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Multi-level governance and subnational government finance in Asia and the Pacific

Preliminary findings from a regional analysis of the 3rd edition of the OECD-UCLG World Observatory on Subnational Government Finance and Investment

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Asia and the Pacific is home to around two-thirds of the world's subnational governments, and has many sub-municipal governments and asymmetric governance arrangements

Overview of the countries in this study

26 countries (5 federal and 21 unitary), representing:

53% of global population

24% of land area

40% of global GDP

Around 467 000 subnational governments, including:

627 state or regional governments (across 24 countries)

4 960 intermediary-level governments (across 12 countries)

Around 460 000 municipal-level governments (across all 26 countries), with **57%** of these governments in India

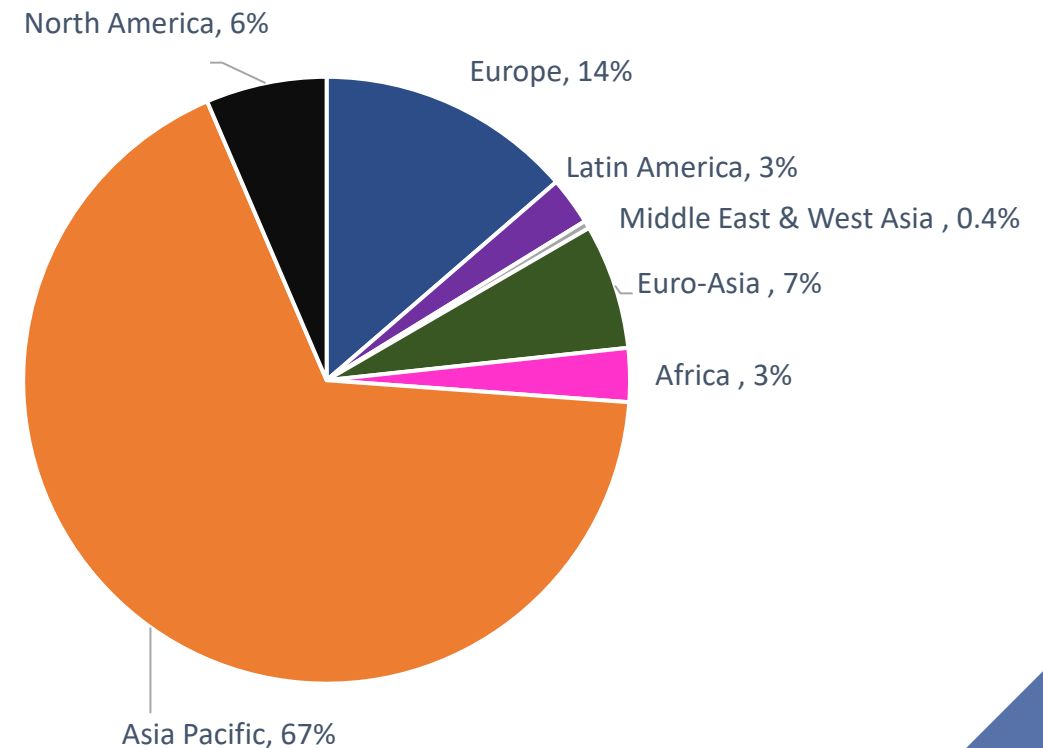
67% of the subnational governments included in SNG-WOFI

12 countries with sub-municipal governments

Most countries have some asymmetric arrangements

5 least developed countries

Proportion of subnational governments by world region



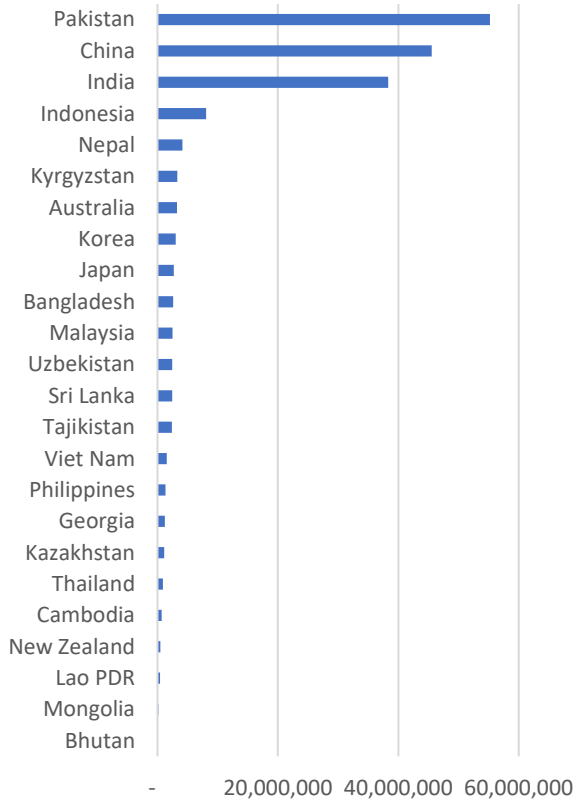
Source: OECD, Forthcoming, *Multi-level governance and subnational finance in Asia and the Pacific: A regional analysis from the 3rd edition of the SNG-WOFI* based on OECD-UCLG, 2022, *World Observatory on Subnational Government Finance and Investment*, <https://www.sng-wofi.org/>



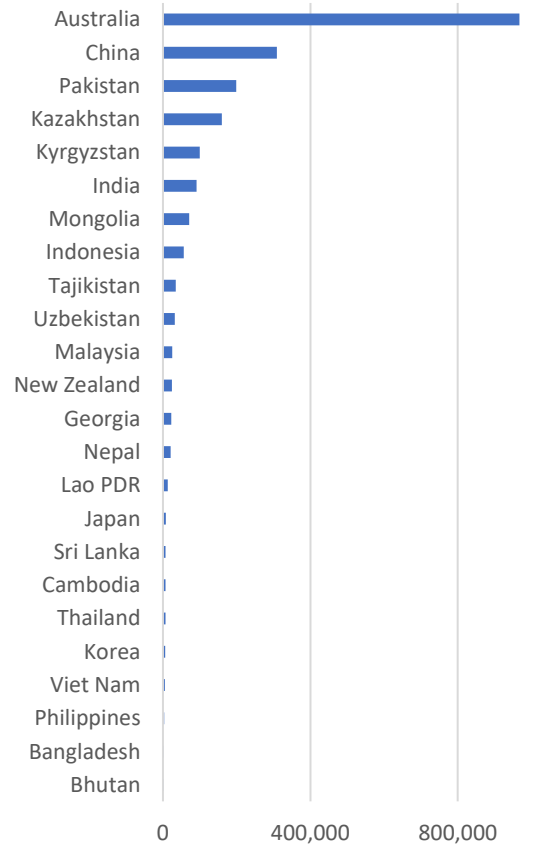
The size of subnational governments varies significantly across countries in terms of the number of inhabitants and the geographical area represented

Regional governments

Average number of inhabitants per state or region

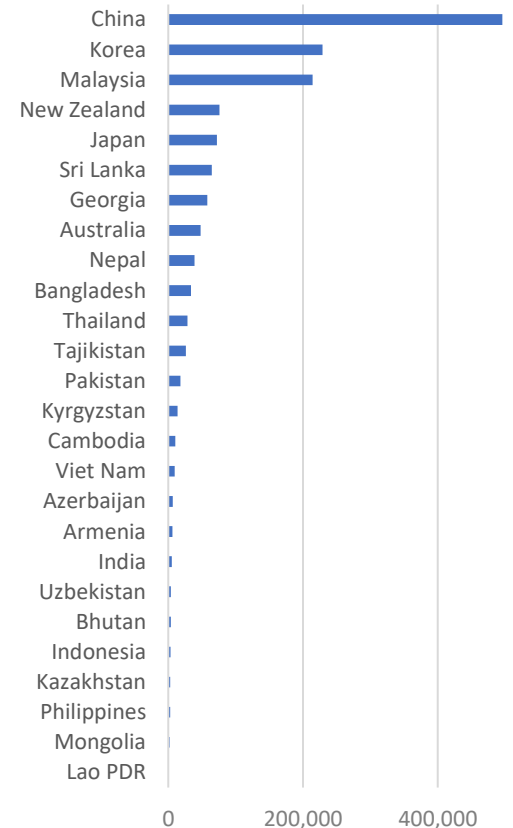


Average size of state or region (km²)

