



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

*Preliminary findings from a regional analysis of the 3<sup>rd</sup> edition of the OECD-UCLG World Observatory on Subnational Government Finance and Investment, prepared with the Asian Development Bank*

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*Afternoon session on Multi-level Governance for SDG Localization*





# 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

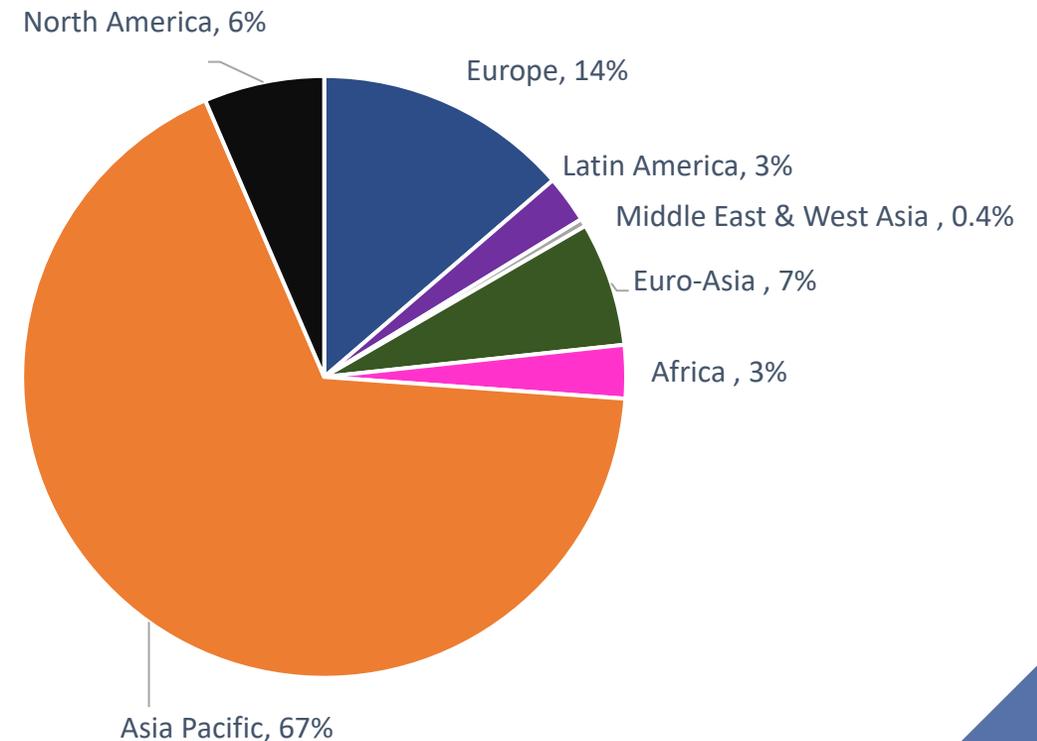
**67%** of the subnational governments included in SNG-WOFI

**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 3<sup>rd</sup> edition of the SNG-WOFI* based on OECD-UCLG, 2022, World Observatory on Subnational Government Finance and Investment, <https://www.sng-wofi.org/>



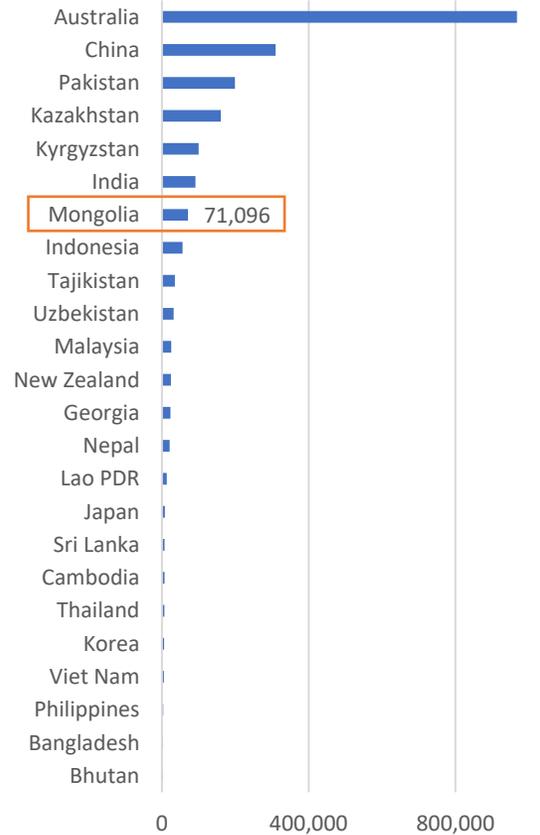
# The size of subnational governments varies significantly across countries in terms of the number of inhabitants and the geographical area represented

