

Asymmetric decentralisation: trends, challenges and policy implications

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A growing number of countries in the OECD and beyond are moving toward asymmetric decentralisation, i.e. a differentiated assignment of competencies across subnational governments for the same level of administration. While from the 1950s to the 1970s asymmetric arrangements happened mostly at a regional level, the present trend seems to apply asymmetric decentralisation mostly in case of urban areas. Such trends may be further reinforced by the current global COVID-19 crisis which has had highly asymmetric impact within countries. This paper aims to shed light on the various forms of asymmetric decentralisation. The study examines arguments from both economic research and policy practice angles. The paper highlights the pitfalls to avoid and good practices when implementing asymmetric decentralisation policies to reap their benefits and to minimise their costs.

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1. Introduction¹

Beyond structural differences across regions, regional economic disparities within countries have been rising in recent decades in OECD countries, in particular since the 2008-09 financial crisis. OECD countries are confronted by a persistent productivity gap, which has a strong spatial dimension. The age structure of populations may vary a great deal between regions within a country, as well as their demand for various public services. (Kim and Dougherty, 2020^[1]) In some cases there are important ethnic, historical or political differences between regions. The types of challenges faced by regions within countries, and associated capacities to address them thus vary dramatically within countries. This has implications on the types of institutional and fiscal arrangements at the subnational level to respond to these challenges, and the potential need to differentiate them within countries.

OECD country experience shows that there is no single optimal design for decentralisation and multi-level governance (OECD, 2017^[2]). The outcomes that can be expected from decentralisation much depend on the way the process is designed and implemented, on adequate subnational capacity, and on the overall quality of multi-level governance (OECD, 2019^[3]). Decentralisation reforms are often planned and implemented with a uniform or symmetric approach, where all subnational governments are treated in the same way despite their differences. This is especially the case in unitary countries, but also many federal countries use the symmetry principle. To succeed, this symmetric approach to decentralisation often requires very strong equalisation mechanisms and the carrying out of structural administrative reforms such as mergers of municipalities. Such policies can be politically difficult to carry out.

An alternative and perhaps more flexible way to approach the necessary conditions for decentralisation to succeed is the asymmetric treatment of subnational governments. There can be political, economic or administrative motives for choosing a differentiated approach (Bird and Ebel, 2006^[4]). Political reasons for asymmetric arrangements are often associated with aims to take into account regional cultural or ethnic specificities. In the extreme case, the motivation can be even to alleviate tensions between regions and to weaken secessionist incentives. The economic motives for asymmetry are usually linked with efficiency considerations. In fiscal terms, asymmetric federalism or decentralisation means that subnational government units at the same level have different spending or revenue powers. Administrative asymmetry aims to advance government policies so that the different capacities of subnational governments are taken into account.

Recent research results show that asymmetric arrangements have become more common (Hooghe et al., 2016^[5]; Allain-Dupré, 2018^[6]). In 1950, around half of the countries covered by the Regional Authority Index (RAI)² had some kind of differentiated

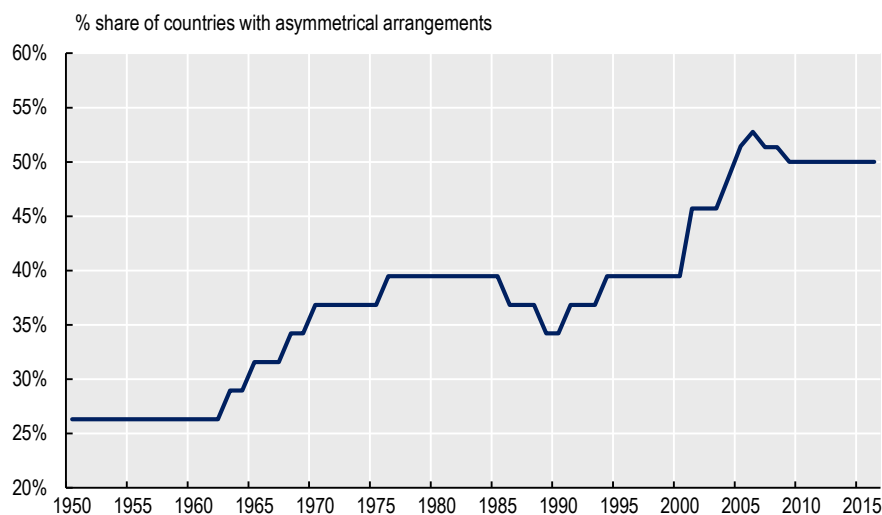
¹ Paper written by Dorothée Allain-Dupré, Isabelle Chatry and Antti Moisio.

² The Regional Authority Index (RAI) tracks regional authority on an annual basis from 1950 to 2010 in 81 countries. The sample consists of all EU member states, all OECD member states, all Latin American countries, ten countries in Europe beyond the EU and eleven in the Pacific and South-East Asia. The unit of analysis is the individual region/ regional tier. The dataset encompasses subnational government levels with an average population of 150,000 or more. Regions with a special autonomous statute or asymmetric arrangements are also coded separately. Regional authority is measured along ten dimensions: institutional depth, policy scope, fiscal

governance at the regional level. Between 1950 and 2016, the share of countries measured with the RAI having implemented asymmetric arrangements has doubled. This development is not very surprising, taking into account the considerable differences between regions within countries and the high costs of a uniform application of decentralisation.

Figure 1.1. Asymmetric arrangements at the regional level

The share of countries with asymmetric arrangements at the regional level has doubled between 1950 and 2016



Notes: The dataset is composed of 38 countries over the 1950-2016 period. The countries include all EU countries except Cyprus, Estonia, Malta and Luxembourg, as well as Albania, Australia, Bosnia and Herzegovina, Canada, Israel, Japan, Macedonia, New Zealand, Norway, Russia, Serbia, Switzerland, Turkey, United Kingdom and United States.