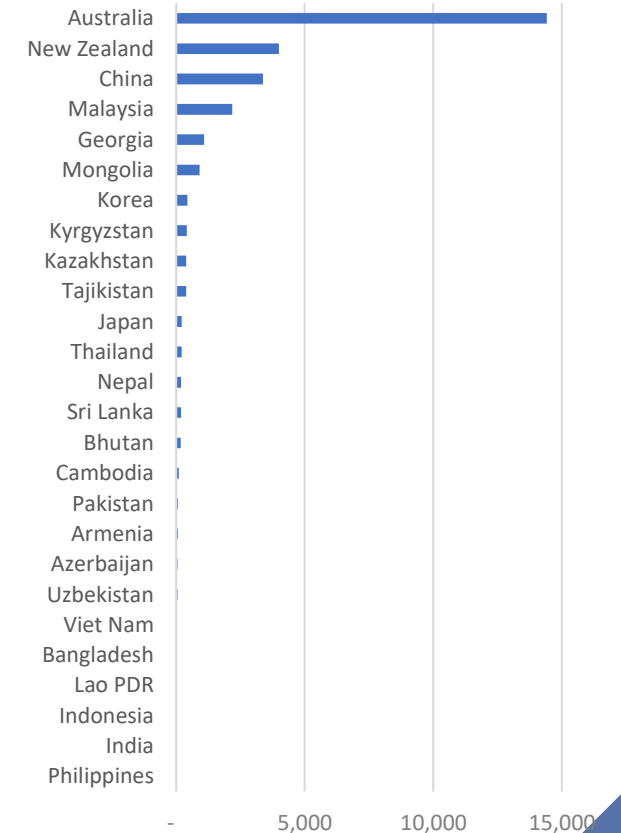


Municipal governments

Average number of inhabitants per municipality



Average size of municipality (km²)

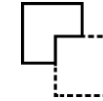
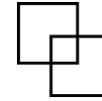


Source: OECD, Forthcoming, Multi-level governance and subnational finance in Asia and the Pacific: A regional analysis from the 3rd edition of the SNG-WOFI based on OECD-UCLG, 2022, World Observatory on Subnational Government Finance and Investment, <https://www.sng-wofi.org/>



Many countries across Asia and the Pacific have recently undergone decentralisation and territorial reforms, driven by diverse aims and objectives

Examples of countries that are undergoing decentralisation and territorial reforms



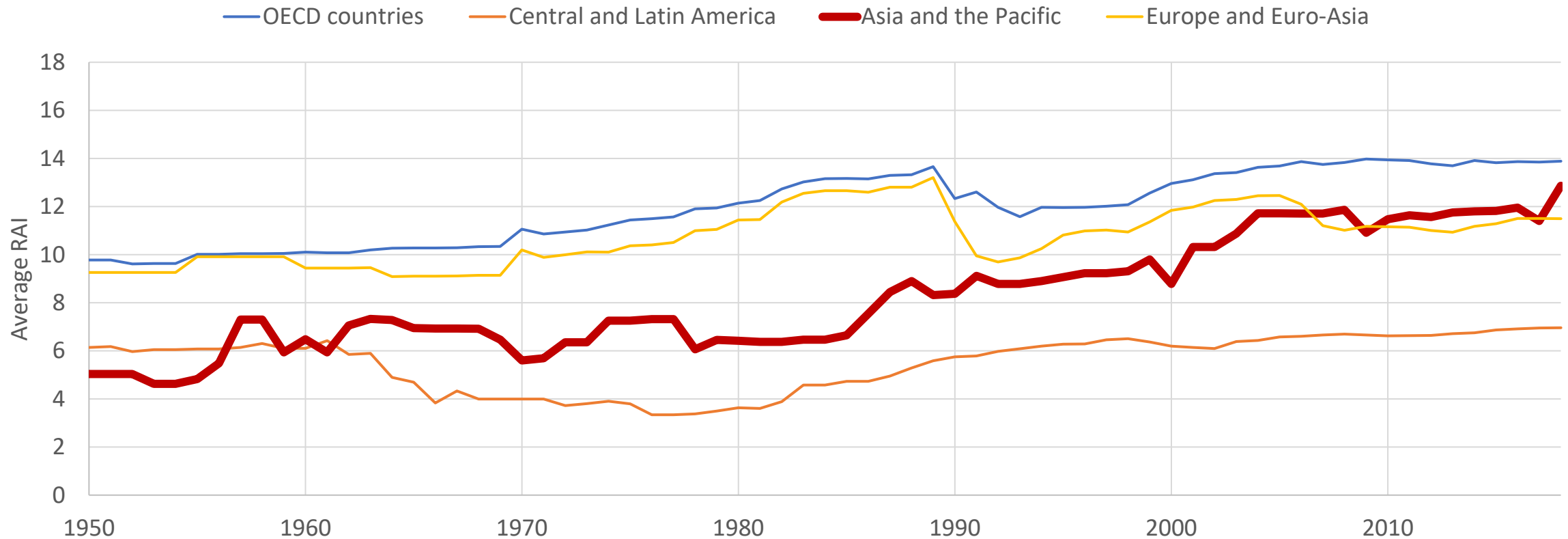
	Institutional decentralisation reforms	Amalgamation	Partition
COMMON OBJECTIVES	<ul style="list-style-type: none"> Deepen decentralisation processes Support the delivery of local public services Achieve more democratic outcomes 	<ul style="list-style-type: none"> Increase efficiency of administration and service delivery (economies of scale) Increase capacity of smaller SNGs Improve economic competitiveness Improve access to finance for investment 	<ul style="list-style-type: none"> Enhance local democracy Address historical, linguistic, economic and cultural specificities
COUNTRIES <i>(reforms are at a municipal level except where indicated)</i>	Bhutan, India, Indonesia, Kyrgyzstan (recognition of a new layer of local government), Nepal (federalisation)	Armenia, Australia, Azerbaijan, China, Georgia, Japan, Nepal, New Zealand (local and regional levels)	Georgia, Philippines, Uzbekistan (district level), Kazakhstan (regional level)
		<p><i>Note that Inter-Municipal Cooperation can be an alternate to amalgamation, but appears to be underutilised in the region</i></p>	

Source: OECD, Forthcoming, Multi-level governance and subnational finance in Asia and the Pacific: A regional analysis from the 3rd edition of the SNG-WOFI based on OECD-UCLG, 2022, World Observatory on Subnational Government Finance and Investment, <https://www.sng-wofi.org/>



Many countries across Asia and the Pacific have seen a strengthening of their regional level governments over the past 70 years

Based on the Regional Authority Index, regional authority has doubled in Asia and the Pacific, from 5.2 in 1950 to 11.7 in 2018

