

**Subnational Government Finance and Investment**  
*23 November 2022*  
**Key takeaways**

***Opening Remarks***

**(i) Dorothée Allain-Dupré, OECD**

- The World Observatory is one of the world's leading sources of internationally comparable data on subnational government structure and finance.
- Achieving the SDGs depends on progress made at the local level.
- Reliable and comprehensive data are needed to better understand issues and challenges related to multi-level governance and fiscal frameworks.
- The World Observatory is instrumental in providing the evidence to support the global agendas linked to the SDGs, COVID recovery, and climate change.

**(ii) Bruno Carrasco, ADB**

- Enabling subnational governments (SNGs) by strengthening their institutional capacity besides other fiscal and institutional reforms are critical to overcome the barriers to mobilize more revenues and access finance, and this requires multi-pronged, integrated, and innovative approaches.
- ADB, through its Asia Pacific Tax hub, remains committed to assist developing member countries define their domestic resource mobilization goals and strategies, including broad-ranging reforms in tax administration and a road map for digitalization of tax administrations.

***Presentation on SNG Finance and Investment Situation in Asia and the Pacific***

**Courtenay Wheeler, OECD**

- Asia and the Pacific is home to around two-thirds of the world's SNGs, and has many sub-municipal governments and asymmetric governance arrangements
- SNGs
  - represent an important share of public expenditure and revenue, although there are large variations and many SNGs have less fiscal autonomy
  - have more responsibilities but, less resources.
  - have primary public expenditure responsibilities for housing and community, education, environment, recreation and culture, and important responsibilities for health and transport
  - revenue in Asia and the Pacific is mainly composed of grants and subsidies (48% vs 53% in the OECD) and tax revenue (40% vs 33% in the OECD)
  - often have a higher share of public expenditure responsibilities than their share of public tax revenue, indicating a fiscal imbalance
  - debt is relatively low in many of countries across Asia and the Pacific (with data available), although there are some notable exceptions
  - access to finance in many countries is often limited due to strict borrowing rules and insufficient creditworthiness

- appear to have been strongly affected by the COVID crisis, with taxes and user charges declining (-5.6% and -11.6%) and expenditure and investment increasing (+7% and 6%)
- Improving multi-level governance frameworks and strengthening SNG finances will help to achieve development objectives
- Emerging positive trends
  - Participatory and priority-based budgetary practices by SNGs are emerging across Asia and the Pacific

### *Presentation on the Cities Enabling Environment (CEE) Assessment*

#### **Dr. Bernadia, UCLG-ASPAC**

- Most Asia-pacific countries have enabling constitutional frameworks for local governments (LGs) but the strengthening of supporting legislative frameworks, especially for fiscal devolution and inclusiveness, are required to develop stronger decentralized, autonomous & self-sufficient LGs.
- Many countries do not have strong enabling frameworks or LGs that can generate their own local revenues.
- LG capacity is an area requiring immediate reform & improvement.

### *Presentation on challenges, opportunities in SNG finance*

#### **Nino Alvina, Department of Finance, Philippines**

- Most SNGs do not update their tax bases thus undermining revenue generation capacity and transition to full devolution. These include: schedule of market values, tax ordinances on business and other taxes, regulatory fees and user charges.
- Optimization of mandatory local funds—average utilization can still be improved
- Sectoral spending remains unchanged, reforms could drive development

### *Closing remarks*

#### **(i) Isabelle Chatry, OECD**

SNGs face several challenges in fully assuming their roles to achieve the SDGs and other goals including climate objectives. These challenges are diverse. They can be institutional, political, financial or related to capacities.

The world observatory provides lessons and avenues for national governments, international organizations, development banks and partners to support SNGs optimize their contribution to economic and social development.

#### **(ii) Hiranya Mukhopadhyay, ADB**

Surveys like the world observatory of subnational government finance and investment, and the cities enabling environment assessment help us identify and understand the problems and ways to address them. These assessments also guide us and make us think critically and strategically to improve the situation. It is important to recognize the institutional capacity development need of SNGs, and the need to achieve higher levels of transparency and accountability to boost their creditworthiness and attract private investments.