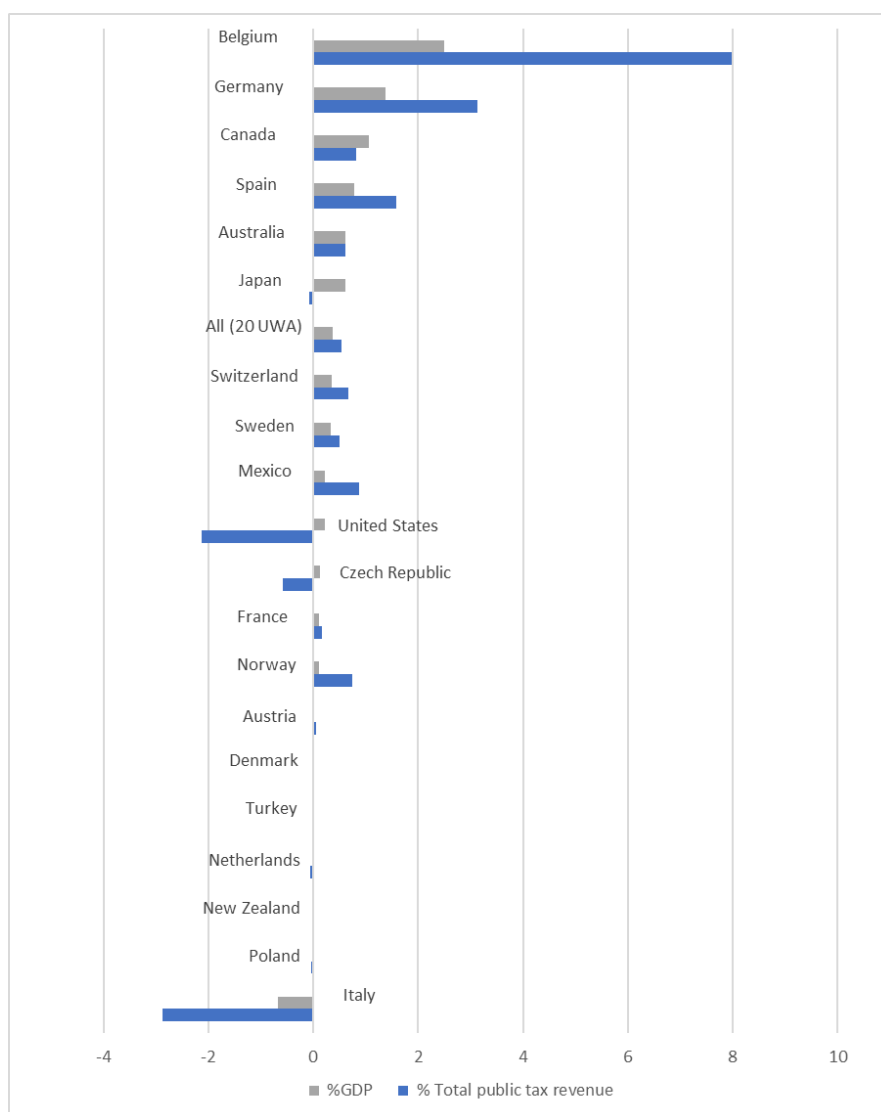
Note: Japan (2010-2015). Averages are computed with duplicated 2015 data for Japan in 2016. UWA: Unweighted average. WA: Weighted average.

Source: Regional Government Finance and Investment Database

Regional government tax revenues as shares of GDP and public tax revenue have increased in around half of the countries in our sample

Between 2010 and 2016, the ratios of regional government tax revenues as shares of GDP and public tax revenue have increased in around half of the countries in the sample. The increase in regional government tax revenue has been particularly significant in Belgium, where regional government tax-to-GDP and regional government tax-to-public tax ratios grew by 2.5 and 8 percentage points respectively following the state reform. The share of tax revenue in regional government revenue has also increased in Germany, Canada, Spain, Australia, Japan, Switzerland, Sweden, Mexico and Norway. On the other hand, the share of regional government tax revenue in total tax revenue has decreased in the United States, Italy and Czech Republic.

Figure 2.9. Regional government tax revenue as a share of GDP and total public tax revenue between 2010 and 2016 (change in percentage points)



Note: Japan (2010-2015). Averages are computed with duplicated 2015 data for Japan in 2016. UWA: Unweighted average.
Source: Regional Government Finance and Investment Database