Source: Hooghe, Liesbet, Gary Marks, Arjan H. Schakel, Sandra Chapman-Osterkat, Sara Niedzwiecki, and Sarah Shair-Rosenfield (2016) *Measuring regional authority. Volume I: a postfunctionalist theory of governance*. Oxford: Oxford University Press.

Asymmetric decentralisation might occur at regional (e.g. state, province, *länder*), metropolitan or at local level. Here the trends in asymmetric decentralisation are changing: whereas from the 1950s to the 1970s, asymmetric arrangements happened mostly at a regional level, the present trend seems to apply asymmetric decentralisation to major urban areas. In particular, capital city districts have experienced a growth in asymmetric decentralisation arrangements, perhaps because the benefits of urbanisation and agglomeration economies have become more widely understood and accepted. As a result, the number of metropolitan governance authorities has increased during the past decades. Currently, around two-thirds of the metropolitan areas in the OECD have a metropolitan governance body (Ahrend, Gamper and Schumann, 2014^[7]). Beyond metropolitan governance arrangements, some asymmetric arrangements are also increasingly applied at the municipal level, with the attempt to allocate responsibilities depending on municipal capacities.

autonomy, borrowing autonomy, representation, law making, executive control, fiscal control, borrowing control, and constitutional reform.

While the economic theory and empirical research on federalism often assumes homogenous subnational governments and equal treatment of all subnational governments, economic research has not taken a strong stand – whether for or against – asymmetric decentralisation (Congleton, 2006^[8]; Bird, 2003^[9]).

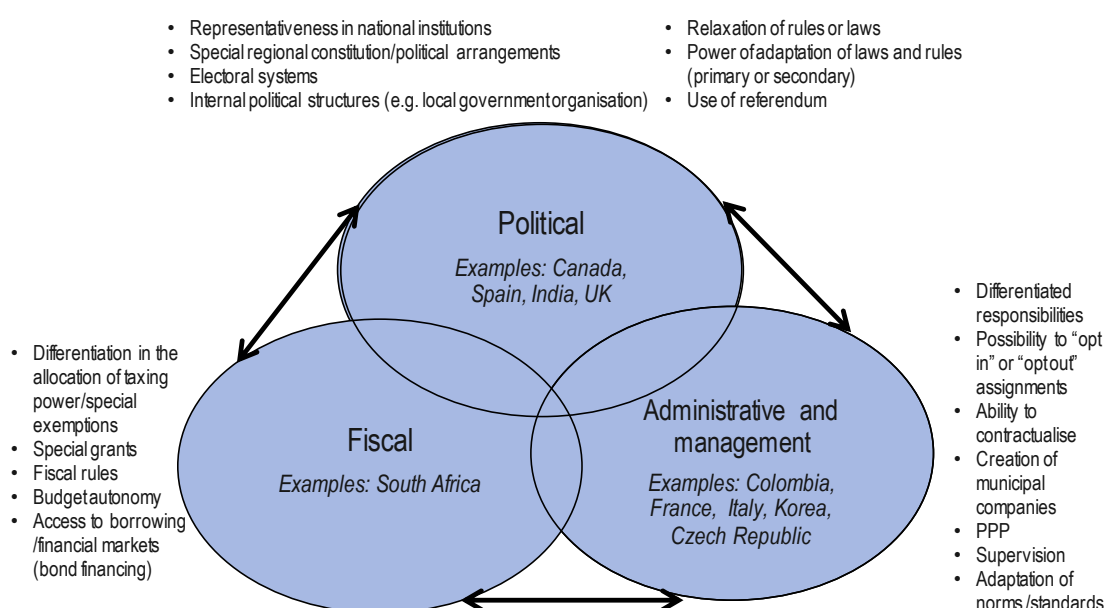
The COVID-19 crisis provides the latest example of the importance of asymmetric decentralisation. The crisis has had asymmetric impacts on regions and local governments, and the capacities to deal with the implications have differed considerably between subnational governments (OECD, 2020^[10]). Many countries have therefore adopted regionally differentiated strategies for both confinement and de-confinement measures. While the eventual implications of COVID-19 are still to be seen, it seems plausible to assume that the crisis can lead to more differentiation in decentralisation policies.

The purpose of this paper is to shed light on the pros and cons of asymmetric decentralisation both from an economics research and policy practice point of view. The aim is also to present new information that can contribute to asymmetric decentralisation policymaking currently underway in several countries. The paper proceeds as follows. Section 2 discusses the rationale for asymmetric decentralisation. Section 3 provides an overview of different forms and trends of asymmetric decentralisation. Section 4 summarises the lessons learned of asymmetric arrangements from policy making aspects and makes some recommendations on implementing asymmetric decentralisation.

2. Rationales for asymmetric decentralisation

There can be various motivations for treating subnational governments in an asymmetric way. This section discusses briefly the main political, administrative and fiscal incentives for asymmetric decentralisation (Figure 2.1). Asymmetric decentralisation can also be seen from three different scales: regional (state/province), metropolitan and local.

Figure 2.1. Three main types of asymmetric decentralisation



Source: (OECD, 2019^[3]).

The motivation for asymmetric decentralisation differs between unitary and federal countries. Asymmetric decentralisation is often a basic characteristic of federal countries. There are different gradients of asymmetry though. Some federal countries are rather asymmetric, such as Belgium, Canada, India, Russia or Spain. Other federal countries tend to favor symmetry, like Australia, Austria, Germany, Switzerland and the United States. However, even the most “symmetric federations” like the USA and Switzerland have elements of asymmetry (Bird, 2003^[9]; Dafflon, 2006^[11]). Some federations are developing new asymmetric solutions. In Germany, for example, all Länder enjoy the same degree of legislative power and the same responsibilities, but the 2006 reform also established a right to depart from federal legislative assignments by introducing opt-outs in six policy areas (e.g. higher education, environmental protection) for the Länder (OECD/UCLG, 2019^[12]; OECD, 2020^[13]).