## Regional governments

Average number of inhabitants per state or region

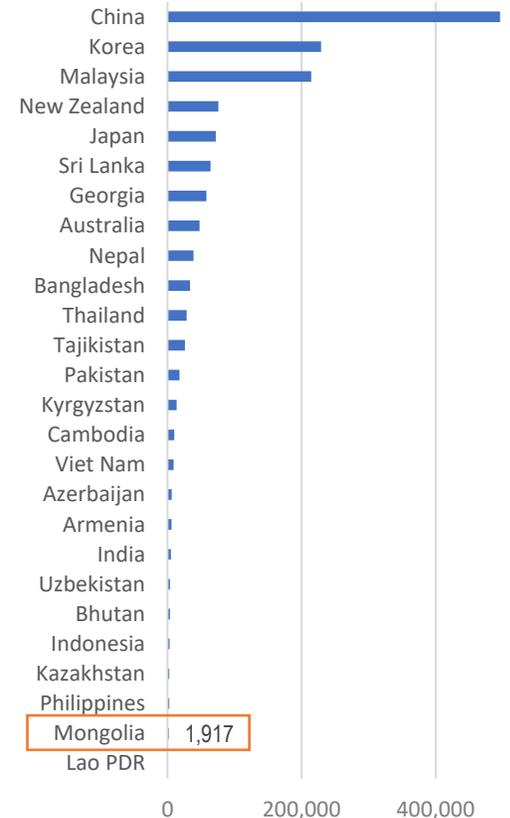


Average size of state or region (km2)

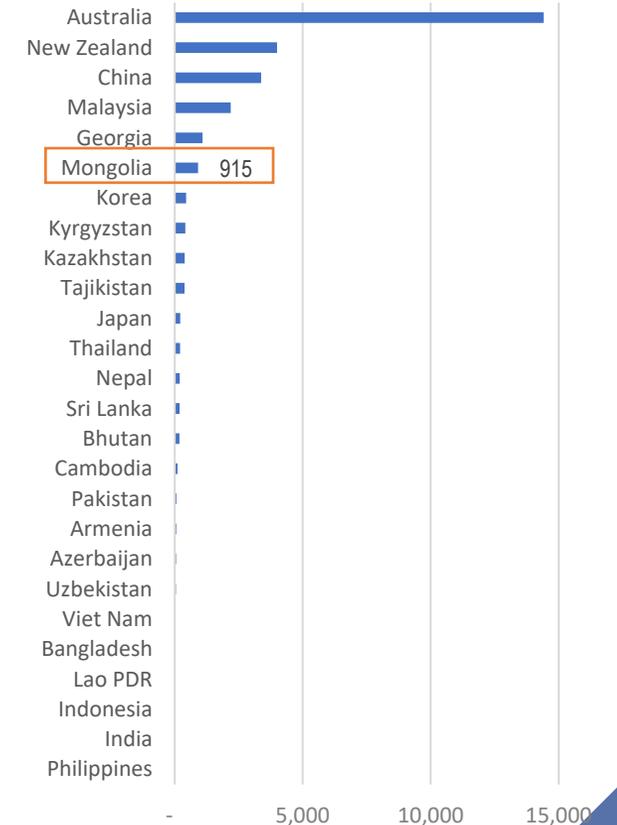


## Municipal governments

Average number of inhabitants per municipality



Average size of municipality (km2)

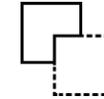
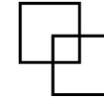


Source: OECD, Forthcoming, Multi-level governance and subnational finance in Asia and the Pacific: A regional analysis from the 3<sup>rd</sup> edition of the SNG-WOFI based on OECD-UCLG, 2022, World Observatory on Subnational Government Finance and Investment, <https://www.sng-wofi.org/>