3 Regional government debt

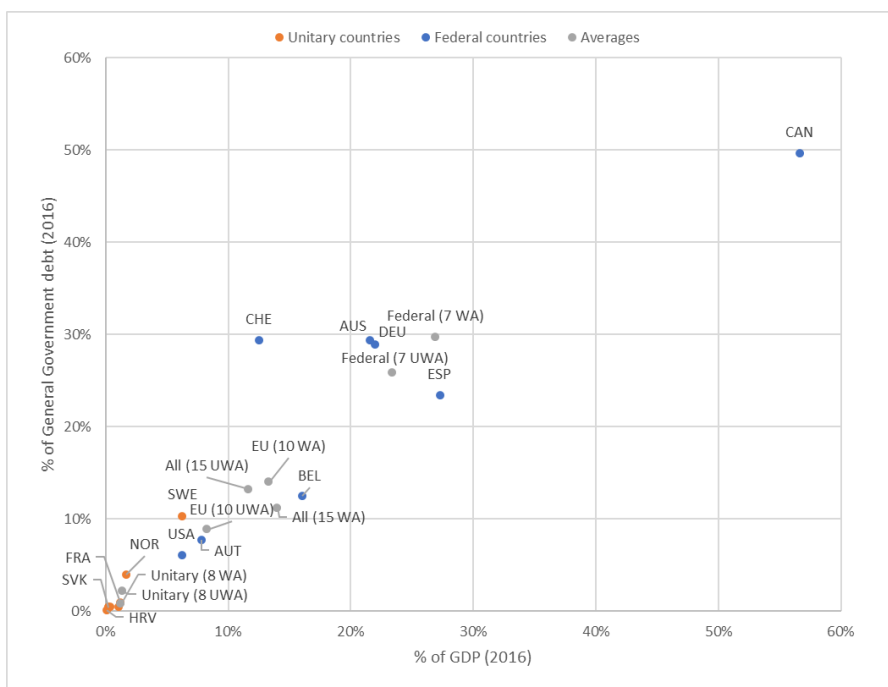
The use of debt is an essential instrument for regional governments in the OECD and EU, which is often necessary to finance their investments in addition to regional governments' self-financing and capital transfers. In this regard, regional government debt, and subnational government debt are, in general, regulated by legislation in a relatively strict manner. In particular, the “golden rule”, which restricts borrowing to finance long-term investment projects (thus limiting the level of indebtedness) and other prudential rules on borrowing are common. However, in some federal countries where state governments are not bound by the “golden rule”, regional government debt may reach significant levels, as it may also be used to finance regional government current expenditure.

3.1. Regional debt is very uneven across countries, in particular between federal and unitary countries

At the end of 2016, outstanding gross debt at the regional level amounted to 11.7% of GDP and 13.2% of public debt (Figure 3.1, unweighted averages). This corresponded to USD 5 474 per capita, based on the countries within the sample¹⁸ (Figure 3.2).

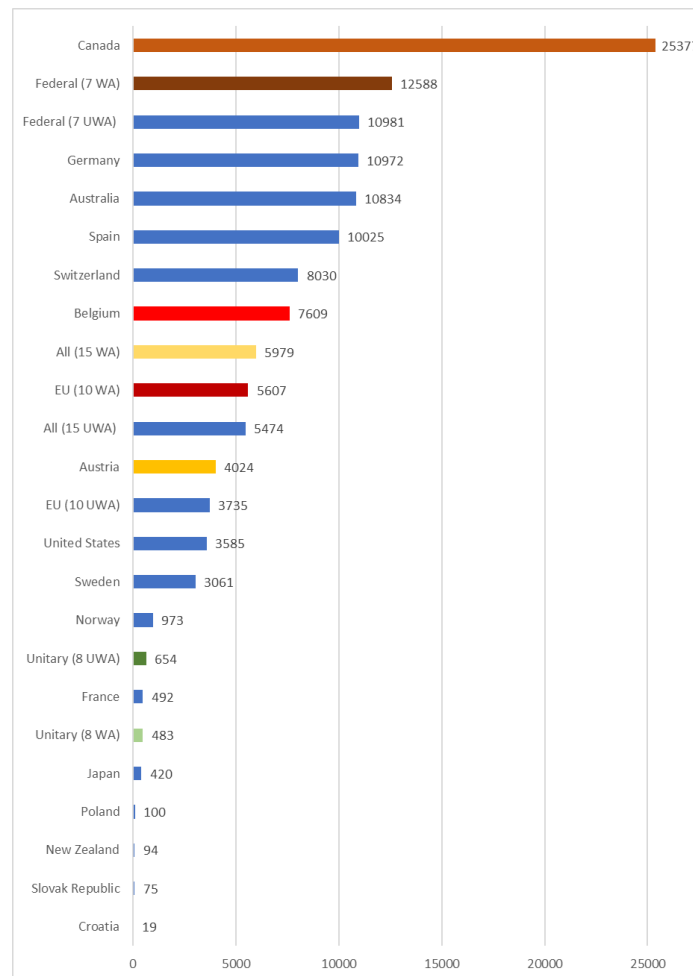
¹⁸ Countries within the sample: Austria, Belgium, Germany, Spain, Switzerland, Australia, Canada, Croatia, France, Norway, Poland, Slovak Republic, Sweden, Japan, New Zealand.

Figure 3.1. Regional government debt as a % of GDP and a % of total public debt (2016)



Note: Japan (2010-2015). Averages are computed with duplicated 2015 data for Japan in 2016. Data for the United States correspond to the financial debt only. The United States of America are excluded from the averages. UWA: Unweighted average. WA: Weighted average.
 Source: Regional Government Finance and Investment Database

Figure 3.2. Regional government debt in USD PPP per capita (2016)



Note: Japan (2010-2015). Averages are computed with duplicated 2015 data for Japan in 2016. Data for the United States correspond to financial debt only. The United States of America are excluded from the averages. UWA: Unweighted average. WA: Weighted average.