In unitary states, symmetry is usually the basic principle, motivated by equity and integration of different parts of the country. Examples of such approaches include Chile, or France (“*une et indivisible*”). However, some unitary states have strong elements of asymmetry too (e.g. Italy, United Kingdom). Countries with important peripheral territories such as outermost regions or other outlying regions (e.g. Finland, France, Portugal) are examples of this.

Asymmetric decentralisation has become more common in unitary countries also because of need to reform the metropolitan governance. In general, there are examples of asymmetric administrative decentralisation, giving more responsibilities to regions with greater capacity. As a result, there seems to be a greater convergence between unitary and federal countries in the trend towards differentiated governance across subnational regions, notably for metropolitan regions.

It should also be noted that the COVID-19 global crisis in 2020 has a differentiated impact, not only across countries but within countries. The regional and local impact of the COVID-19 crisis is highly heterogeneous, with a strong territorial dimension that has important consequences for crisis management and policy responses. This is true for the health impact, but also the economic, fiscal and social impacts of the crisis on territories (OECD, 2020_[10]). Large urban areas have been particularly hit. Such development may emphasise the need for differentiated governance arrangements for certain types of regions, notably metropolitan areas, to allow a more granular assignment of responsibilities, which corresponds to the level of capacities of subnational governments. Such differentiated subnational governance may help build more resilient regions, better able to cope with future shocks.

Political reasons

Historical, cultural and ethnic circumstances, sometimes originating already from the formation of countries, may cause a variety of political tensions in the regions or even demands for secession. In order to safeguard the unity of a nation-state, granting differential treatment, such as a partial or full autonomous status, to some regions or subnational governments, can be a tempting policy alternative. This section discusses briefly the main political motives for asymmetric decentralisation. Federalism and asymmetric decentralisation have sometimes been justified to maintain the unity of the State, and to recognise regional specificities and identities. This has been the case for example in Belgium, Canada, Spain and Switzerland (Bermeo, 2002_[14])³.

The causal relationship between secessionist movements and asymmetric decentralisation is unclear, however. In particular, federalism and asymmetric decentralisation may not always help to limit secessionist movements. Much depends on the implementation of the asymmetric arrangements and the severity of conflicts. Recent research results suggest that asymmetric decentralisation strategy does not necessarily result in reduced incentives for secessionist movements, and even the opposite development is possible (Rode, Pitlik and Borrella Mas, 2018_[15]).

Asymmetric decentralisation is by no means the only solution to preserve the unity of the state. In some countries an opposite path has been chosen. For example, in Chile a homogenous treatment of regions and subnational governments has been adopted for decades, to ensure the unity of the state. However, this situation in Chile is currently changing, as new legislation devolves additional responsibilities to metropolitan areas and some pilot regions.

³ Bermeo (2002_[14]) discusses federalism as a response to regional tensions.

Administrative motivations

Responding to capacity challenges

Subnational governments often differ in their administrative, fiscal and human resources capacities. Asymmetric decentralisation offers a method to tackle capacity challenges in public service provision. The traditional ways to address capacity problems at the subnational level of government include amalgamating subnational government units, enhancing inter-municipal or interregional cooperation or outsourcing tasks to private sector producers. One possibility is also that the central government or other higher levels of government take over some tasks from subnational government to ease the pressure on subnational governments.

Sometimes large-scale reforms, such as amalgamations of subnational governments, are not feasible due to lack of resources, or time, or political resistance. If that is the case, a more targeted solution such as asymmetric arrangement might be an attractive option to solve capacity issues.

Efficiency in implementation

Asymmetric arrangements can be motivated by *efficiency considerations*, for example if the majority of subnational governments are too weak to take charge of service provision without substantial aid and support from central government. In order to both initiate important policy measures and to utilise the efficiency benefits from decentralisation, the central government may decentralise responsibilities first to large urban areas, provided that they have the required fiscal and administrative capacity. In the same vein, at the regional level, it may make sense to decentralise responsibilities first to a limited number of provinces or counties. At later stages, the other subnational governments could follow suit, provided that they have achieved sufficient capability needed to take the responsibility of spending and revenue assignments. In this case, it is important that there is some kind of training system in place for subnational governments, and that the rules of eligibility are transparent.

Related with the previous argument, it is worth noting that asymmetric fiscal arrangements may help accommodate heterogeneous preferences among subnational governments about autonomy. While decentralisation is usually accepted by most stakeholders in principle – when responsibilities come along with resources – in practice the preparedness to receive new responsibilities or powers may vary considerably among regions and municipalities. If this is the case, a sequenced approach could ease the transition into new allocation of tasks between government levels (Bahl and Martinez-Vazquez, 2005_[16]). Examples of countries that have implemented sequenced decentralisation in the past include India, Indonesia, Mexico, Russia and Tanzania (Bahl and Martinez-Vazquez, 2005_[16]).

Perhaps paradoxically, asymmetric decentralisation can help central governments promote *national goals* for uniform service delivery. In some cases, the asymmetric approach provides a flexible alternative to simultaneous assignments. For example, if the circumstances differ significantly between regions, and designing and operating a financial aid system and normative regulation is considered too burdensome, an approach that devolves tasks on a case by case basis might be more appropriate (Bird, 2003_[9]; Bird and Ebel, 2006_[4]). It should also be acknowledged that unity is usually the ultimate policy goal, not uniformity in production.

Learning-by-doing

One important potential justification from asymmetric decentralisation reform is that the governments – both central and subnational – can learn from successes and mistakes, and take necessary steps to revise the reform if needed. In this way, asymmetric decentralisation is a form of regional *experimentation*, which enables learning and dissemination of best practices. So-called “menu federalism”, where subnational governments voluntarily choose the tasks that best serve their own interests (Congleton, 2015^[17]), is a special form of such approach.

Examples of countries which have adopted explicit learning-by-doing approaches are Chile and Sweden. In Sweden, regional reform was implemented gradually and voluntarily by counties themselves since the end of the 1990s, until the reform was implemented for the whole country in 2019. During the early stages of the reform, the “bottom-up regionalisation” was implemented as a gradual and experimental process (like a laboratory of regionalisation). The underlying idea was that decentralised policymaking leads to more innovation in governance.