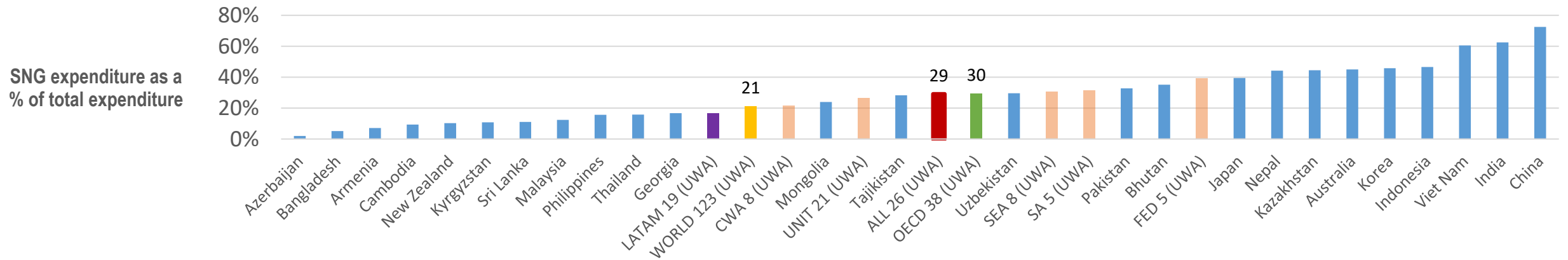


Note: The average Regional Authority Index score for Asia and Pacific includes the following countries: Australia, Bangladesh, Bhutan, Cambodia, China, Japan, India, Indonesia, Korea, Lao People's Democratic Republic, Malaysia, Mongolia, Nepal, New Zealand, Pakistan, the Philippines, Sri Lanka, Thailand, China, Viet Nam.
Source: OECD, Forthcoming, Multi-level governance and subnational finance in Asia and the Pacific: A regional analysis from the 3rd edition of the SNG-WOFI, based on Schakel, A. H., Danailova, A., Gein, I., & Hegewald, S. (2018). Final report on updating the Regional Authority Index (RAI) for forty-five countries (2010-2016).

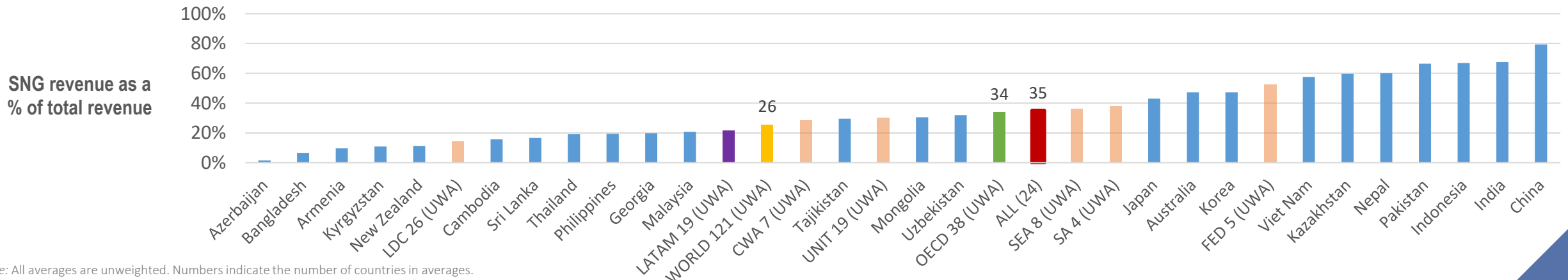


Subnational governments represent an important share of public expenditure and revenue, although there are large variations and many SNGs have less fiscal autonomy

Subnational governments in Asia and the Pacific are responsible for **29%** of total public expenditure (vs 30% in the OECD and 21% globally)



Subnational governments in Asia and the Pacific receive **35%** of total government revenue (vs 34% in the OECD and 26% globally)



Note: All averages are unweighted. Numbers indicate the number of countries in averages.

Acronyms: CWA, Central West Asia; FED, Federal countries; LATAM, Latin America; SA, South Asia; SEA, Southeast Asia; UNIT, Unitary countries; UWA, Unweighted average.

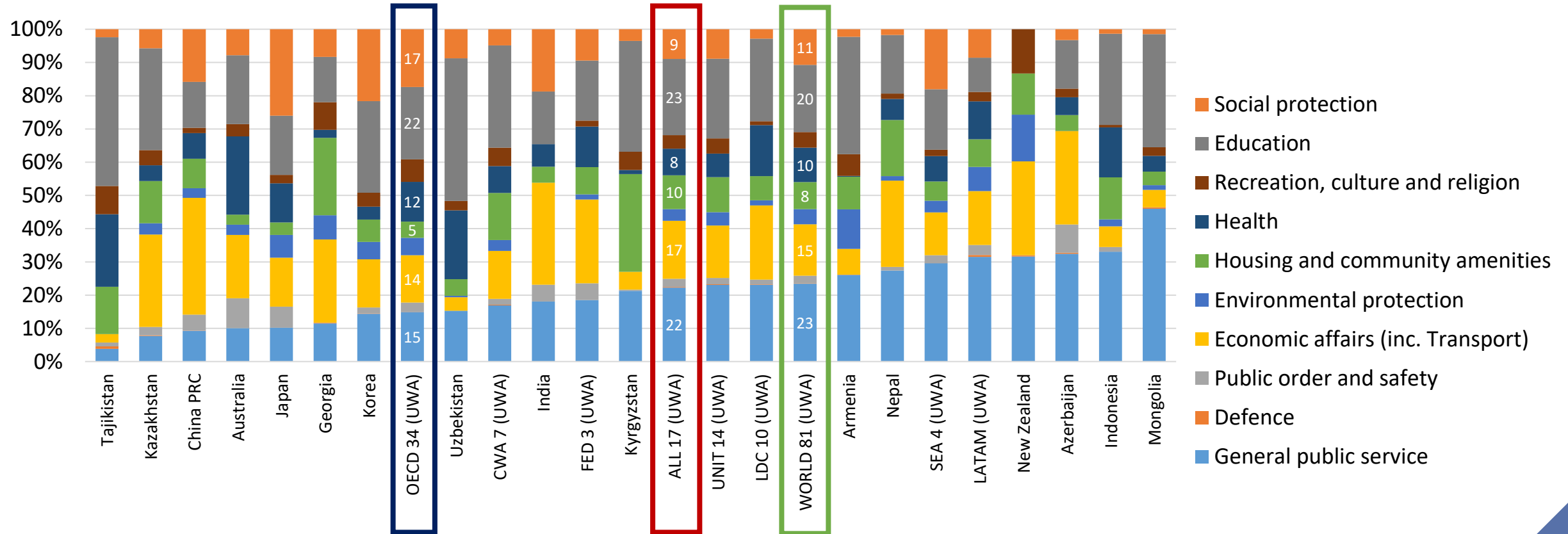
Source: OECD, Forthcoming, Multi-level governance and subnational finance in Asia and the Pacific: A regional analysis from the 3rd edition of the SNG-WOFI

based on OECD-UCLG, 2022, World Observatory on Subnational Government Finance and Investment, <https://www.sng-wofi.org/>



Almost a quarter of subnational government expenditure is for education, while 22% is for general public services, 17% for economic affairs (incl. transport) and 10% for housing

Subnational government expenditure by functional classification (2020)



Note: All averages are unweighted.

Acronyms: CWA, Central West Asia; FED, Federal countries; LATAM, Latin America; SA, South Asia; SEA, Southeast Asia; UNIT, Unitary countries; UWA, Unweighted average.

