Key points

1. Approach of the Network
2. Work programme priorities
3. Studies and country support
OECD Network on Fiscal Relations

Objectives:

- Share experiences on all aspects of fiscal federalism and sub-national public finance, on both the revenue and spending sides of the budget
- Annual Network meetings, as well as workshops and expert seminars
- Unique policy analysis, database and reports

Web: http://oe.cd/fiscalnetwork
Growing country engagement

Membership and engagement

- Paying members
- Participating members
- Delegations (left axis)
- Delegates (right axis)

Year 2016 to 2019

- 2016:
  - Paying members: 10
  - Participating members: 15
  - Delegation: 10
  - Delegates: 10

- 2017:
  - Paying members: 20
  - Participating members: 20
  - Delegation: 20
  - Delegates: 20

- 2018:
  - Paying members: 30
  - Participating members: 30
  - Delegation: 30
  - Delegates: 30

- 2019:
  - Paying members: 40
  - Participating members: 40
  - Delegation: 40
  - Delegates: 40
Certain areas are more decentralised than others: education, social protection, health, public transport, housing.

Breakdown of SNG expenditure by economic function:

- **% of GDP**
  - Education: 21.8%
  - Social protection: 20.3%
  - Economic affairs & transport: 13.8%
  - Housing and community amenities: 12.5%
  - Health: 9.4%
  - Recreation, culture and religion: 8.8%
  - Environmental protection: 5.7%
  - Defence, security and public order: 5.4%

- **% of total SNG expenditure**
  - Education: 21.8%
  - Social protection: 20.3%
  - Economic affairs & transport: 13.8%
  - Housing and community amenities: 12.5%
  - Health: 9.4%
  - Recreation, culture and religion: 8.8%
  - Environmental protection: 5.7%
  - Defence, security and public order: 5.4%

*Source: OECD Fiscal Decentralisation database*
### OECD countries follow various fiscal models

<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>High decentralised spending and high tax revenues</td>
<td>Canada, Denmark, Sweden, Finland, Germany, United States, Japan, Spain, Switzerland, Australia, Belgium</td>
</tr>
<tr>
<td>2</td>
<td>Medium decentralised spending and medium tax revenues</td>
<td>Slovenia, France, Czech rep, Italy, Norway, Poland, Korea, Latvia, Iceland, Australia</td>
</tr>
<tr>
<td>3</td>
<td>Medium decentralised spending and low tax revenues</td>
<td>Estonia, UK, Netherlands, Mexico, Austria</td>
</tr>
<tr>
<td>4</td>
<td>Low decentralised spending and low tax revenues</td>
<td>Greece, New Zealand, Ireland, Chile, Turkey, Portugal, Slovakia, Hungary, Luxembourg, Israel</td>
</tr>
</tbody>
</table>

Source: OECD (2019), *Making Decentralisation Work*
Can decentralisation promote sub-national government performance?

Central governments can help sub-nationals to enhance public sector productivity

![Diagram showing the relationship between public sector performance, productivity, inputs, outputs, defined outcomes, and effectiveness.]

Source: OECD Fiscal Federalism 2020
Decentralisation can improve outcomes, only to a certain extent (e.g. healthcare)

Better health outcomes are associated with moderate decentralisation

Source: OECD Fiscal Federalism Paper No. 27
Healthcare tends to be more centralised, while other sectors are more decentralised
Decentralisation can boost economic growth, yet may also increase inequality.

Source: Boadway and Dougherty (2019) in OECD-KIPF, *Fiscal Decentralisation and Inclusive Growth in Asia*
Key lessons from the Fiscal Network

Based on the new Handbook and Synthesis:

1. **Better align** sub-central spending with own-source revenue
2. **Raise sub-central spending power and tax autonomy** to reduce the need for earmarked grants
3. **Strengthen fiscal equalisation systems**
4. **Delineate responsibilities and functions clearly**
5. **Improve transparency, data collection and performance monitoring** to enhance co-ordination

Most countries decentralise spending more than revenues

Sub-national revenues

Sub-national spending

Source: OECD Fiscal Federalism 2020 and Fiscal Decentralisation database
Public policy responses to challenges

1) SCG own-revenues only partially cover expenses (low tax autonomy)
2) SCGs have limited capacity to respond to fiscal needs (low spending power)

Strengthen sub-central fiscal autonomy by aligning revenues and spending

1) Extensive joint government initiatives (overlap)
2) Administrative borders that do not correspond to geography of issues (e.g. transport/planning exclusively local)

Delineate sub-central responsibilities and improve incentives

1) Intra-national barriers to labour mobility
2) Inadequate performance evaluation and monitoring
3) Failure to centralise coordination functions of government

Improve internal markets, information sharing and coordination

Source: OECD (2020), *Synthesis of Fiscal Federalism Reviews*
Tax autonomy in OECD countries

**Federal Countries**

- A. The recipient SCG sets the tax rate and any tax reliefs
- B. The recipient SCG sets the tax rate
- C. The recipient SCG sets tax reliefs
- D. There is a tax-sharing arrangement
- E. Other cases
- F. None of the above categories

**Unitary Countries**

- A. The recipient SCG sets the tax rate and any tax reliefs
- B. The recipient SCG sets the tax rate
- C. The recipient SCG sets tax reliefs
- D. There is a tax-sharing arrangement
- E. Other cases
- F. None of the above categories

Source: OECD Fiscal Decentralisation Database [http://oe.cd/fiscalnetwork](http://oe.cd/fiscalnetwork)
New fiscal equalisation benchmarking

• The scale of equalisation varies considerably across countries

• In federal countries, the scale of equalisation may be related to fiscal autonomy

Equalising transfers and tax autonomy, selected federal countries

- SCG (TL2) revenue % total government revenue
- Equalising transfers % total government expenditure
• A few key mechanism design approaches have been identified to help equalisation policy be more neutral from the perspective of the SCG:
  – Use of a representative tax system (e.g. Canada, Australia, Germany)
  – Use of standardized costs (e.g. Japan, Korea)
  – Incomplete equalisation (e.g. Germany, Lithuania, Estonia)
  – Separating equalising transfers from other transfers (e.g. Canada)
  – Arms-length commissions (e.g. India, Australia)
Government co-ordination matters

High-level strategic co-ordination of digital transformation policies

Head of government

Co-ordination office
- Strategy development
- Co-ordination
- Evaluation

Ministerial council

Stakeholders

Ministries
- Implementation
- Monitoring

Co-ordination group
- Operational co-ordination

Agencies
- Implementation
- Monitoring

Source: OECD (2019) Going Digital
Examining local government debt, in project to support Lithuania

- Capacity of local governments to borrow and manage debt
  - Intergovernmental fiscal framework
    - Investment funding practices
    - Financial discipline mechanisms
  - Financial market operation
    - Municipal creditworthiness
    - Domestic debt market
Examining frameworks of several models

- Finland
- Estonia
- Netherlands
- Denmark
- New Zealand

Note: Countries in green that are selected as a comparators.

Country support for Lithuania

- Theoretical background
- In-depth analysis of LTU framework
- Gaps analysis
- Action plan
- Best practices identification
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