In Chile, in order to prepare regional governments to assume new responsibilities, pilot projects have been conducted to “test” new competencies assigned to regions. Pilot experiences have been conducted in metropolitan areas. For example, regions were allowed to administer one or more metropolitan areas in their jurisdiction by creating a specialised unit within the regional authority to manage at the metropolitan level, with responsibilities linked to transport, housing, the environment and public works, or waste management (OECD, 2017^[2]).

Fiscal motives

Justifications for asymmetric fiscal decentralisation are largely the same as the benefits received from fiscal decentralisation more broadly: utilising better knowledge of local demand and cost factors, more transparent decision-making and the possibilities to exploit local innovations in service provision (Boadway and Dougherty, 2019^[18]; OECD/KIPF, 2018^[19]).

Asymmetric fiscal decentralisation may also have equity motives. This can be the case if, for example, giving special revenue rights or taking special circumstances into account in the transfer system would enhance overall service delivery. Asymmetric spending autonomy may also be motivated by national aims to reach uniform service levels within a country (Bird and Ebel, 2006^[4]).

As a result, asymmetric fiscal decentralisation is often justified with a variety of practical arguments and by using diverse fiscal tools, such as:

- **Improving the efficiency of service provision using differential spending assignments.** For example, some regions or subnational governments may be assigned tasks in specific services, which are otherwise provided by central governments or higher level of subnational governments.
- **Taking into account the special circumstances of public service provision with differential revenue autonomies.** The subnational governments with more capacity may be given more tax autonomy than usual. Asymmetric autonomy could be used also for collecting user fees or selling property.
- **Assisting the regions with unique service needs or exceptional operating environment with differential treatment in transfer systems.** This can be put in

practice with special purpose grants or use of certain criteria in formula-based grants. Specific transfers may be used as an alternative to differential revenue autonomies.

- **Taking into account the special needs for public investments at subnational government levels using differential fiscal rules.** Some subnational governments may be given more room for maneuver in borrowing, for example.

3. Trends in asymmetric decentralisation

Asymmetric decentralisation is an often-neglected aspect of decentralisation. This is surprising, because asymmetric arrangements can be found to some degree in almost any country. In addition, there is mounting empirical evidence that asymmetric arrangements are growing in popularity, especially in unitary countries. According to Hooghe et al. (2016_[5]), during the last seven decades or so, asymmetric arrangements have become more common. In 1950, 45% of the countries covered by the RAI, and with regions, had some kind of differentiated governance (autonomy, asymmetry, or dependency). In 2010, this figure had increased to 62% (Hooghe et al., 2016_[5]).

Asymmetric decentralisation trends are changing: whereas during past decades, asymmetric arrangements happened mostly at regional levels, the present trend seems to apply asymmetric decentralisation in large cities or for selected local governments. Large cities have experienced a growth in asymmetric decentralisation arrangements, perhaps because the benefits of urbanisation and agglomeration economies have become more widely understood and accepted. As a result, the number of metropolitan governance authorities has increased during past decades. Currently, around two-thirds of the metropolitan areas in the OECD have a metropolitan governance body (Ahrend, Gamper and Schumann, 2014_[7]).

This section presents an overview of the forms and trends in asymmetric decentralisation by distinguishing three main types of asymmetric decentralisation: political, administrative and fiscal. The administrative and fiscal asymmetric decentralisation are also described using three different scales of policymaking: regional (state/province), metropolitan and local (Table 3.1). A summary table with examples of asymmetric decentralisation practises in various countries is provided in the end of the chapter (Table 3.2).

Table 3.1. Different scales of asymmetric decentralisation

| Regional | Metropolitan | Local |
|---|---|--|
| <ul style="list-style-type: none"> Historically the most common form In 1950, around half of the countries covered by the Regional Authority Index (RAI) had some kind of differentiated governance at the regional level In 2010, almost two-thirds of countries in RAI had implemented asymmetric arrangements in some form Rising trend Long-term trend | <ul style="list-style-type: none"> Since the 1950s: specific status for capital cities Since 1990s: significant increase in metropolitan governance to address specific challenges and capacities of metro regions 87 new metro structures created since 1991 compared to 14 between 1971 and 1991 | <ul style="list-style-type: none"> Different sets of responsibilities for different municipalities, depending on their capacities Municipal classifications, based on population, access to public services, budget, and performance Urban/rural municipalities: classification may be just statistical or lead to differentiation in funding or responsibilities |

Source: (OECD, 2018_[20]).

Asymmetric political decentralisation

Asymmetric political decentralisation refers to situations where some regions or subnational governments have been given political self-rule that deviates from the norm or typical assignments. Political asymmetry is mostly justified on grounds other than purely economic ones. As was discussed in the previous section of this paper, political asymmetry is commonly practiced in order to alleviate tensions between regions and to weaken secessionist incentives (Rode, Pitlik and Borrella Mas, 2018^[15]). Some examples of asymmetries that are based mainly on political reasons include the Basque Country in Spain, Alpine regions and some islands in Italy, Scotland in the UK, Corsica in France, Aceh in Indonesia, Hong Kong in China, Aland Islands in Finland and Quebec in Canada.

One common way to categorise political and administrative asymmetric decentralisation has been to divide the policies into “*de jure*” or “*de facto*” arrangements (Martinez-Vazquez, 2007^[21]; Bird and Ebel, 2006^[4]). *De jure* asymmetric decentralisation is based on special legal status of a certain region. In some cases, the status is outlined in the constitution, but more often asymmetric treatments are established in the ordinary law (sometimes both)⁴. Regions with special legal status often enjoy considerably broader political autonomy than other regions. *De jure* asymmetric decentralisation may be imposed directly by the central government, or the policy may be the result of a negotiation process between the central and subnational levels of government (Congleton, 2015^[17]).