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Subnational governments have primary public expenditure responsibilities for housing and community, education, environment, recreation and culture, and important responsibilities for health and transport

Subnational government expenditure responsibilities across 12 countries in Asia and the Pacific

Subnational government expenditure as a percentage of total government expenditure by COFOG level 1 category, across 12 countries with data available

	Australia	Uzbekistan	Kazakhstan	Indonesia	Korea	Nepal	Mongolia	Georgia	New Zealand	Armenia	Kyrgyzstan	Azerbaijan	Unweighted average (%)
Housing and community amenities	78	81	58	89	77	72	100	86	47	60	78	8	69
Environmental protection	65	77	78	69	63	43	28	62	66	78	0	1	52
Education	53	70	70	71	49	68	73	18	0	25	18	4	43
Recreation, culture and religion	79	61	70	45	59	53	35	43	59	25	25	4	46
Health	49	79	18	67	11	43	17	4	0	0	1	3	25
Economic affairs (inc. Transport)	47	12	58	18	40	36	19	23	17	8	5	2	24
General public service	26	23	14	26	32	22	19	9	30	9	8	4	19
Public order and safety	84	0	30	11	19	9	0	0	0	0	0	3	13
Social protection	13	10	10	6	34	11	1	5	0	1	1	0	8
Defence	0	0	1	0	1	0	3	1	1	0	0	0	1

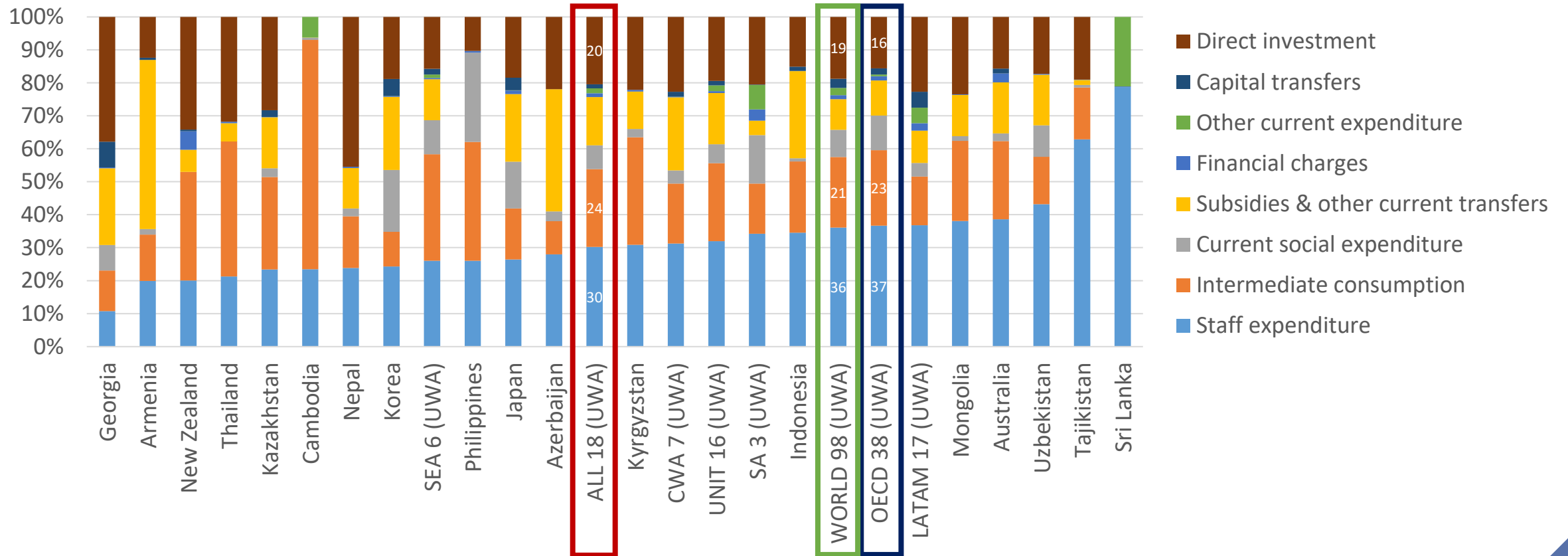
Note: Ratios are calculated based on data for the non-consolidated general government sector. Dark green indicates high subnational government expenditure. White indicates low or no subnational government expenditure in the COFOG category and country. Values represent subnational government expenditure in each category and country, as a percentage of total government expenditure in the same category and country. Light blue indicates federal countries (Australia, Nepal).

Source: OECD, Forthcoming, Multi-level governance and subnational finance in Asia and the Pacific: A regional analysis from the 3rd edition of the SNG-WOFI based on OECD-UCLG, 2022, World Observatory on Subnational Government Finance and Investment, <https://www.sng-wofi.org/>



Over 30% of subnational government expenditure is on staff costs (vs 37% in OECD, and 36% globally), 24% on intermediate consumption (purchase of goods and services) and 20% on direct investment

Proportion of subnational government expenditure by economic classification (2020)



Note: All averages are unweighted. No capital expenditure data for Sri Lanka are available.

Acronyms: CWA, Central West Asia; FED, Federal countries; LATAM, Latin America; SA, South Asia; SEA, Southeast Asia; UNIT, Unitary countries; UWA, Unweighted average.

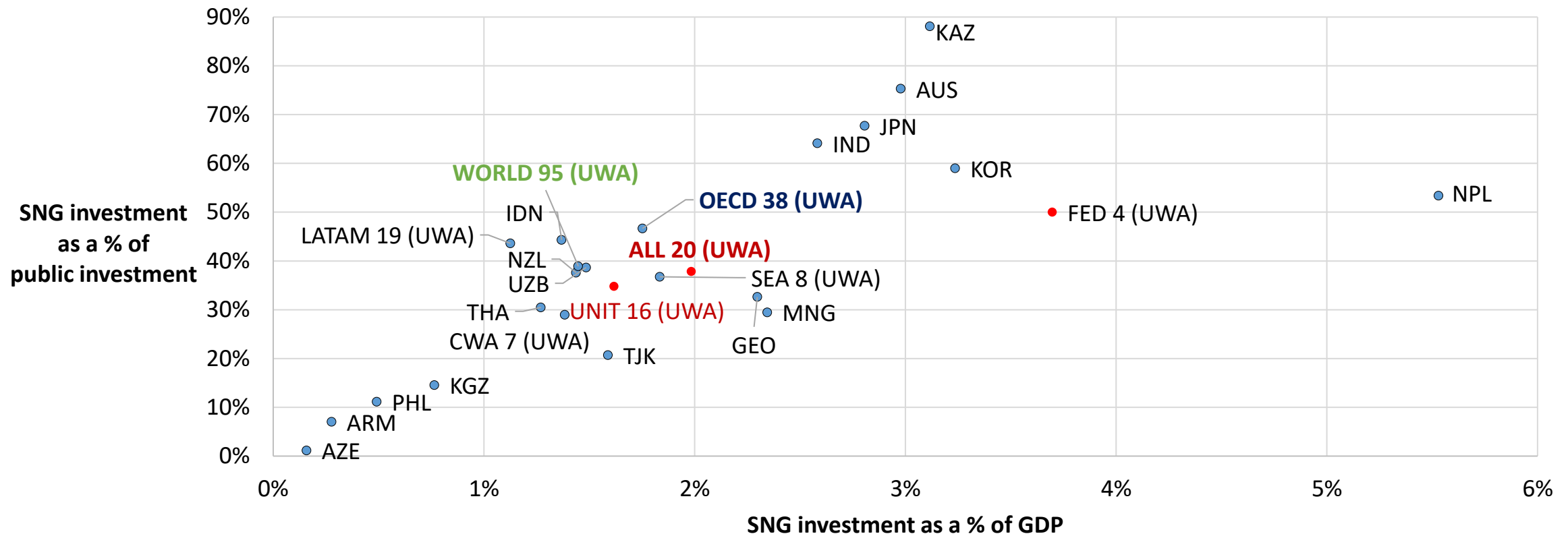
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Subnational governments in the region are responsible for almost 40% of total public investment, which represents almost 2% of GDP (above the world average of 1.5%)

Subnational government investment as a percentage of total public investment and as a percentage of GDP (2020)



Note: All averages are unweighted.

Acronyms: CWA, Central West Asia; FED, Federal countries; LATAM, Latin America; SA, South Asia; SEA, Southeast Asia; UNIT, Unitary countries; UWA, Unweighted average.