# 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



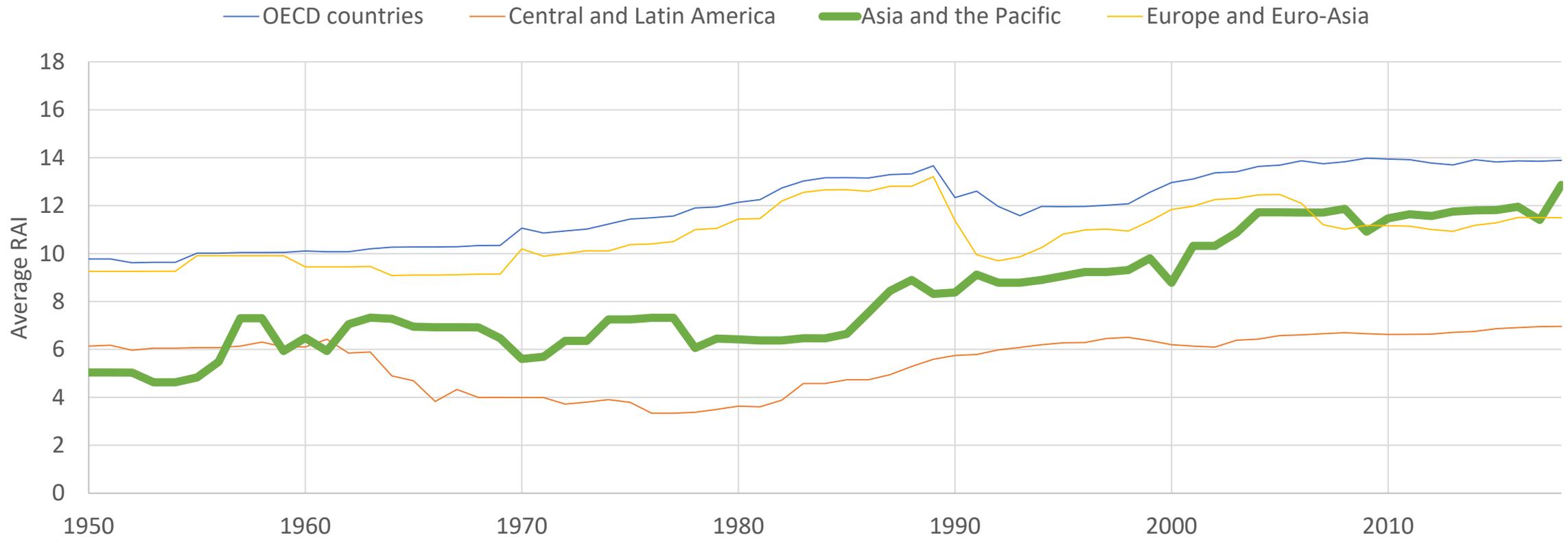
	Institutional decentralisation reforms	Amalgamation	Partition
<b>COMMON OBJECTIVES</b>	<ul style="list-style-type: none"> <li>Deepen decentralisation processes</li> <li>Support the <b>delivery of local public services</b></li> <li>Achieve more <b>democratic outcomes</b></li> </ul>	<ul style="list-style-type: none"> <li>Increase <b>efficiency of administration and service delivery</b> (economies of scale)</li> <li>Increase <b>capacity</b> of smaller SNGs</li> <li>Improve <b>economic competitiveness</b></li> <li>Improve <b>access to finance</b> for investment</li> </ul>	<ul style="list-style-type: none"> <li>Enhance <b>local democracy</b></li> <li>Address <b>historical, linguistic, economic and cultural specificities</b></li> </ul>
<b>COUNTRIES</b> <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 <b>Inter-Municipal Cooperation</b> 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 3<sup>rd</sup> 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