Politically-motivated asymmetry usually leads to administrative and fiscal asymmetry as well. While the asymmetric arrangements do not automatically mean privileges for the selected subnational governments, in practice it is often the case that political asymmetry brings clear benefits to regions with special status. This, in turn, may create competition between regions and concerns for equal treatment.

Asymmetric decentralisation of political authority is commonly practiced among OECD countries and elsewhere. Such political asymmetric decentralisation mostly takes place at the regional (state/province) level. In Italy, there are currently five regions (out of 20 regions) with special constitutional status, approved by the Italian parliament. Defined by the Italian constitution in 1948, the islands of Sicily and Sardinia, and the Alpine regions of Valle d’Aosta, Friuli-Venezia Giulia⁵ and Trentino Alto Adige have been given special status with the aim to avoid separatist movements and to protect linguistic minorities. The asymmetric decentralisation means that these regions have broad legislative powers and considerable financial autonomy. For example, the Valle d’Aosta retains 90% of all its taxes, and Sicily at times 100%. While the 2001 reform of the Italian constitution gave all the Italian regions significant powers in the legislative field, the latest developments (especially since 2009, following the global financial crisis) in Italy indicate that the decentralisation trend has reversed and that re-centralisation seems to be a more common trend (memorandum of Council of Europe 2015). If this trend prevails, the differences in self-government between the five special regions and the 15 ordinary regions are expected to increase.

The French territory of Corsica, previously one of the French departments, gained a special regional status in 1991. Corsica has its own institutions (the Corsican Assembly and the

⁴ The division of asymmetric arrangements (with legal basis) into ones that are based on constitutional status and others that are based on ordinary law, is of course a simplified description of reality. In many cases, like for example in Spain, the regions may have special status both by constitution and ordinary law (Garcia-Milà and McGuire, 2007^[31]).

⁵ The region of Friuli-Venezia Giulia has had a special status in since 1963.

Executive Council of Corsica, each with a president) and more powers than the other regions. However, in general, the legislation governing the French regions applies also to Corsica if not defined otherwise in legislation. The regional reform implemented in 2015 reduced the number of French regions from 22 to thirteen, not including Corsica.

In 2018, France announced that a constitutional reform will be launched in order to allow differentiated assignments of responsibilities by subnational governments. In early 2020, France started to discuss the draft law on “Decentralisation, Differentiation and De-concentration”, putting the concept of asymmetric decentralisation at its core. This would represent a significant move, which could fundamentally change the relationship between the French subnational and the central governments as well as among subnational governments themselves. Until now, the central government could grant derogations provided that they were generalised after five years in the country, or abandoned, in order to maintain territorial equality. The government is now considering changing this, stating that “uniformity is no longer the condition of our unity”. A reform of decentralisation, toward greater differentiation, is seen as a priority for future territorial development in France. The need for such a reform has, moreover, been amplified by the COVID-19 crisis.

In Canada, while the Canadian Constitution is based on a unified approach, it still enables asymmetric arrangements for Canadian provinces. More specifically, the asymmetric decentralisation in Canada is mostly based on “menu federalism”, where the “opt in” or “opt out” choices are made available to all provinces. The province of Quebec has used this option more frequently than other provinces (Smith, 2005^[22]; Milne, 2005^[23]). In general, the province of Quebec is an example of “de jure” political asymmetric decentralisation, which is based on historical, cultural and linguistic motivations. Being the largest province and second biggest in population of Canada’s ten provinces, French-speaking Quebec is an influential member of Canada’s federal government. This is in contrast to a situation in many other countries, where the asymmetric arrangements are applied mostly to regions of small economic importance. Quebec has used specific powers for example in health care provision, pension system, with the position of French language in government, as well as immigration screening. As for the effectiveness of Canada’s asymmetric decentralisation model, while there seems to be continuous discussion about equal treatment of provinces in the federation, the main goal to keep the Canadian federation united has been reached (Bird and Vaillancourt, 2007^[24]).

In the United Kingdom, since the devolution in 1998-1999 of certain powers and responsibilities to regional elected bodies, local governments’ organisation and functions are defined and reformed by the UK government (and Parliament) for England, and by devolved nations for Wales, Scotland and Northern Ireland. A further selective devolution of certain tax revenue responsibilities to the devolved nations has been ongoing since 2012.

Box 3.1. Asymmetry in the UK

The differentiated treatment of the devolved Nations and the practice of “Deals”

While in the United Kingdom the centralised policymaking and limited devolution of powers to sub-national governments has been the norm, the devolution of selected policy areas to Scotland, Wales and Northern Ireland since 1999 has formed an interesting exception⁶. It is also interesting to note that there is asymmetry in the treatment of the three devolved UK nations. Scotland and Wales have been given greater powers, compared to Northern Ireland. Furthermore, Scotland has full legislative powers over a wide range of policy areas, whereas in Wales these are more limited, focused mainly on secondary legislation (OECD 2020 *forthcoming*). There are a number of political, historical and economic reasons for the differentiated treatment of the three nations.

More recently, there has also been asymmetric policy at the subnational government level. The UK Coalition Government, which was in power during 2010-2015 initiated a series of “deals” (City Deals, Growth Deals and Devolution Deals) with selected cities to devolve powers and resources in particular policy domains. The subsequent Conservative Government extended the coverage and scope of devolution agreements.

The City Deals and Growth Deals have aimed to help cities deliver local strategies through investment in housing, transport, employment, skills and business support. Some cities have used the Deals to make investment in support for the unemployed (Green, 2018).

The first Deals were City Deals and they included packages of funding and decision-making powers negotiated between central government and local authorities and/or other local bodies. The first wave, completed in July 2012, covered the eight largest English cities outside London. A second wave of City Deals, completed in July 2014, covered the next 14 largest English cities and their wider areas, as well as the next six English cities and areas with the highest population growth between 2001 and 2010. The City Deals focused on ‘unlocking growth in cities’ and focused on transport, business support and skills.

