

## *Executive summary*

Decentralisation is among the most important reforms of the past 50 years. This report argues that the question should not be whether decentralisation is good or bad in itself, but that decentralisation outcomes – in terms of democracy, efficiency, accountability, regional and local development – depend greatly on the way decentralisation is designed and implemented.

Making the most of decentralisation for regional development is particularly crucial in the current context of a “geography of discontent” characterised by growing divides between places that feel left behind by globalisation and technological change and those that may benefit from the opportunities offered by megatrends. Dysfunctional decentralisation systems are part of the story behind the crisis that some democracies are facing: it is thus critical to find ways to make decentralisation systems work more effectively.

### **What are the current trends in decentralisation?**

Decentralisation refers to the transfer of powers and responsibilities from the central government level to elected authorities at the subnational level (regional governments, municipalities, etc.) and that have some degree of autonomy. Decentralisation covers three distinct but interrelated dimensions: political, administrative and fiscal. There has been a path towards decentralisation in a majority of OECD countries over the past decades. In two thirds of OECD countries, decentralisation processes have resulted in an increase of economic importance of subnational government, measured both as a spending share of GDP and share of total public spending between 1995 and 2016.

Today, regions and cities represent account for 40.4% of public spending and 56.9% of public investment in the OECD. Regions and cities play an increasing role in key policy areas linked to megatrends, such as transport, energy, broadband, education, health, housing, water and sanitation. They are responsible, for example, for 64% of environment and climate-related public investment.

The forms and extent of decentralisation vary greatly from one country to another. The financing systems for subnational governments also vary significantly, cutting across federal versus unitary distinctions. On weighted average, taxes represented the number one source of revenues for subnational governments in the OECD (45%), followed by grants and subsidies (37%).

But, decentralisation is too often understood as a simple increase in the power of local governments. The reality is much more complex, as most responsibilities are shared across levels of government. Decentralisation is also about reconfiguring the relationships between the central government and subnational governments towards a greater cooperation and a strategic role for national/federal governments.

Decentralisation trends around the world have gone hand in hand with an upscale in subnational governance through municipal cooperation, metropolitan governance, and the

strengthening of regions. Municipal fragmentation has driven policies encouraging or imposing amalgamations and municipal cooperation. However, it remains high in some countries. Municipalities having less than 5 000 inhabitants represent 44% of all municipalities in the OECD. In 10 countries, this ratio exceeds 80%. The number of metropolitan governance authorities created has increased, regardless of type, in particular since the 1990s. The rising role of administrative regions has also been striking: of the 81 countries, 52 experienced a net increase in the degree of regional authority since the 1970s (as measured by the Regional Authority Index).

In parallel to decentralisation, there has also been an increase in asymmetric decentralisation, i.e. the fact that governments at the same subnational government level have different political, administrative or fiscal powers. While asymmetric decentralisation appears more “natural” in federal countries, it is increasing in unitary countries.

### **Making the most of decentralisation's benefits**

How decentralisation is designed and implemented has a major impact on its outcome. Decentralisation may expand citizen participation by bringing government closer to citizens and allow to best tailor public service provision to meet citizens' needs. While correlations do not allow for causal conclusions, certain measures, such as GDP per capita show a positive correlation with decentralisation. Revenue decentralisation – more than spending decentralisation – appears to be more strongly associated with income gains. Recent empirical evidence indicates that revenue decentralisation could be associated with smaller regional economic disparities.

### **Anticipating and minimising the risks**

Central/federal governments are responsible for the framework conditions that will determine how decentralised systems operate. A lack of sufficient administrative, technical or strategic capacities is one of the bigger challenges in the field of decentralisation. Building capacities takes time and needs a long-term commitment from central and subnational governments.

The fiscal dimension is very often decentralisation's missing link. Unfunded or underfunded mandates – where subnational governments have the responsibility to provide services or manage policies without the requisite resources – are common.

Overlapping assignments between levels of government is another important challenge in decentralised systems. A lack of clarity in the assignment of responsibilities makes service provision and policy making more costly; it may also contribute to a democratic deficit

Decentralisation may result in a loss of certain economies of scale and fragmentation of public policies. Determining optimal subnational unit size is therefore of utmost importance. However, it is a context-specific task; it varies not only by region or country, but by policy area, as well. National governments play an important role in establishing legal, regulatory arrangements and incentives to foster the cooperation across jurisdictions.

## Ten guidelines for effective decentralisation conducive to regional development

The policy experiences and research results that have accumulated over the past decades can help policy makers implement decentralisation reforms in a way that avoids the major pitfalls. When properly designed and implemented, there is evidence that decentralisation policies have a number of benefits, from improved subnational public service delivery and citizen engagement, to a positive impact on growth and well-being.

To assist countries in identifying the conditions that help make decentralisation work, this report proposes ten guidelines for implementing decentralisation, which apply both to federal and unitary countries. The guidelines are more than just recommendations. Each section covers the rationale of each guideline, offers practical guidance, identifies pitfalls to avoid, highlights good practices and includes a checklist for action.



**From:**  
**Making Decentralisation Work**  
A Handbook for Policy-Makers

**Access the complete publication at:**  
<https://doi.org/10.1787/g2g9faa7-en>

**Please cite this chapter as:**

OECD (2019), “Executive summary”, in *Making Decentralisation Work: A Handbook for Policy-Makers*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/14a7de8b-en>

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