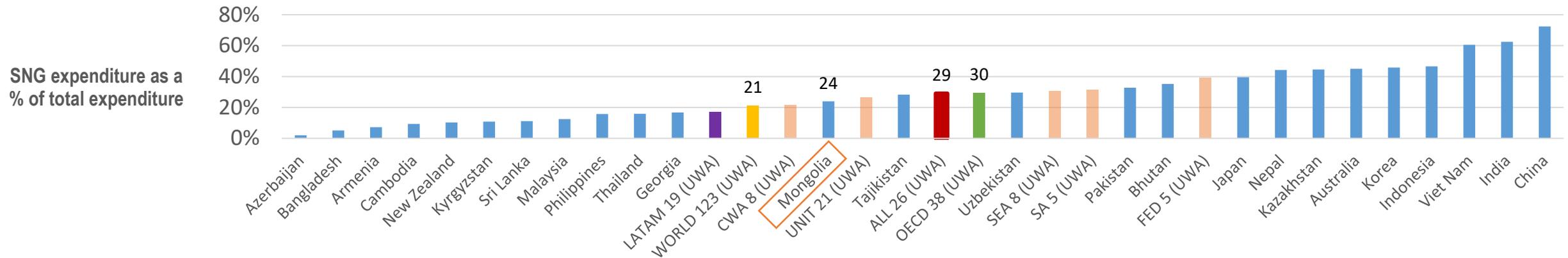


Note: The average Regional Authority Index score for Asia and Pacific includes the following countries: Australia, Bangladesh, Bhutan, Cambodia, China, Japan, India, Indonesia, Korea, Lao People's Democratic Republic, Malaysia, Mongolia, Nepal, New Zealand, Pakistan, the Philippines, Sri Lanka, Thailand, China, Viet Nam.  
Source: OECD, Forthcoming, Multi-level governance and subnational finance in Asia and the Pacific: A regional analysis from the 3<sup>rd</sup> 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).

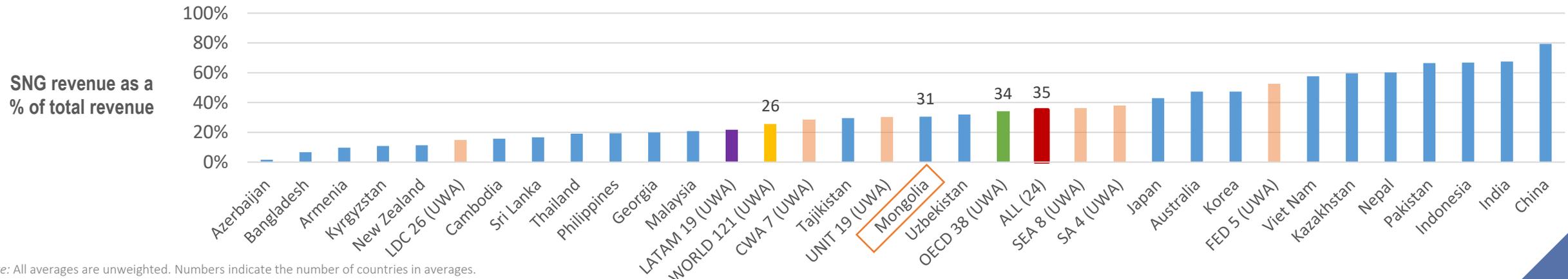


# Subnational governments represent an important share of public expenditure and revenue, although there are large variations and many SNGs have less fiscal autonomy

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: ALL, Asia & Pacific countries in sample; CWA, Central West Asia; FED, Federal countries; LATAM, Latin America; SA, South Asia; SEA, Southeast Asia; UNIT, Unitary countries; UWA, Unweighted average.