Also a number of local Growth Deals have been negotiated since 2014. The Growth Deals were linked to developing multi-year local Strategic Economic Plans (SEPs) to be used as a basis for negotiations on awarding of funding from the Single Local Growth Fund, created in the 2013 Spending Review. After the first round of funding in 2014, Growth Deals were further expanded. The main focus of the Growth Deals have been to lift or mitigate the local barriers to growth (Green, 2018; National Audit Office, 2016)

Devolution Deals transfer funding, decision-making powers and responsibilities from central to local government. In return, the central government requires governance reforms made at a local level. Examples of such reforms include the creation of combined authorities at the local level and establishing directly elected mayors. The general objectives of Devolution Deals include economic growth, public service and administration reforms, and enhanced local accountability. The Deals have not been imposed by the central government. The first devolution deal was announced by the Government and the Greater Manchester Combined Authority in November 2014. By April 2018 devolution deals had been agreed with twelve areas (Green, 2018; National Audit Office, 2016).

⁶ The Northern Ireland, Scotland and Wales obtained their own elected assemblies and government in 1999

Conclusive information on the impacts of the Deals is not yet available. The problem of impact evaluation is to isolate the impact of City Deals and Growth Deals on employment and skills from the effects of other national and local reforms. An additional problem for impact evaluation is the implementation of austerity measures during the same period (Green, 2018).

In Portugal, there is an asymmetric organisation with two autonomous regions having legislative responsibilities in overseas territory, while there is no self-governing regions in mainland. The autonomous regions of Madeira and Azores are responsible for the financing and general supervision of local authorities within their territory, and also have the legislative power to create, dissolve and alter local government boundaries in accordance with the national laws (Box 3.2).

Box 3.2. Regions with special political status

The autonomous regions of Madeira and Azores of Portugal

According to Portuguese constitution since 1976, there are two autonomous regions in Portugal, formed by the islands of Madeira and Azores. In 2017, the population in Madeira was 23 311 inhabitants and in Azores 12 935 inhabitants. There are currently 11 municipalities and 155 parishes in Madeira and 19 municipalities and 54 parishes in Azores.

The autonomous regions of Azores and Madeira have general administrative, political and legislative powers, except for the functions of sovereignty and national representation. The spending responsibilities of Madeira and Azores are extensive, covering health and social welfare, education, roads and transport, economic development, environment, culture, regional planning, water, and tourism. They are also responsible for organization, financing and supervision of municipalities in their region.

The revenues of the Autonomous Regions are based on income tax and value added tax. Autonomous regions also have income from excise taxes on consumption and gambling, as well as stamp duty. The Autonomous Regions have the power to create and regulate taxes, which are effective only in the respective Autonomous Regions, defining their respective incidence, rate, settlement, collection, tax benefits and taxpayers' guarantees. They also have the power to adapt national taxes to regional specificities, in terms of incidence, rate, tax benefits and taxpayers' guarantees, within the limits set by law. In addition, the Autonomous Regions receive transfers from the State Budget. The annual amount of the transfers of the State as well as the distribution between the two Autonomous Regions are determined by quantitative criteria referred to in the Law.

The outermost regions and the EU

The nine Outermost Regions of the European Union consist of six French overseas territories (French Guyana, Guadeloupe, Martinique, Mayotte, Réunion and Saint Martin), two Portuguese autonomous regions (the Azores and Madeira) and one Spanish autonomous community (the Canary Islands). Article 349 of the Treaty on the Functioning

of the European Union recognises the specific situation of these regions and gives them a special status.

Despite the progress that they have made over the years, the outermost regions continue to face serious challenges, which are further amplified by globalisation and by climate change. Most of them need to invest in basic infrastructure – such as roads, water and waste management facilities – and their economy depends on a limited number of economic sectors. Their constraints including remoteness bring additional costs to their companies, primarily small and medium sized enterprises (SMEs), impeding their full participation in the single market.

Between 2014 and 2020, the EU is allocating EUR 13.3 billion to these regions under the European Structural and Investment Funds, with additional amounts to tackle their specific constraints, and the POSEI (Programme of Options Specifically Relating to Remoteness and Insularity), a programme under the Common Agricultural Policy.

In addition to European subsidies, the Outermost Regions benefit from specific measures or derogations to facilitate their access to the internal market in areas such as State aid and taxation, in order to mitigate the impact of their constraints and stimulate economic growth.

Furthermore, specific rules apply to the outermost regions in areas such as State aid, with regard to operating and investments aids, as well as in taxation and customs, to help boost their competitiveness. This significant public support from the EU develops infrastructure, provide services for the population, create jobs, invest in education and skills and increase businesses' competitiveness. It also helps enhance and diversify agricultural activities, preserve the environment and addresses climate change.

Sources: Veiga and Camões (2019^[25]), the European Commission Regional Policy internet pages (Navigation path: European Commission>Regional Policy>Newsroom>News>The outermost regions and the EU: a privileged, renewed and strengthened partnership), http://ec.europa.eu/regional_policy/en/newsroom/news/2017/10/24-10-2017-the-outermost-regions-and-the-eu-a-privileged-renewed-and-strengthened-partnership. Accessed 28th October 2019.

Asymmetric administrative decentralisation

Even if subnational governments were treated equally in terms of the legal system, there might still be asymmetry in fiscal arrangements in practice. In such “*de facto*” circumstances, there are usually administrative reasons to treat subnational governments in an asymmetric way. Administrative asymmetry aims to advance government policies so that the different capacities of subnational governments are taken into account. These arrangements can include many policies such as additional revenue bases, special grants, or rights to extended service provision. The policies can be implemented top-down or in agreement with subnational governments.⁷ While the arrangements usually have a national policy objective, the agreements between the central government and particular subnational governments frequently benefit the subnational governments in question. In some cases,

⁷ A bottom-up (or top-down) types of asymmetric decentralisation measures are consistent with bottom-up/top-down decentralisation in general (Bird, 2003^[9]). A bottom-up approach to decentralisation includes local jurisdictions actively organising local services and asking higher level governments to be supportive of these efforts. A top-down process of decentralisation comprises policies where the central government devolves or delegates some of their responsibilities downwards (Shah and Thompson, 2004^[50]).

the asymmetric arrangements are lobbied by certain subnational governments (Congleton, 2015_[17]).