Source: Regional Government Finance and Investment Database

Regional government debt is, however, unevenly distributed. In federal countries, regional government debt accounted for 25.8% of public debt and 23.4% of GDP in 2016, compared to respectively 2.1% of public debt and 1.4% of GDP in unitary countries (unweighted averages). In the subsample of country members of the European Union, regional government debt amounted on average to 8.9% of total public debt and 8.3% of GDP as of 2016 (unweighted averages).

These differences came from the fact that, in most unitary countries in the EU and the OECD, subnational governments have to follow the rule that recourse to long-term borrowing should always be linked to the financing of capital expenditure. This “golden rule” greatly limits the level of indebtedness of regional governments, which are also most often subjected to additional debt rules and thresholds set by the central government on debt service and stock. In some countries, regions need prior approval by the central government to borrow (e.g. Croatia).

On the other hand, state government in federal countries such as Australia, Canada or Belgium may borrow, with no limits imposed by the central government, to cover both current and capital expenditures. In Germany, regional government borrowing is limited by the Constitution, which states that a *Länder's* public debt must not exceed the amount of planned investments. In addition, a “debt brake rule” was

introduced in 2011 and Länder need to adopt rules for including the “debt brake” in their regional constitution or in a budget framework law.

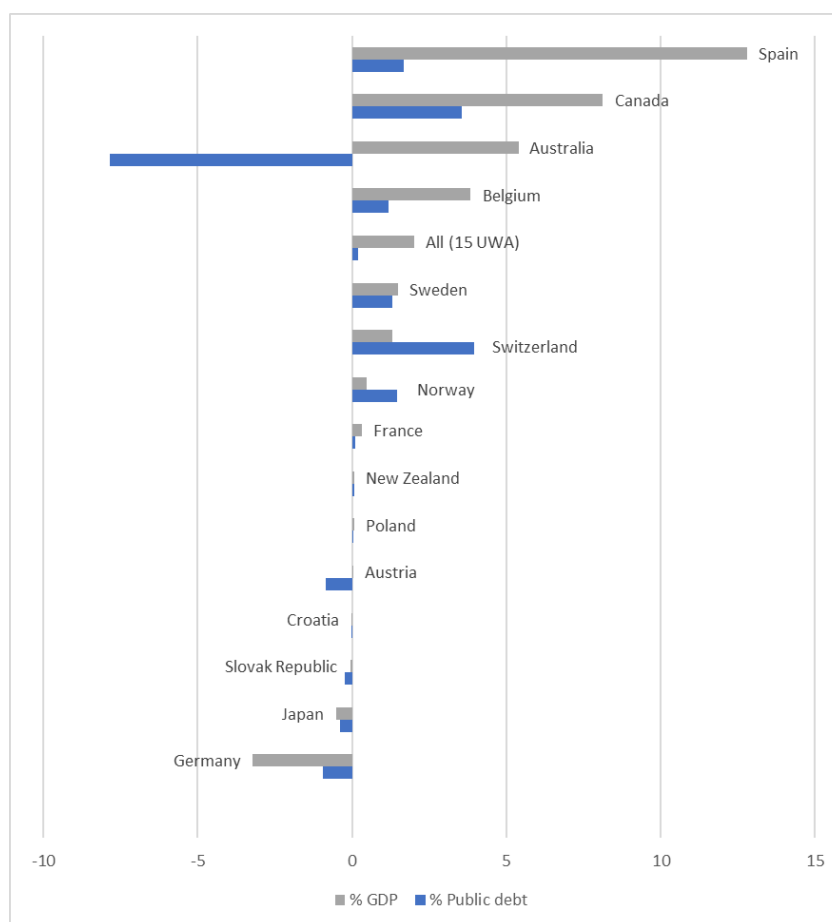
Canada stands out for its high level of regional government debt, accounting for 49.6% of total public debt and 57% of GDP in 2016. Some Canadian provinces have debt-to-GDP ratios comparable to the Canadian federal government debt. On average, the country has the highest SNG debt ratio as a share of GDP and public debt in the OECD. In addition, Canada has the third highest regional (provincial) debt ratio as a share of total subnational debt (85%), after Australia (95%) and Spain (86%).

Regional government debt is lower in unitary countries. Sweden has the highest ratio of regional government debt among the sample’s unitary countries, as a percentage of public debt (10.3%) and GDP (6.2%) in 2016. Almost half of the Swedish regional councils are members of the Swedish Local Government Funding Agency, *Kommuninvest*, which is the largest lender to counties and municipalities in the country. Similar subnational credit agencies exist in Denmark and Norway, and more have emerged in the EU and the OECD amid the backdrop of the financial crisis. Even though most of the members of these companies are municipalities, some of them also work with regional governments. The weight of regional governments is insignificant in Croatia and the Slovak Republic, close to 0% in the countries’ GDP and total public debt.

Changes in regional government debt are widely heterogeneous across countries

The regional government debt averages in GDP and public debt for federal, unitary and EU member countries seem to have been stable over the years. However, zooming into countries, it appears that changes in regional government debt are widely heterogeneous across countries (Figure 3.3).