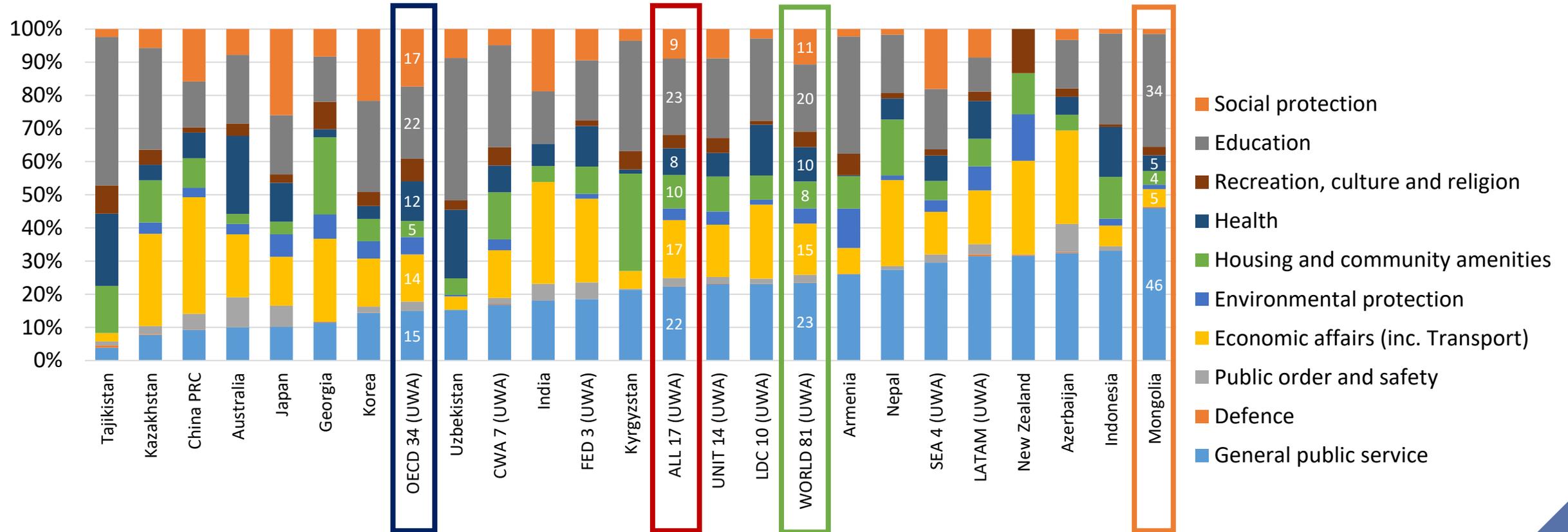
Source: OECD, Forthcoming, Multi-level governance and subnational finance in Asia and the Pacific: A regional analysis from the 3<sup>rd</sup> edition of the SNG-WOFI

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.

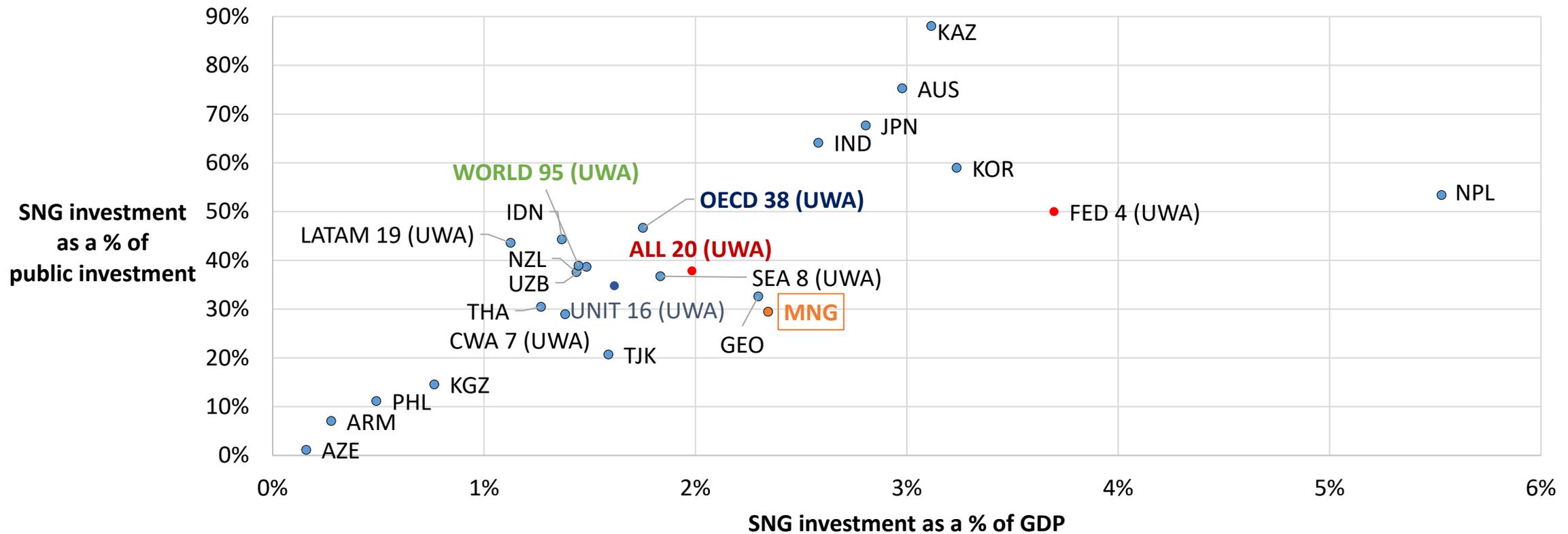
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Subnational governments in the region are responsible for almost 40% of total public investment, which represents almost 2% of GDP (above the world average of 1.5%)