Administrative asymmetry may include sequencing a national policy so that the subnational governments that fulfil certain predetermined standards⁸ are given greater autonomy in spending and revenue. The rest of the subnational governments could then ‘grow into this role’ over time. When examined closely, forms of administrative asymmetry can be found in almost any country. For example, even in Switzerland, where the constitution treats all cantons as fully equal, the devolution of powers has resulted in asymmetry in practice (Dafflon, 2006_[11]).

a) Asymmetric administrative decentralisation at the regional level

Although administrative asymmetric decentralisation arrangements were implemented especially in the 1980s/1990s, asymmetric arrangements at the regional level still form an important share of all asymmetric arrangements (Hooghe et al., 2016_[5]). This is partly reflected by the fact that political asymmetric decentralisation, which is often applied especially at the regional level, commonly leads also to administrative and fiscal asymmetry. There are however several examples of asymmetric arrangements that are motivated by administrative purposes alone. The degree of administrative asymmetry at the regional level depends both on the significance of tasks delegated to regions and the differences in the administrative capacities in the regions.

Sweden is an example of a highly decentralised country where the subnational government levels have both important tasks and strong autonomous position, and where an asymmetrical and innovative approach to decentralisation has prevailed. In Sweden, there is a long history of asymmetric decentralisation (see also Box 3.3). The geographic, demographic and socio-economic differences between counties are significant, and this has motivated the central government to permit bottom-up initiatives and reforms that aim to adjust governance structures and competences according to territorial capacity. While an “across the board” regional reform is politically difficult, regional reform has been implemented gradually and voluntarily by counties themselves.

⁸ Sometimes the asymmetric arrangement can be based on discretion also. This could be the case if, for example, specific rules would be difficult to define or costly to administer.

Box 3.3. Regional experiments and asymmetric decentralisation in Sweden

Sweden is one of the most decentralised countries in the world in terms of public service delivery and expenditure: about 25 percent of the country's GDP is accounted for by subnational government expenditure, and the subnational government enjoys extensive spending, taxing and decision-making autonomy. In Sweden, nearly all redistributive tasks have been devolved from the central government to counties and municipalities. Sweden has a two-tier system of subnational government, consisting of 20 County Councils and 290 municipalities:

- County Councils (*landsting*) are run by directly elected assemblies and are mostly responsible for health services (80 percent of their budgets). Counties may also engage in promoting culture, education and tourism. The responsibility for regional and local public transport is shared between the municipalities and the County Councils. Ten County Councils have responsibility for regional development policy. In addition, the municipality of Gotland which is an island, is with County Council responsibilities.
- Municipalities (*kommuner*) are also run by directly elected councils. Municipalities are responsible for basic and secondary education, kindergarten, elderly care, social services, communications, environmental protection, fire departments, public libraries, water and sewage, waste management, civil defence, public housing and physical infrastructure.

Until the late 1990s, the County Administrative Boards (central government agencies) were responsible for regional development in each county. Since 1997/1998, Sweden has launched a rather singular regional reform process. The national government has not imposed a single model on the counties but instead different regionalisation options (OECD, 2010). It has promoted an asymmetric and bottom-up regionalisation as a gradual and experimental process (as a laboratory of regionalisation). The underlying idea is that decentralised policy making leads to more innovation in governance. Therefore, from 1997 onwards, Sweden developed various regionalisation options in terms of political representation and responsibilities in different regions and in different phases: directly elected regional councils in the two “pilot regions” of Skåne and Västra Götaland, resulting from the mergers of respectively two and three counties; an indirectly elected regional council for Kalmar; and a municipality with regional functions for Gotland. The second wave (2002-07) started with the Parliamentary Act of 2002. This Act made it possible for counties, if all local municipalities agreed, to form regional co-ordination bodies (indirectly elected bodies, i.e. in line with the Kalmar model) to co-ordinate regional development work. The third phase of experimentation, since 2007, corresponds to a renewed bottom-up demand for regionalisation. It started with the publication of the recommendation for the future of the regional level, published by the Committee on Public Sector Responsibilities in February 2007. The Committee argued for the extension of the “pilot region” model, which was assessed positively, the merger of current counties and the creation of six to nine enlarged regions in order to address long-term challenges such as ageing. Since January 1st 2015 ten county councils out of 21 counties had voluntarily taken responsibility for regional development. Since beginning of 2019, the reform was extended to apply the whole country. As a result, all counties, called “regions”, are now responsible for regional development task.

Sources: (OECD, 2012^[26]; OECD/UCLG, 2019^[27]; OECD, 2017^[28])

Finland is currently preparing a reform to establish self-ruling regions with their own directly elected regional assembly. The regionalisation reform has been motivated by health care and social services reform, which aims to transfer health and social services from the current 295 mainland municipalities and 190 inter-municipal co-operative organisations to the (still to be established) 18 counties. However, it is likely that the capital city region (the Uusimaa region) will have a differentiated model, which can be based on a mixed model of counties and inter-municipal co-operation, possibly forming five self-governing health care areas within the Uusimaa region. The government's plan is to limit the tasks of the regions to health and social services. For example, the regional development tasks will be based on inter-municipal co-operation.

In France, in December 2017, several French deputies presented a bill aimed at implementing a differentiation and simplification of standards/norms applicable in the territories. The purpose of the bill is to replace regulatory standards with measures adapted to diversity of local situations. The law proposal is based on the observation that there is a proliferation of standards applicable to territories. The bill in question also proposes the creation of a principle of subsidiarity by entrusting the local authorities with the adaptation of the norms of application of the law. The bill just proposes to allow a differentiation of norms and standards (e.g. building, public works, environment, etc.) according to spatial or local government particularities. The proposal of bill has now evolved in the 2020 draft law on Decentralisation, Differentiation and De-concentration, called the "3-D law" (see below).