Source: OECD, Forthcoming, Multi-level governance and subnational finance in Asia and the Pacific: A regional analysis from the 3rd edition of the SNG-WOFI

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Participatory and priority-based budgetary practices by subnational governments are emerging across Asia and the Pacific

Examples of participatory and green budgeting practices by subnational governments

Country	Year	Type	Name
 India	Since 1996	Participatory budgeting	Kerala’s Participatory Budgeting
 Kazakhstan	Since 2019	Participatory budgeting	Pilot experiments in Nur-Sultan and Almaty
 Mongolia	2013	Participatory budgeting	Integrated Budget Law
 Philippines	2021	Participatory budgeting	Budget Modernisation Bill
 Uzbekistan	Since 2019	Participatory budgeting	Pilot experiment
 India	2020	Green budgeting	Odisha’s climate tagging methodology
 Indonesia	2020	Green budgeting	Pilot project on climate budget tagging in Gorontalo, Riau, and West Java
 Philippines	2015	Green budgeting	Typology of climate programmes

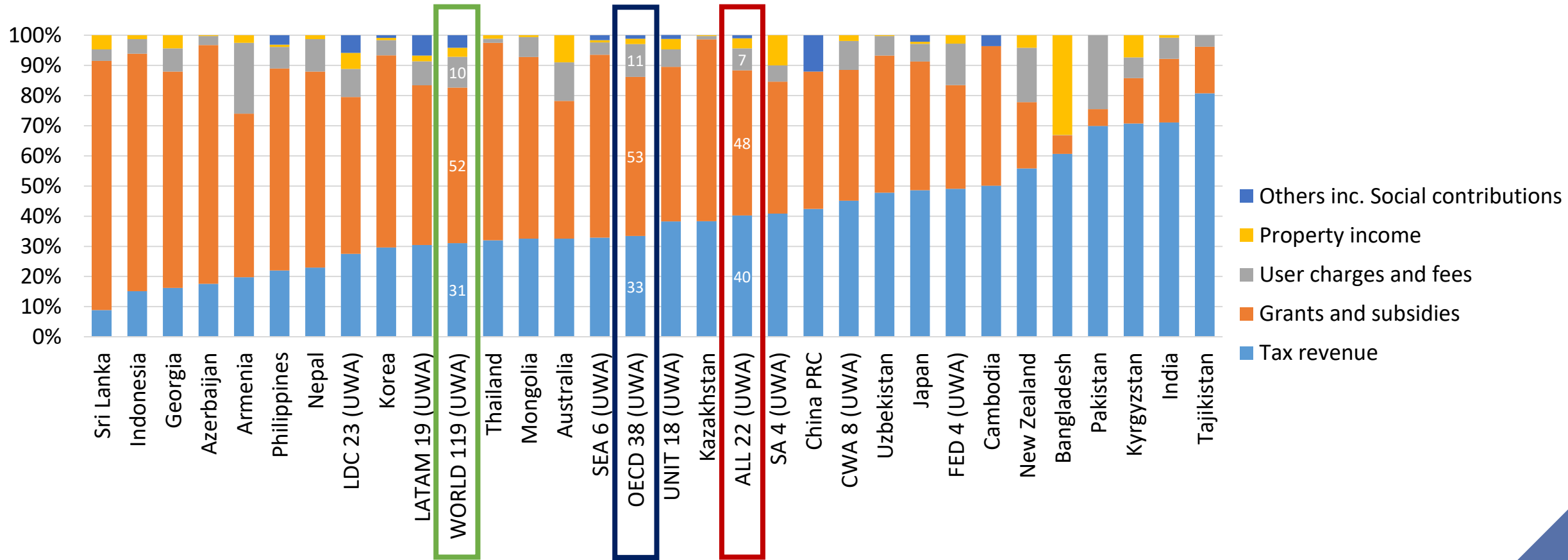
Note: All averages are unweighted.

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Subnational government 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)

Subnational government revenue as a percentage of total subnational government revenue (2020)



Note: All averages are unweighted.

Acronyms: CWA, Central West Asia; FED, Federal countries; LATAM, Latin America; SA, South Asia; SEA, Southeast Asia; UNIT, Unitary countries; UWA, Unweighted average.

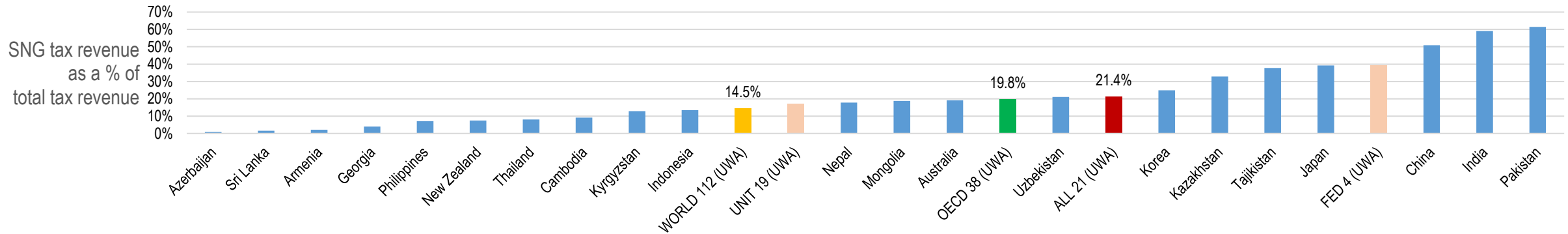
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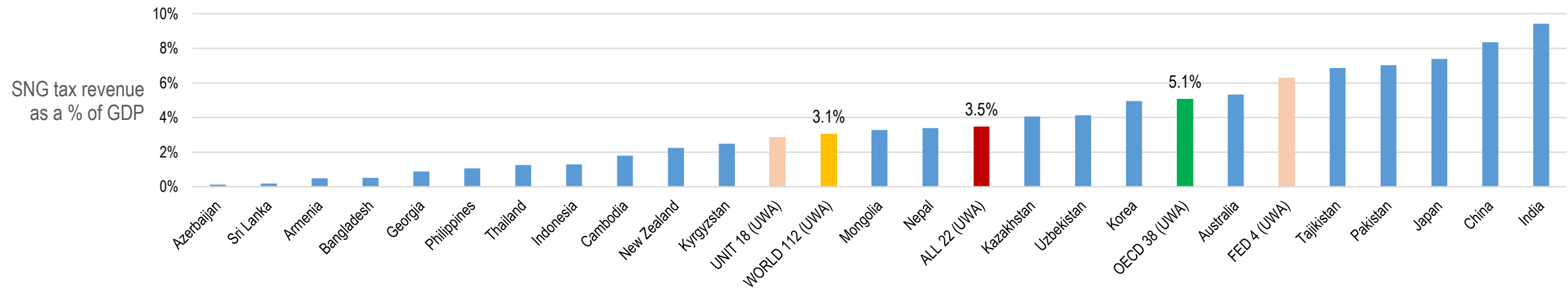


Subnational tax revenue as a share of GDP and of total tax revenue is markedly higher in Asia and the Pacific than the global average

Subnational tax revenue in Asia and the Pacific amount to **21.4%** of total tax revenue (vs 19.8% in the OECD and 14.5% globally)



Subnational tax revenue in Asia and the Pacific represents **3.5%** of GDP (vs 5.1% in the OECD and 3.1% globally)



Note: All averages are unweighted.

Acronyms: CWA, Central West Asia; FED, Federal countries; LATAM, Latin America; SA, South Asia; SEA, Southeast Asia; UNIT, Unitary countries; UWA, Unweighted average.