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



Note: All averages are unweighted.

Acronyms: ALL, Asia & Pacific countries in sample; 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 3<sup>rd</sup> 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

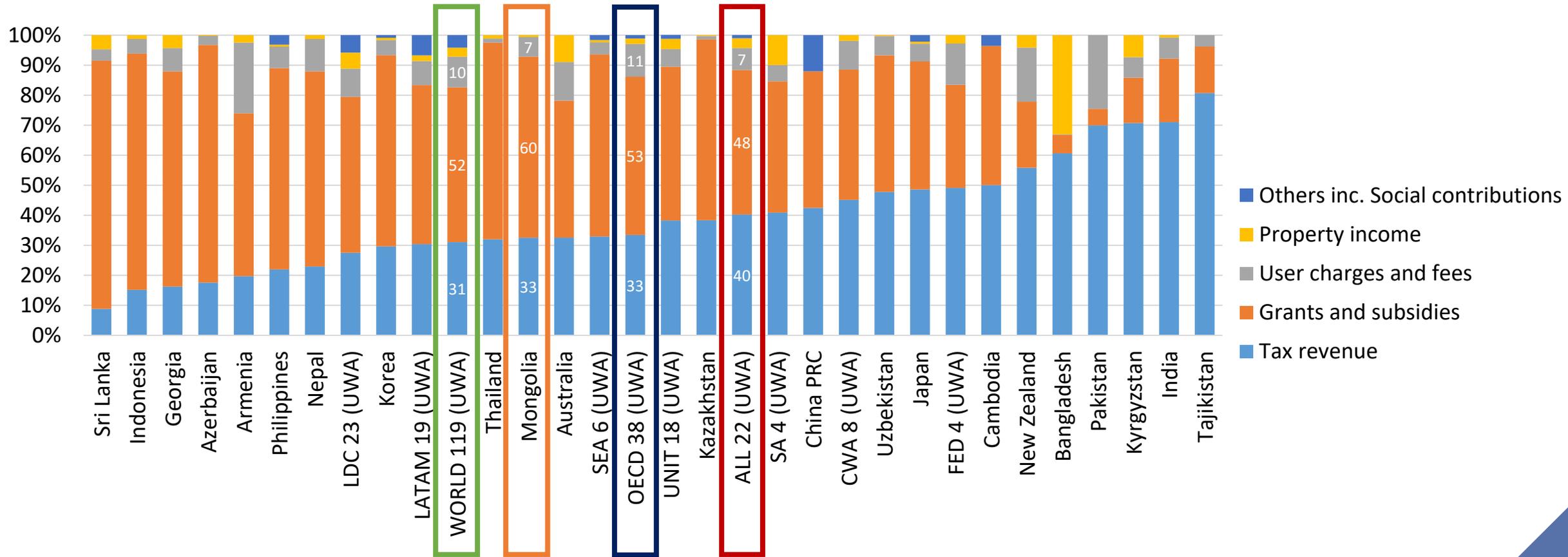
Note: All averages are unweighted.

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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: ALL, Asia & Pacific countries in sample; CWA, Central West Asia; FED, Federal countries; LATAM, Latin America; SA, South Asia; SEA, Southeast Asia; UNIT, Unitary countries; UWA, Unweighted average.