Figure 3.3. Regional government debt as a % of GDP and a % of public debt (change in percentage points, 2010-16)



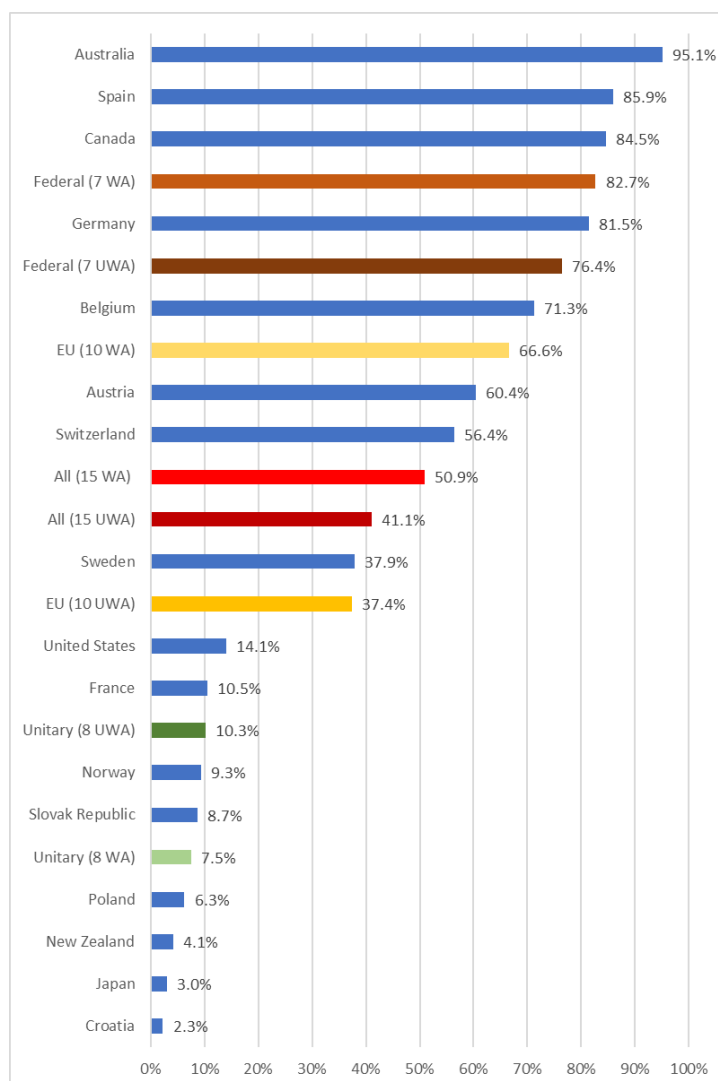
Note: Japan (2010-2015). Croatia (2014-2016). UWA: Unweighted average.
Source: Regional Government Finance and Investment Database

In Spain, the weight of regional government debt in national GDP increased by 12.8 percentage points throughout the period of 2010 to 2016, compared to an increase of only 1.7 percentage point as a share of total public debt. This is a result of the 2008 global financial crisis, which hit Spain particularly severely and impacted public deficit at national and regional levels. Debt has increased across all the Autonomous Communities throughout the period, although the levels are very different. It led to profound reforms in the country regarding fiscal rules, and regional debt levels started to stabilise in 2016. The weight of state/regional debt in total public debt also increased throughout the period in Switzerland and Canada (by around 4 percentage points) and, to a lesser extent in Norway (1.5 percentage points).

Regional debt account for 41.1% of total subnational government debt

Regional government debt is very unevenly distributed across and within countries in the OECD and the EU. In federal countries, the share of regional governments' debt tends to be higher than that of local governments, and it accounted for 76.4% of total subnational government debt in 2016 (unweighted average), compared to 10.3% for the unweighted average in unitary countries (Figure 3.4). Indeed, regional governments in federal countries are – like central governments – not subject to the “golden rule”. In addition, in several federal countries, state governments can set limits on local government indebtedness.

Figure 3.4. Regional government debt as a % of SNG debt (2016)

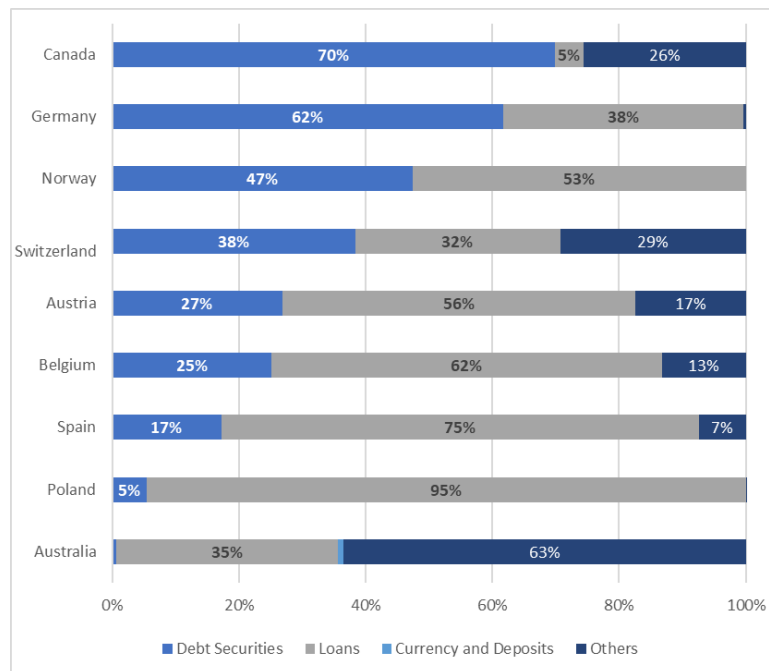


Note: Japan (2010-2015). Averages are computed with duplicated 2015 data for Japan in 2016. Data for the United States correspond to the financial debt only. The United States of America are excluded from the averages. UWA: Unweighted average. WA: Weighted average.
Source: Regional Government Finance and Investment Database

3.2. The composition of regional government debt

Regional government debt is comprised mostly of loans and debt securities, although the disaggregated data on regional government debt is scarce. Compared to other subnational government levels, most bonds are issued at the regional level, compared to the municipal level, across the EU and the OECD. This is particularly true in federal countries. On the contrary, regional governments in some unitary countries such as Denmark are not allowed to borrow on the capital markets. In Italy, regional governments may issue bonds in compliance with specific prudential rules.