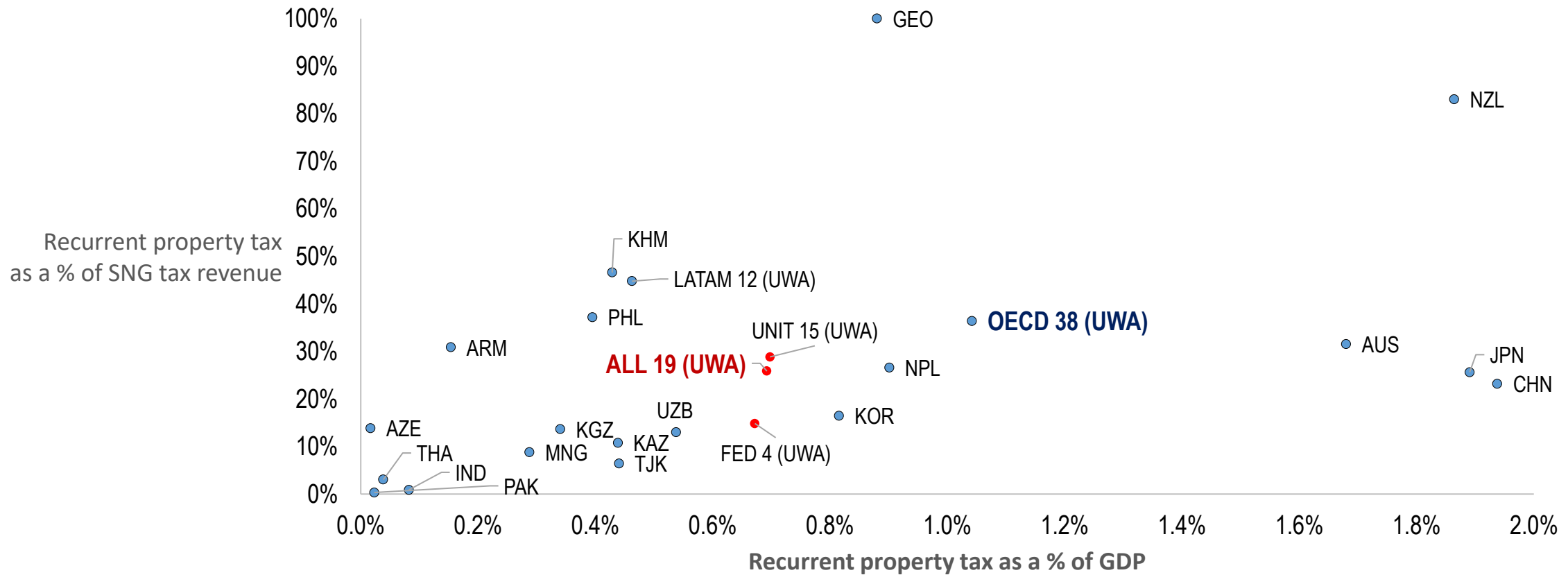
Source: OECD, Forthcoming, Multi-level governance and subnational finance in Asia and the Pacific: A regional analysis from the 3rd edition of the SNG-WOFI

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Subnational government revenue from recurrent property tax represents around 26% of total subnational tax revenue, which is lower than in OECD countries (36%)

Share of the property tax in total subnational government revenue and GDP (2020)



Note: All averages are unweighted.

Acronyms: CWA, Central West Asia; FED, Federal countries; LATAM, Latin America; SA, South Asia; SEA, Southeast Asia; UNIT, Unitary countries; UWA, Unweighted average.

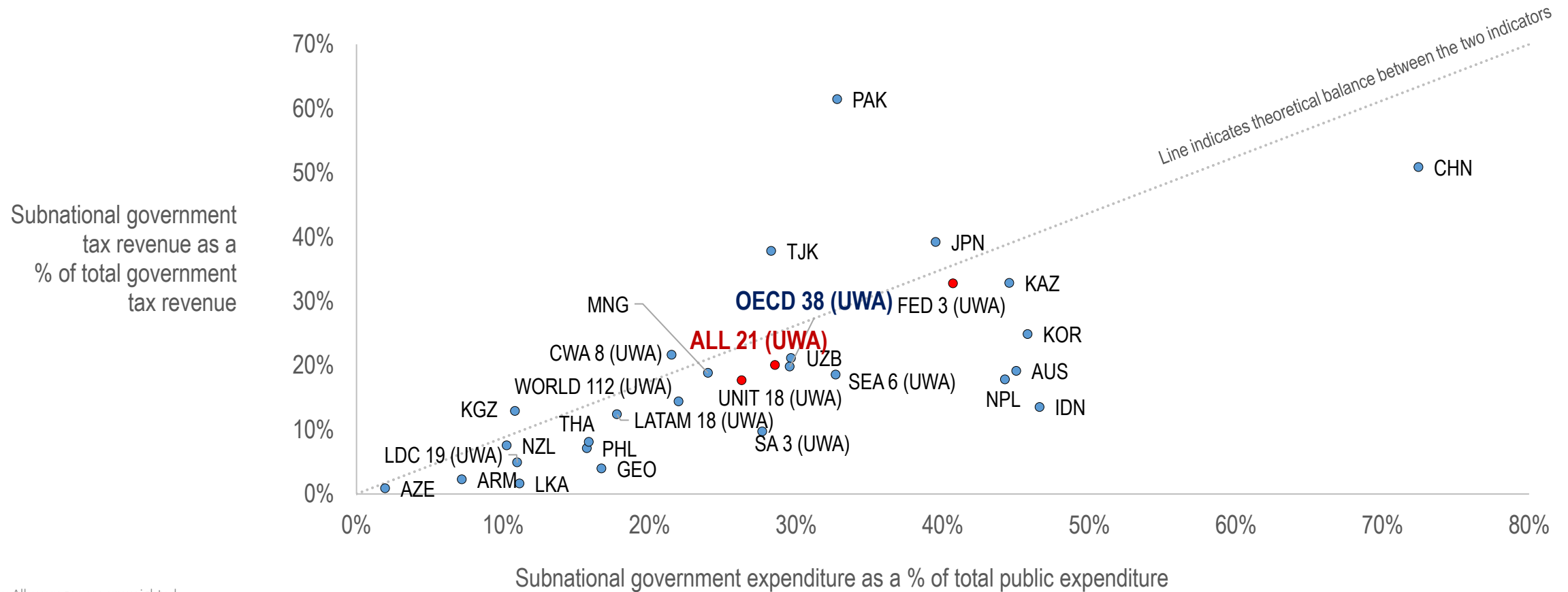
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Subnational governments often have a higher share of public expenditure responsibilities than their share of public tax revenue, indicating a fiscal imbalance

Comparing tax revenue and expenditure of subnational governments in Asia and the Pacific



Note: All averages are unweighted.

Acronyms: CWA, Central West Asia; FED, Federal countries; LATAM, Latin America; SA, South Asia; SEA, Southeast Asia; UNIT, Unitary countries; UWA, Unweighted average.