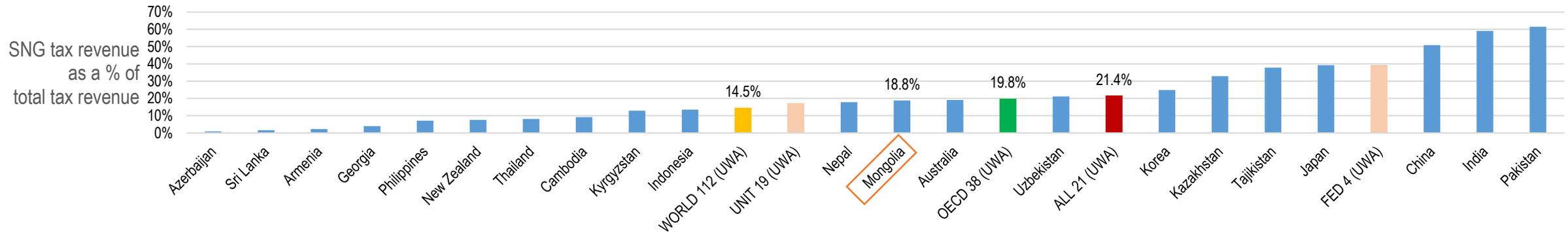
Source: OECD, Forthcoming, Multi-level governance and subnational finance in Asia and the Pacific: A regional analysis from the 3<sup>rd</sup> edition of the SNG-WOFI

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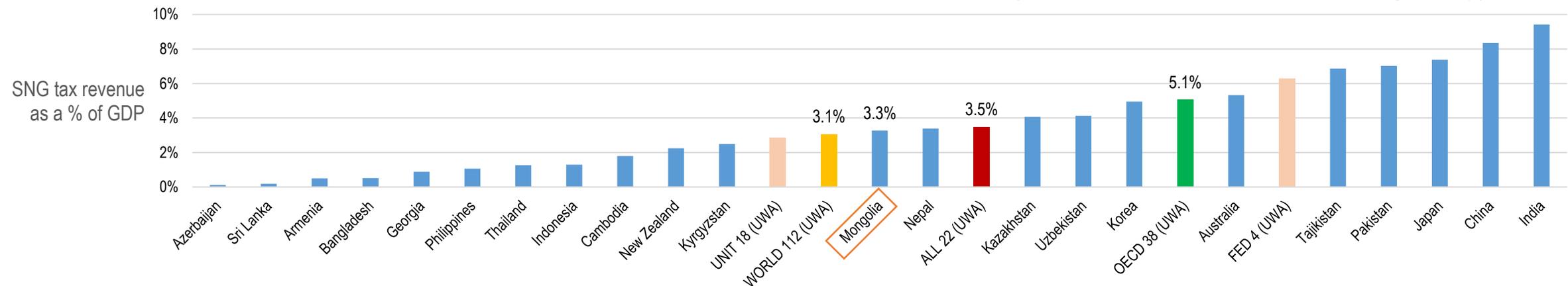


# Subnational tax revenue as a share of GDP and of total tax revenue is markedly higher in Asia and the Pacific than the global average

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.