Figure 3.5. Breakdown of regional government debt by categories in selected countries (2016)



Note: The category "Others" include insurance pension and standardised guarantees and other accounts payable.
Source: Regional Government Finance and Investment Database

In Canada and Germany, regional government debt comprises mostly debt securities, accounting for 70% and 62% respectively of total regional debt (Figure 3.5). In this regard, German states (*Länder*) are the largest bond issuers among European regions. It is to be noted that Norwegian counties also issue a relatively high share of debt securities. In Norway, counties have access to the bond market, and this market is growing rapidly at the national level. As a result, the share of debt securities increased from 36% to 47% of regional government debt in the country between 2010 and 2016.

Loans are the most notable debt component for regional government governments in Austria, Belgium, Spain and Poland (Figure 3.5). In Spain, regional government debt is composed primarily of loans (75.5%) and bonds (17.2%), and most of it is held by the central government. In the coming years, regional bond issuances are expected to increase as regions could be allowed to return to the capital markets (Cantalapiedra and Jiménez, 2017^[20])

Annex A. SNA Transposition of regional government accounts

Table A.1. SNA Transposition of Regional government accounts in unitary countries and the United States

Countries	Notes
Croatia	Total Expenditure and Total Revenue exclude the city of Zagreb.
Czech Republic	Capital Expenditure is not disaggregated between direct and indirect investment. Capital Revenue = Property Income in Revenue per Category
Denmark	<p><u>Expenditure by economic classification</u></p> <ul style="list-style-type: none"> ▪ Other: Other taxes on production (payable) and real interest <p><u>Revenue by category:</u></p> <ul style="list-style-type: none"> ▪ Tax Revenue: Tax on production and imports + Current taxes on income and wealth + Capital Taxes + Withdrawals of income from quasi-corporations ▪ Grants & Subsidies: Other subsidies on production, net + Other current transfers + Other capital transfers ▪ Tariffs & fees: Sales of goods and services ▪ Property Income: Own account research and development + Interest and Dividends + Rents, etc. <p>Other: Compulsory contributions to social security schemes + Voluntary Social Contributions + Imputed Social Contributions</p>
France	<p><u>Expenditure by economic classification</u></p> <ul style="list-style-type: none"> ▪ Compensation of employees: Frais de personnel ▪ Intermediate consumption: Charges à caractère général + Autres charges d'activité ▪ Other*: Autre + Intérêts de la dette <p><u>Expenditure by functional classification (also valid for investment by COFOG)</u></p> <ul style="list-style-type: none"> ▪ Education: Formations Professionnelles et Apprentissage + Enseignement ▪ General Services : Services généraux + Annuité de la dette + Autres ▪ Social Protection: Santé et action Sociale (NB : Health expenditure are included in social protection) ▪ Economic Affairs : Action économique et Transports <p><u>Investment:</u> Équipement brut</p> <p><u>Revenue by category</u></p> <ul style="list-style-type: none"> ▪ Taxes: Recettes fiscales ▪ Grants and subsidies: transferts reçus <p>Tariffs and Fees: Autres</p>
Italy	The transactions for the regional government accounts from I.Stat follow the definition of SNA and similar to OECD stats.
Japan	<p><u>Expenditure by economic classification</u></p> <ul style="list-style-type: none"> ▪ Compensation of employees: Personal Expenses ▪ Intermediate consumption: Non-personal expenses ▪ Current social expenditure: Allowances ▪ Subsidies and Current transfers: Subsidies ▪ Capital expenditure: Ordinary construction ▪ Other: total expenditure – sum of the above <p><u>Expenditure by functional classification</u></p> <ul style="list-style-type: none"> ▪ Health: Hygiene ▪ Social protection: welfare ▪ Economic Affairs: Sum of (Labour + Agriculture, forestry and fisheries + Commerce and manufacturing + Civil engineering works) ▪ General public services: General Service Administration <p><u>Investment:</u> total investment</p> <p><u>Revenue by category</u></p> <ul style="list-style-type: none"> ▪ Taxes: Local taxes ▪ Grants and subsidies: Local transferred tax, special grants, allocation tax + Treasury Disbursements ▪ Others: Total revenue – sum of the above