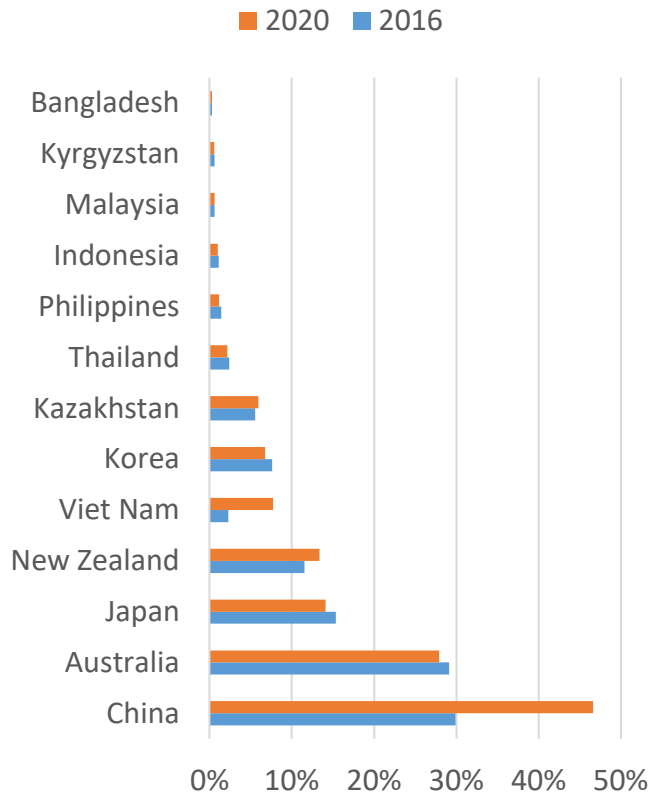
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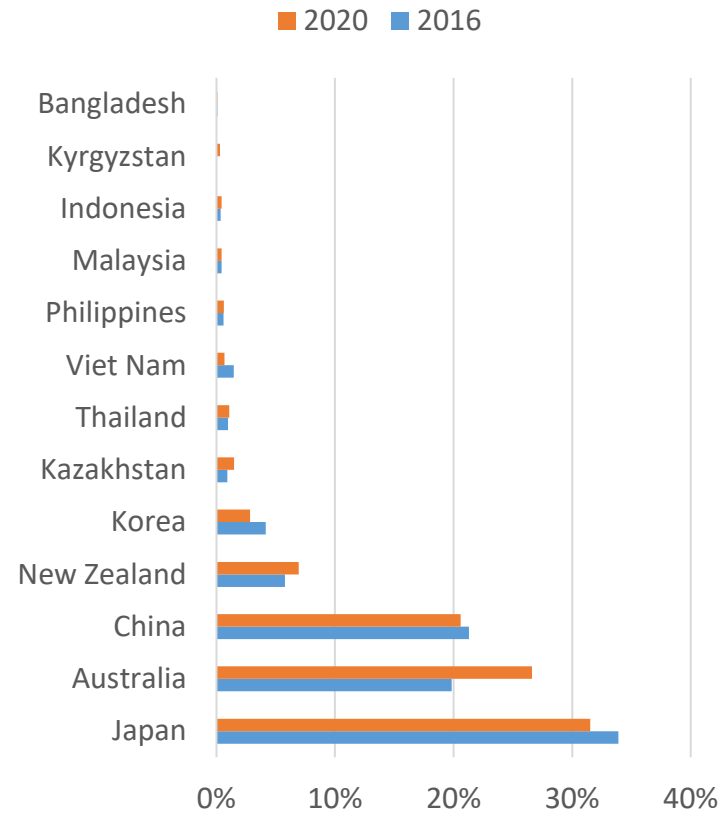


Subnational government debt is relatively low in many of countries across Asia and the Pacific (with data available), although there are some notable exceptions

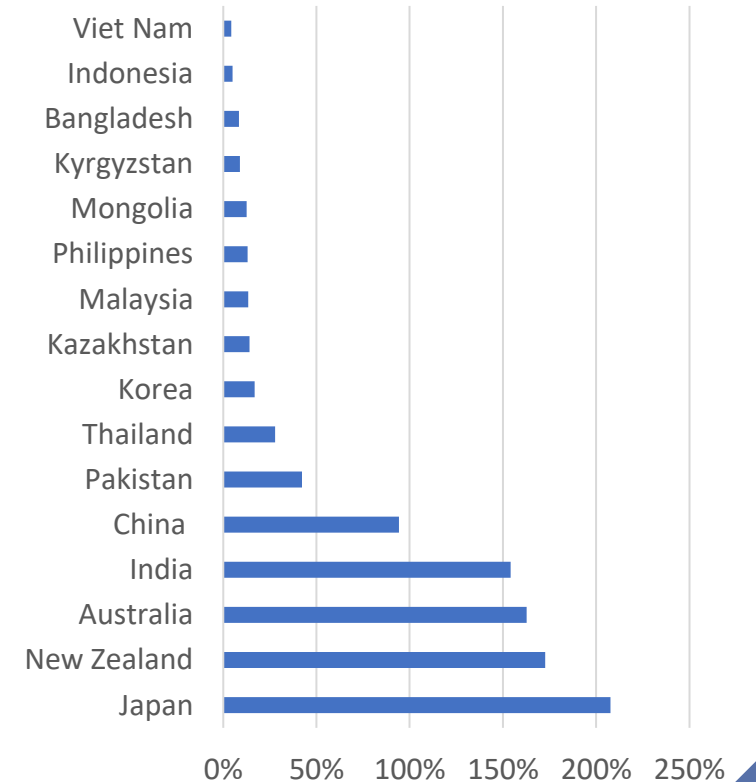
Subnational debt as a share of total public debt in 2016 and 2020



Subnational debt as a share of GDP in 2016 and 2020



Subnational government debt as a proportion of subnational government revenue (2020)



Source: OECD, Forthcoming, *Multi-level governance and subnational finance in Asia and the Pacific: A regional analysis from the 3rd edition of the SNG-WOFI* based on OECD-UCLG, 2022, *World Observatory on Subnational Government Finance and Investment*, <https://www.sng-wofi.org/>



Subnational governments access to finance in many countries is often limited due to strict borrowing rules and insufficient creditworthiness

Examples of borrowing rules and other constraints on subnational government borrowing

BORROWING RULES	OTHER CONSTRAINTS ON BORROWING
Borrowing not permitted or subject to very strict controls	Low creditworthiness
Borrowing limited to public financial institutions or Ministries of Finance	Limited 'bankable' projects (insufficient project preparation)
Borrowing only permitted in local currency	Underdeveloped local currency financial markets
Borrowing not permitted from capital markets	Insufficient institutional capacity (including fiscal responsibility frameworks)
Limitations on the amount of borrowing	Insufficient funding (e.g., limited own-source revenues)
Borrowing limited to investment ('golden rule') – <i>although this rule appears to be less frequent than in OECD countries</i>	Strict approval processes

Source: OECD, Forthcoming, *Multi-level governance and subnational finance in Asia and the Pacific: A regional analysis from the 3rd edition of the SNG-WOFI* based on OECD-UCLG, 2022, *World Observatory on Subnational Government Finance and Investment*, <https://www.sng-wofi.org/>



Many countries across Asia and the Pacific are placing the reform of fiscal frameworks and financial management as a priority, which is essential to accompany decentralisation

Examples of public financial management reforms relating to subnational governments in Asia and the Pacific

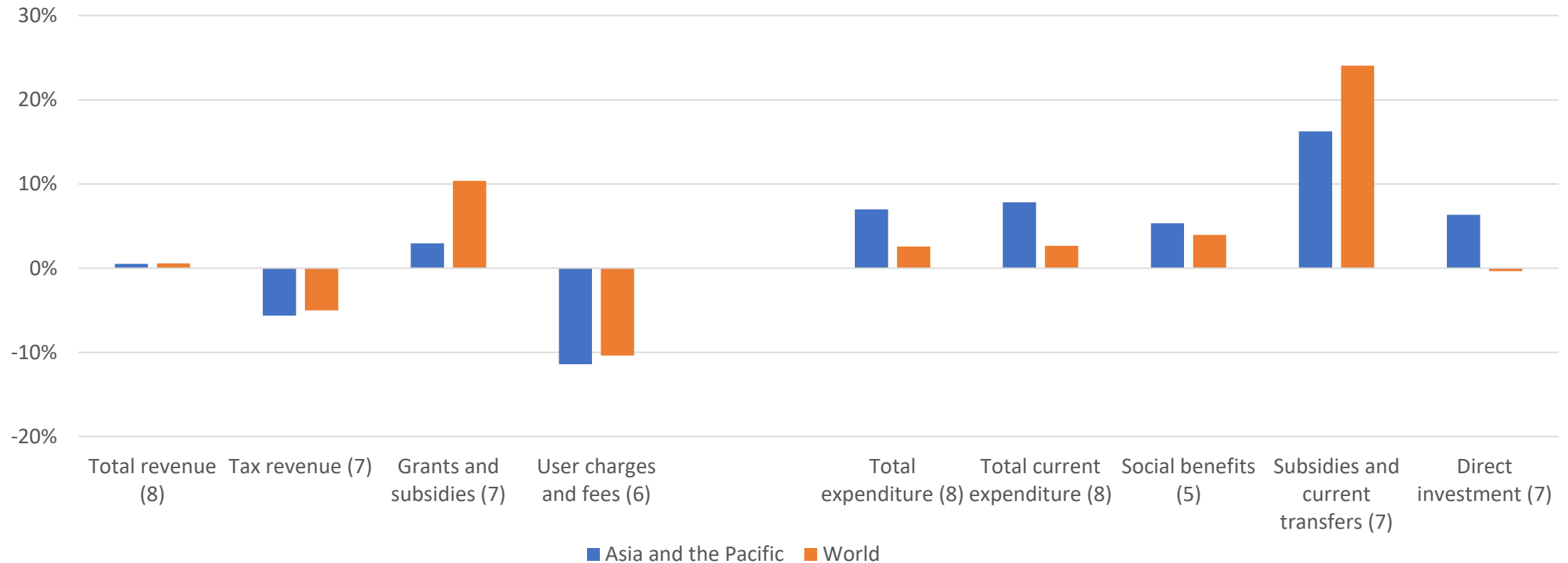
	Country	Year	Reform
	Indonesia	2022	Financial Relations between the Central Government and Regional Governments
	Viet Nam	2022	Treasury and Budget Management Information System
	Philippines	2021	Budget Modernisation Bill
	China	2020	Implementing Regulations of the Budget Law
	Cambodia	2019	Subnational Budget System Reform Strategy 2019-2025
	Nepal	2019	Financial Operations and Financial Accountability Act
	New Zealand	2014	Local Government Regulations on Financial Reporting and Prudence
	Bhutan	2012	Local Governance Rules and Regulations; Local Government Act
	Australia	2008	Inter-governmental Agreement on Federal Financial Relations
	Lao PDR	2005	District Development Fund
	Mongolia	2002	Public Sector Financial Management Law