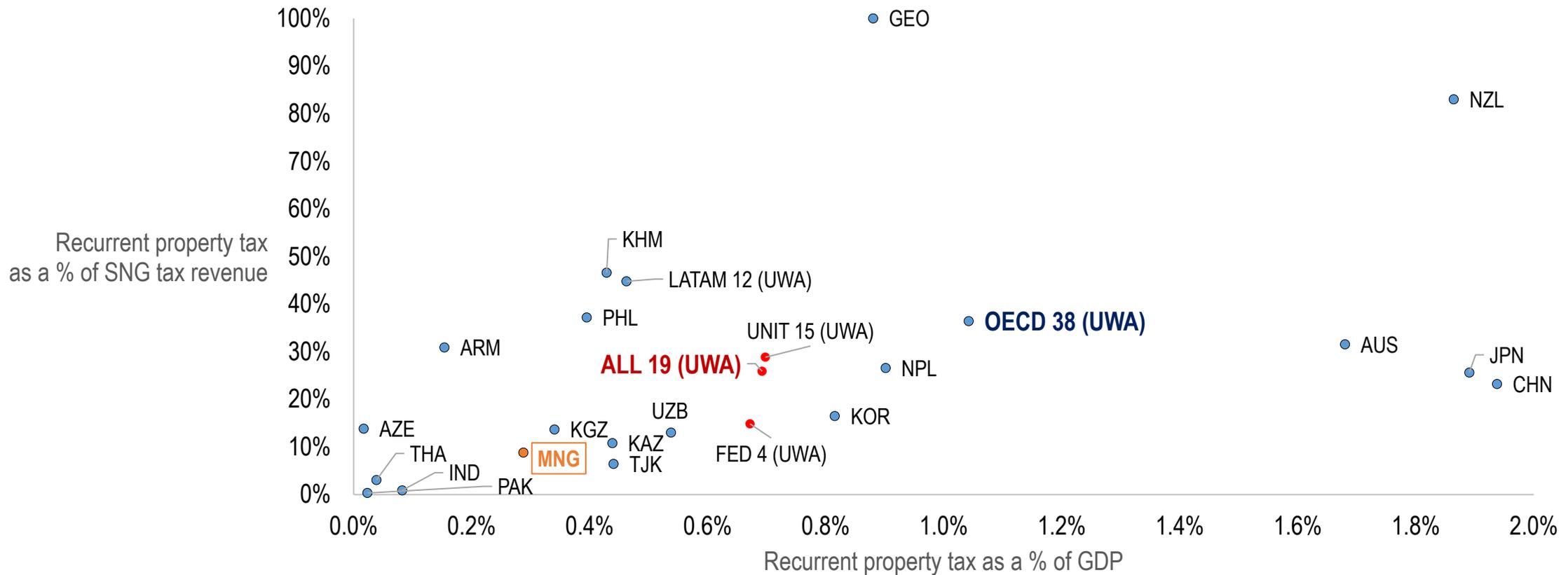
Source: OECD, Forthcoming, Multi-level governance and subnational finance in Asia and the Pacific: A regional analysis from the 3<sup>rd</sup> edition of the SNG-WOFI

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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: ALL, Asia & Pacific countries in sample; 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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# Improving multi-level governance frameworks and strengthening subnational government finances will help to achieve development objectives

## PRELIMINARY POLICY OPPORTUNITIES

<b>RESPONSIBILITIES</b>	<b>Clearly define responsibilities</b> across levels of government.
<b>CO-ORDINATION</b>	<b>Enhance co-ordination</b> mechanisms across levels of government (vertical) and support cross-jurisdictional co-operation (horizontal).
<b>TRANSFERS</b>	<b>Make the most of inter-governmental transfer systems</b> as a reliable source of revenue for subnational governments, including by carefully designing grants and equalisation arrangements to address disparities and promote tax and development efforts of subnational governments (e.g., performance-based grants, fiscal equalisation transfers).
<b>OWN-SOURCE REVENUES</b>	<b>Secure a sufficient, stable and balanced basket of revenues</b> , including by harnessing physical and financial assets, and further expanding own-source revenues such as property taxes.
<b>EXPENDITURE</b>	<b>Strengthen subnational expenditure autonomy</b> to support the effective design and delivery of public services, enhance accountability and improve budget management, among other benefits.
<b>DEBT</b>	<b>Support the effective use of debt</b> by subnational governments by adopting effective fiscal responsibility frameworks, building institutional capacity, exploring the use of financial intermediaries and ensuring sufficient and stable funding sources are available.
<b>CAPACITY</b>	<b>Build the institutional capacity</b> of subnational governments alongside the decentralisation of responsibilities, including relating to revenue collection, public expenditure, investment, asset management and debt management.
<b>FINANCIAL MANAGEMENT</b>	<b>Enhance public financial management</b> and public investment management, including by strengthening the link between planning, investment programmes and budgets to help deliver a pipeline of investable projects.
<b>PRIORITY BASED BUDGETING</b>	<b>Support emerging practices</b> of priority-based (e.g., green budgeting) and participatory budgeting practices to enhance local accountability and support prioritisation according to strategic objectives.
<b>TRANSPERANCY</b>	<b>Improve collection and transparency of data</b> on SNG finances to better support subnational governments' actions, in particular for data related to own-source revenue, assets and debt.

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



More information:

<https://oe.cd/SNG>

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# ANNEX 1: Countries included in the study

Country	Income group	ADB Region	Development status	Form of state	Area (km <sup>2</sup> )	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