	<u>Debt</u> : Local Debt
Korea	<p><u>Expenditure by functional classification</u></p> <ul style="list-style-type: none"> ▪ Education: Education ▪ Social Protection: Social Welfare ▪ General Services: General Public Services + Reserve Budget ▪ Health: Health ▪ Economic Affairs: Sum of (Agriculture + Industries and SMEs + Transportation + National Land & Regional Development + Science and Technology) <p><u>Debt</u>: data only available for 2014 to 2016</p>
Netherlands	Regional government accounts follow the SNA/ESA classification
New Zealand	<p><u>Expenditure by economic classification</u></p> <ul style="list-style-type: none"> ▪ Compensation of employees: Employees cost ▪ Intermediate consumption: Purchases and other operating expenditure ▪ Subsidies and Current transfers: Current grants, subsidies, and donations expenditure ▪ Capital expenditure: Capital grants, subsidies, and donations expenditure ▪ Other: Depreciation and amortisation + Interest expenditure + Expenditure on valuation changes, provisions, and write-offs + Other non-operating expenditure <p><u>Expenditure by functional classification</u></p> <ul style="list-style-type: none"> ▪ General Public Services: Planning and regulation + Governance + Council support services + Property + Other activities ▪ Public Order and Safety: Emergency management ▪ Economic Affairs: Roads + Transportation + Economic development ▪ Environmental Protection: Wastewater + Solid waste/refuse + Environmental protection ▪ Housing and Community amenities: Water supply + Community development ▪ Recreation, Culture and Religion: Culture + Recreation and sport <p><u>Revenue by category</u></p> <ul style="list-style-type: none"> ▪ Taxes: Regulatory Income and Petrol Tax ▪ Grants & Subsidies: Current grants, subsidies, and income from donations + Capital grants, subsidies, and donations income ▪ Tariffs & Fees: Rates + Sales and other operating income ▪ Property Income: Interest Income + Dividend Income + Income from valuation changes + Development and financial contributions + Other non-operating income + Vested assets
Norway	Data provided by Statistics Norway upon request. Oslo is not included in the regional government accounts.
Poland	<p><u>Expenditure by economic classification</u></p> <ul style="list-style-type: none"> ▪ Compensation of employees: Wages and Salaries + Personal Wages and Salaries ▪ Current Social Expenditure: Social Security and Labour Fund ▪ Subsidies and Current transfers: Grant Expenditure ▪ Capital Expenditure: Property Expenditure, Total ▪ Other: Total expenditure – sum of the above <p><u>Expenditure by functional classification</u></p> <ul style="list-style-type: none"> ▪ General Services: Division 720 - Informatics; Division 730 - Science; Division 750 - Public administration; Division 751 - Offices of supreme state authorities, control and protection of law and the judiciary; Division 756 - Income from legal persons, from individuals and other entities without legal personality, and expenses associated with their collecting; Division 757 - Public debt servicing; Division 758 - Different accounts ▪ Defence: Division 752 - National Defence ▪ Public Order and Safety: Division 754 - Public safety and fire care, Division 755 - Justice ▪ Economic Affairs: Division 010 - Agriculture and hunting, Division 020 - Forestry, Division 050 - Fisheries and fishing, Division 100 - Mining and quarrying, Division 150 - Manufacturing, Division 500 - Trade, Division 550 - Hotels and restaurants, Division 600 - Transport and communication, Division 630 - Tourism, Division 710 - Service activities ▪ Environmental protection: Division 900 - Municipal economy and environmental protection ▪ Housing & Community Amenities: Division 400 - Electricity, gas and water supply, Division 700 - Dwelling economy ▪ Health: Division 851(Healthcare), Division 854 (Educational health care) ▪ Recreation, Culture and Religion: Division 921 - Culture and national heritage, Division 925 - Botanical and zoological gardens and protected natural areas, Division 926 - Physical education and sport, Division 926 - Physical education ▪ Education: Division 801 - Education, Division 803 - Higher education

	<ul style="list-style-type: none"> ▪ Social Protection: Division 753 - Compulsory social security, Division 852 - Social assistance, Division 853 - Other tasks in social policy <p><i>Investment:</i> Investment (property expenditure)</p> <p><i>Revenue by category</i></p> <ul style="list-style-type: none"> ▪ Taxes: Personal Income tax + Corporate Income tax ▪ Grants and Subsidies: General Subvention + Grants ▪ Property Income: Revenue from property <p>Others: Other Income</p>
Romania	<p>Bucharest is not included in the regional accounts.</p> <p><i>Expenditure by economic classification</i></p> <ul style="list-style-type: none"> ▪ Compensation of employees: Staff expenditure ▪ Intermediate consumption: Goods and Services ▪ Current Social Expenditure: Social assistance ▪ Subsidies and Current Transfers: Subsidies + Other transfers ▪ Others: Interests + Financial operations ▪ Capital expenditure: Capital expenditure <p><i>Revenue by category</i></p> <ul style="list-style-type: none"> ▪ Grants and Subsidies: Subsidies from State Budget <p>Other: Revenue – Subsidies from State Budget</p>
Slovak Republic	<p>Revenue: Current revenue + Capital Income</p> <p>Expenditure: Current expenses + Capital Expenditure</p>
Turkey	<p>Transactions follow SNA classification.</p> <p>The 30 Provincial Metropolitan Municipalities (PMMs) are not included in the regional accounts.</p>
United States	<p><i>Expenditure by economic classification</i></p> <ul style="list-style-type: none"> ▪ Compensation of employees: Exhibit - Salaries and wages ▪ Intermediate Consumption: Current operation - (Wages & Salaries) ▪ Current Social Expenditure: Insurance benefits and repayments ▪ Subsidies and Current Transfers: Assistance and Subsidies. This category does not include Intergovernment transfers to Local Governments. ▪ Others: Capital Outlay + Interest on Debt <p><i>Revenue by category</i></p> <ul style="list-style-type: none"> ▪ Taxes: Total Taxes ▪ Grants and Subsidies: Intergovernmental Revenue ▪ Tariffs & Fees: Current charges + Liquor Store sales + Utility Charges ▪ Property Income: Miscellaneous General Revenue