Source: OECD, Forthcoming, *Multi-level governance and subnational finance in Asia and the Pacific: A regional analysis from the 3rd edition of the SNG-WOFI* based on OECD-UCLG, 2022, *World Observatory on Subnational Government Finance and Investment*, <https://www.sng-wofi.org/>



Subnational governments 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%)

Impact of COVID-19 crisis on subnational government revenues and expenses (2019 vs 2020)



Note: All averages are unweighted. The numbers in brackets refer to the countries included in each average.

Source: OECD, Forthcoming, Multi-level governance and subnational finance in Asia and the Pacific: A regional analysis from the 3rd edition of the SNG-WOFI based on OECD-UCLG, 2022, World Observatory on Subnational Government Finance and Investment, <https://www.sng-wofi.org/>



Improving multi-level governance frameworks and strengthening subnational government finances will help to achieve development objectives

PRELIMINARY POLICY OPPORTUNITIES (1/2)

DECENTRALISATION

Balance the fiscal, political and administrative dimensions of decentralization processes.

RESPONSIBILITIES

Ensure responsibilities are clearly defined across layers of government and **sufficiently funded**.

CO-ORDINATION AND CO-OPERATION

Enhance co-ordination mechanisms across levels of government (vertical) and **support cross-jurisdictional co-operation** (horizontal), including through inter-municipal cooperation arrangements.

REVENUE

Make the most of inter-governmental transfer systems and support subnational governments to **secure a balanced basket of revenues** (e.g., taxes, user charges and fees), including by harnessing physical and financial assets (e.g., land, property and natural resources).

PROPERTY TAX

Further expand the use of property tax, which remains underexploited, since it is one of the most stable revenue sources at the subnational level.

EQUALISATION

Carefully design equalisation arrangements to promote the tax and development efforts of subnational governments.

EXPENDITURE

Strengthen subnational spending autonomy to enhance accountability, support better mobilization of local resources, support the design and delivery of their public services and improve budget management, among other areas.

Source: OECD, Forthcoming, *Multi-level governance and subnational finance in Asia and the Pacific: A regional analysis from the 3rd edition of the SNG-WOFI*



Improving multi-level governance frameworks and strengthening subnational government finances will help to achieve development objectives

PRELIMINARY POLICY OPPORTUNITIES (2/2)

DEBT

Support the effective use of debt by subnational governments by enhancing fiscal responsibility frameworks, building institutional capacity, exploring the use of financial intermediaries and ensuring sufficient and stable funding sources (e.g., own-source revenues).

INSTITUTIONAL CAPACITY

Build the institutional capacity of subnational government relating to revenue collection, effective public expenditure and investment, asset management and debt management.

BUDGETING

Consider adopting priority-based and participatory budgeting practices to enhance local accountability and support prioritisation according to strategic objectives.

DATA

Improve the collection and transparency of data on subnational government finances, in particular for subnational government assets (e.g., land, buildings, SOEs, natural resources, etc.).



More information:

<https://oe.cd/SNG>

<http://www.sng-wofi.org>



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SNGWOFI

World Observatory on Subnational
Government Finance and Investment

ANNEX 1: Countries included in the study

Country	Income group	ADB Region	Development status	Form of state	Area (km ²)	Population (thousand inhabitants)	Number of SNG at Municipal level	Number of SNG at Intermediary level	Number of SNG at Regional or State level	Total number of SNGs
Armenia	Upper middle	Central West Asia	Developing	Unitary	29,740	2,963	484			484
Australia	High	Pacific	Developed	Federal	7,741,220	25,687	537		8	545
Azerbaijan	Upper middle	Central West Asia	Developing	Unitary	86,600	10,093	1,606		1	1,607
Bangladesh	Lower middle	South Asia	Developing-LDC	Unitary	147,570	164,689	4,894	492	64	5,450
Bhutan	Lower middle	South Asia	Developing-LDC	Unitary	38,390	772	209		20	229
Cambodia	Lower middle	South East Asia	Developing-LDC	Unitary	181,040	16,719	1,646	203	25	1,874
China	Upper middle	East Asia	Developing	Unitary	9,600,013	1,410,929	2,844	333	31	3,208
Georgia	Upper middle	Central West Asia	Developing	Unitary	69,700	3,714	64		3	67
India	Lower middle	South Asia	Developing	Federal	3,287,259	1,380,004	267,428		36	267,464
Indonesia	Lower middle	South East Asia	Developing	Unitary	1,916,862	273,524	83,813	514	34	84,361
Japan	High	South East Asia	Developed	Unitary	377,974	125,836	1,747		47	1,794
Kazakhstan	Upper middle	Central West Asia	Developing	Unitary	2,724,902	18,754	6,938	216	17	7,171
Korea	High	South East Asia	Developed	Unitary	100,370	51,781	226		17	243
Kyrgyzstan	Lower middle	Central West Asia	Developing	Unitary	199,950	6,592	484	12	2	484
Lao	Lower middle	South East Asia	Developing-LDC	Unitary	236,800	7,276	8,507	148	18	8,673
Malaysia	Upper middle	South East Asia	Developing	Federal	330,345	32,366	151		13	164
Mongolia	Lower middle	East Asia	Developing	Unitary	1,564,116	3,278	1,710	339	22	2,071
Nepal	Lower middle	South Asia	Developing-LDC	Federal	147,180	29,137	753		7	760
New Zealand	High	Pacific	Developed	Unitary	267,710	5,084	67		11	78
Pakistan	Lower middle	Central West Asia	Developing	Federal	796,100	220,892	12,369		4	12,373
Philippines	Lower middle	South East Asia	Developing	Unitary	300,000	109,581	42,046	1,634	82	43,762
Sri Lanka	Lower middle	South Asia	Developing	Unitary	65,610	21,919	341		9	350
Tajikistan	Lower middle	Central West Asia	Developing	Unitary	141,380	9,538	368	68	4	440
Thailand	Upper middle	South East Asia	Developing	Unitary	513,120	69,800	2,443		76	2,519
Uzbekistan	Lower middle	Central West Asia	Developing	Unitary	448,924	34,232	9,168	294	14	9,476
Viet Nam	Lower middle	South East Asia	Developing	Unitary	331,230	97,339	10,614	707	63	11,384