Annex B. Responsibilities of regional governments

Table B.1. Regional government responsibilities in OECD and EU countries

Federal and quasi-federal countries	
Australia	<ul style="list-style-type: none"> • Supervision of local governments • Police and emergency services • Railways and public transport (road, rail, bus, etc.) • Agriculture • Environment, waste disposal and sewerage • Community services such as gas services; district heating; electricity; water supply; Zoning legislation • Healthcare; Hospitals; • Sports and recreation • Planning and delivering early childhood education; Pre-school; Primary school; Secondary, vocational and technical school • Social welfare: Planning and delivering early childhood care
Austria	<ul style="list-style-type: none"> • Supervision of municipal affairs; Building regulations • Police and emergency services • Transport, Traffic regulation; Energy distribution; Agriculture • Environmental protection • Spatial regional planning; Urban development • Health administration; Hospitals • Sports and Leisure • Primary, general lower-secondary and part-time vocational schools • Social assistance, family policy (youth protection and welfare)
Belgium	<ul style="list-style-type: none"> • <i>Responsibilities differ between regions and communities</i> • Supervision of provincial and municipal law and local utility companies; Research & Development & innovation • Water policy; Transport (except the national railway company); External trade; Energy; Agriculture and fisheries; Economic policy; Employment • Environment policy; Nature conservation • Urban policy and spatial planning; Public works and infrastructure; Public housing • Sanitary education and preventive medicine • Cultural amenities • Education and training • Minor aspects of social security (regions), social welfare (communities); youth protection; Immigrant assistance services.
Canada	<ul style="list-style-type: none"> • Civil status register; Criminal justice • State police; Regional Firefighting services • Road; Transport; Agriculture; Tourism; Gas services; electricity • Natural resource preservation; Soil and groundwater protection; Climate protection; Sewerage. • Housing; Regional planning • Primary care; Hospitals • Museums; Religious facilities • Education • Family welfare; Welfare homes; Social security
Germany	<ul style="list-style-type: none"> • Internal administration, including salaries and benefits of all public employees (exclusive), justice (concurrent) • Local government (exclusive) • Police (exclusive) • Regional economic development • Labour and economic law (concurrent) • Environment (concurrent) • Housing and community amenities (concurrent) • Health (concurrent)

	<ul style="list-style-type: none"> • Culture (exclusive power) • Education including universities (exclusive power) • Social welfare (concurrent)
Mexico	<ul style="list-style-type: none"> • Supervision of municipal affairs • State public order and safety (state and special police) • Roads; Regional transport and transit; Some airports; Agriculture, rural development and tourism (shared); Economic affairs and industrial policies (shared) • Protection of environment (shared); National parks (shared) • Spatial planning; Water management and co-financing of water infrastructure (shared) • Healthcare: 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 • Public libraries • Primary and secondary education (shared); State universities; Adult education programmes; Indigenous and special education; • Poverty alleviation and Social protection (shared)
Spain (quasi-federal)	<ul style="list-style-type: none"> • Municipal and provincial supervision (shared with the central government) • Public order • 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 • Environmental protection; Urban planning; Housing; Health • Museums; Libraries; Music conservatories of regional interest; Cultural heritage; Promotion of culture and of the regional language (when relevant) • Education and universities (shared) • Social welfare; Social services (shared)
Switzerland	<ul style="list-style-type: none"> • Internal administration; Justice • Civil defence; Security and police; Emergency and rescue services • Regional development (shared); Regional traffic (shared) • Environmental protection (shared); Flood protection (shared) • Spatial planning; Public works; Building regulations • Hospitals; nursing homes; Prevention and promotion of health • Culture; Education; Universities • Social policy; Family benefits; Maternity; Unemployment assistance
United States	<ul style="list-style-type: none"> • Civil registries; State criminal law; Prisons; Issuing licences; • Organisation and control over local governments • State police; Motor vehicle regulation • State economic development; Intra-state commerce; Highways; Railways; Airport; energy • Environmental protection; State parks • Water resources management; Zoning law • Health • Higher education • Income support (cash and in-kind, particularly healthcare for the poor through Medicaid)
Unitary countries	
Croatia	<ul style="list-style-type: none"> • Regional administration; Issuance of construction and renting permits (except in large towns) • Economic development; Transport and traffic infrastructures; Maintenance of county and local roads • Regional and urban planning • Healthcare (including secondary care all general hospitals and most specialist hospitals) • Social and cultural institutions • Secondary education • Social welfare (cash benefits); Child care
Czech Republic	<ul style="list-style-type: none"> • Regional administration • Fire safety; Prevention of criminality • Road network; Regional public transport; Tourism; Regional economic development and cohesion • Protection of fauna and flora • Planning (approval of planning and zoning documents) • Establishment and management of regional hospitals; Nursing homes; Monitoring the quality of care of private healthcare providers; Emergency services; Long-term care institutions; Facilities for disabled adults and children • Sport; Upper secondary education • Youth and social services

Denmark	<ul style="list-style-type: none"> • General administration; Public buildings and facilities • Action against soil pollution • Regional development plans and regional growth strategies; Rebalancing action on behalf of the peripheral zones and rural areas • Public health (hospitals, psychiatric services, health insurance, primary healthcare and specialised medicine); Outpatient medicine • Support services for the disabled
France	<ul style="list-style-type: none"> • Internal administration • 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 • Environmental protection planning; Regional parks and preservation areas; Energy saving; Water protection • Housing subsidies; Cultural heritage and monuments; Museums; Artistic training • High schools (building and technical staff); Vocational training and apprenticeship; Job training programmes; Support to universities and R&D
Greece	<ul style="list-style-type: none"> • Regional administration • Civil protection and emergency services • 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 • Natural resources; Environment protection • Public works; Urbanism • Culture and sports • Education
Hungary	<ul style="list-style-type: none"> • Co-ordination tasks (regarding municipal service provision) • Regional development; • Rural development • Land-use planning
Italy	<ul style="list-style-type: none"> • Regional administration; Relations with provinces, metropolitan cities and municipalities; management of EU funds • International and EU relations; Research and innovation; Regional transport; Civil ports and airports; Communications; Energy; Regional land; Agriculture; Banks and credit institutions; Tourism; Employment • Environmental protection; Housing • Health, through public healthcare agencies (construction and maintenance of hospitals, medical equipment, drugs, medical staff management, etc.) • Sports; Cultural activities; Education • Complementary social welfare
Japan	<ul style="list-style-type: none"> • Communication and co-ordination affairs relating to municipalities; Police • Economic development; Public infrastructure; Prefectural roads; National highways, Harbours; Agriculture; Employment • Forest and river conservation; Environmental protection • Public housing; Public health centres • Upper secondary schools • Social assistance policies
Korea	<ul style="list-style-type: none"> • Management of public properties and facilities • Environment • Housing • Culture • Education • Social welfare
Netherlands	<ul style="list-style-type: none"> • Supervision of municipalities and regional water authorities • Provincial roads; Regional public transport (bus, regional trains); Inland water transport and infrastructure; Regional development agencies; Promotion of the region and co-ordination of • Local tourism; • 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; Spatial planning • Financial support of cultural activities; Protection of cultural heritage; Provincial museums • Social housing grants
New Zealand	<ul style="list-style-type: none"> • Civil defence in case of emergency • Regional transport (including public transport); Harbours; Regional land management • Water quality; Contaminant discharge and coastal management, river and lake management; Flood and drainage control;

	<ul style="list-style-type: none"> Environmental protection; Resource management; Air quality; Pest control, Regional parks and public spaces Water networks management
Norway	<ul style="list-style-type: none"> General administration Public transport; Trade and industrial policy Environmental protection Regional development (planning and business development) Dental health Libraries; Museums; Sports facilities Upper-secondary education Dental care
Poland	<ul style="list-style-type: none"> Internal administration; Management of EU funds Defence; Public order Regional economic development; Employment and labour market policy; Regional roads; Public transport including regional rail transport (since 2009); Consumer rights protection Environmental protection; Waste management (since 2009); Spatial development; Water management; Land improvement; Hydropower facilities; Modernisation of rural areas Health promotion; Regional hospitals (specialised services, secondary referral level hospitals); Medical emergency and ambulance services Regional cultural institutions; Some secondary schools and vocational schools; Post-secondary schools; Teacher training colleges. Regional Social Policy Centres; Social welfare and family policy; Social exclusion; Disabled care; Childcare; Elderly care
Romania	<ul style="list-style-type: none"> Management of local airports; County roads; Country infrastructure network (shared) Public health units (primary and secondary healthcare) Cultural institutions Special education (shared) Child and disability allowances; Social services and specialised services for victims of domestic violence; Care for the elderly and for the disabled (shared); Medical and social assistance (shared)
Slovak Republic	<ul style="list-style-type: none"> Internal administration; International and trans-regional co-operation; civil defence (in co-operation with State bodies) Roads, railways; Regional economic development Secondary hospitals; Management of non-State healthcare (psychiatric hospitals and dental services) Regional cultural amenities Secondary, professional, art and vocational schools; Construction and maintenance of buildings; Payment of teacher on behalf of the State Homes for children
Sweden	<ul style="list-style-type: none"> General administration Public transport (via a regional public transport authority); Regional development; Tourism (optional) Healthcare and medical services; Primary care; Hospitals; Ambulatory care; Dental care, Cultural institutions
Turkey	<ul style="list-style-type: none"> Internal administration; Emergency assistance and rescue Industry and trade; Roads; Agriculture (reforestation, irrigation); Tourism Environmental planning and protection; Protection of soil; Prevention of erosion; Sewerage; Solid waste; Supporting forest villages and reforestation; Parks and gardens; Water; Land development Health centres; Health posts, mainly in rural areas; Mother and child health and family planning centres; Tuberculosis dispensaries; Hospitals; Culture and artwork Social service assistance

Source: (OECD/UCLG, 2019^[11])

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