In Russia, asymmetric decentralisation was commonly practiced after the collapse of the Soviet Union, especially in the 1990s. During the last decade or so, the asymmetric arrangements have become less common, as competences of regions have been streamlined and the role of the central government has increased (Martinez-Vazquez, 2007_[21]).

b) Asymmetric administrative decentralisation at the metropolitan level

In many countries, the major metropolitan areas – or the most remote rural areas – have been able to achieve a different status compared with the rest of the subnational governments. One relatively common form of institutional asymmetry is that the capital city is given a status similar to a regional government. While the focus was initially (since the 1950s) mostly focused on capital cities only, it has been extended in the past 3 decades to other large cities within countries.

Metropolitan governance is currently a hot debate internationally. There are many reasons for this. One reason is that metropolitan populations are growing rapidly all over the world and the old governance structures may no longer be able to manage the growth. Also the demographic changes, due to ageing population and growing migration, are particularly challenging for urban form and transportation systems. In some cases, the urban infrastructure may be deteriorating and needing replacement. Also topics such as environmental issues, local democracy and citizen engagement need special attention in urban areas (Slack and Côté, 2005_[29]).

It is widely accepted that the main urban areas are "engines of growth" in the economies. It is therefore not sufficient to maintain the current levels of agglomeration economies and human capital, but instead these effects ought to be accelerated. A well-functioning metropolitan governance is one important factor for urban success, but the existing administrative borders in metropolitan areas may no longer reflect the current activities in these regions (OECD, 2017_[28]). Moreover, if the land use policies are not intensified in

metropolitan areas, the promise from agglomeration economies and human capital spillovers may be missed (Glaeser and Gottlieb, 2008_[30]).

The metropolitan governance model must be planned and adapted to local circumstances (Slack and Côté, 2005_[29]). Regardless of the model, the basic features such as political representation through direct election, clear assignment of expenditure responsibilities and revenue sources, geographic boundaries that match boundaries of economic region, fiscal autonomy, adequate capacity and revenues that match expenditures, are essential elements for any successful metro governance.

Currently around two-thirds of the metropolitan areas in the OECD have a metropolitan governance body. The additional responsibilities given to metropolitan areas have been linked with infrastructure and planning tasks such as public transport, environment, spatial planning and services targeted at local business (Box 3.4).

Box 3.4. Asymmetric decentralisation and metropolitan governance in France and Italy

Some examples of metropolitan governance include the 2013 French Law on Metropolitan Areas which contemplated differentiated governance for Paris, Lyon and Aix-Marseille, to include governance structures with own taxing powers and the shift of competences from regions and departments (OECD, 2017_[2]). In France, efforts were made by the central government already during the 2000s to encourage co-operation at an urban level (spatial planning directive, DATAR calls for metropolitan projects). However, apart from the creation of urban communities in 1966, they had little success. The 2010 “Law on the Creation of Metropolitan Areas” has led to the creation of only one metropolis (Nice Côte d’Azur), confirming once again that regulation is not sufficient to induce reform. A new step was achieved in 2013 with the first discussions on the new law on metropolitan areas. Government adopted a new approach, based on governance solutions tailored to territorial specificities and local needs. The 2014 “MAPTAM” law, on the modernisation of public territorial action and metropolises, introduced a degree of diversification across French territories. 14 metropolises (more than 400 000 inhabitants) will be granted greater responsibilities than “standard” municipalities or inter-municipalities, justified by their larger size and urban nature. Among them, the three largest metropolitan areas (Paris, Lyon and Aix-Marseille-Provence which already have a specific status since the 1982 PLM law) received ad hoc different governance structures – i.e. different organisation, responsibilities and resources.

The Métropole du Grand Lyon, operational since January 2015, has (unlike Paris and Aix-Marseille-Provence) a particular metropolitan status: it merged the responsibilities of the existing inter-municipal co-operation entity Grand Lyon and those of the département du Rhône, covering about 1.3 million people – the only one of its kind in France. Political representatives for the metropolis will be elected through direct suffrage from 2020 onwards. This innovative “asymmetric” approach based on “recognising the diversity of territories within the unity of the Republic” is relatively new in France (OECD, 2013), where past policies were uniform across territories (except for overseas territories). It aims

at adapting organisational structures and policies to the distinctive characteristics of territories at an appropriate scale. Another innovation is the setting up of two transitory inter-ministerial “prefiguration” task forces for Grand Paris and Aix-Marseille-Provence. These task forces, headed by the prefect and composed of national and local civil servants and experts, prepared the reforms and then helped in the transition process. They also work to gain support from citizens, local authorities, the private sector, and civil society (OECD, 2017_[12]).

Finally, the French metropolitan reform is a good illustration (at least in the cases of Grand Paris and Aix-Marseille) of resistance from local mayors, and possibly from the regional level. The implementation process is as crucial as the nature of the reform itself: the adoption of a law is not sufficient as it may not, or partly, be implemented in practice.

In Italy, a 2014 reform ended two decades of gridlock over metropolitan governance reform and created the legal structure for the introduction of differentiated governance in ten major metro areas—Rome, Turin, Milan, Venice, Genoa, Bologna, Florence, Bari, Naples, and Reggio Calabria—and four additional cities in special regions—Palermo, Messina, and Catania in Sicily, as well as Cagliari in Sardinia) (Allain-Dupré, 2018_[6]).

Sources: (Ahrend, Gamper and Schumann, 2014_[7]; Slack and Côté, 2005_[29]; Glaeser and Gottlieb, 2008_[30]; OECD, 2017_[28]; OECD, 2019_[3]; Allain-Dupré, 2018_[6]).

The COVID-19 crisis has shown that while the need for central government coordination has been necessary to ensure concerted actions, the subnational government level has often been at the forefront of managing the crisis. The crisis has had asymmetric impacts on regions and local governments, and the capacity to deal with the implications have differed considerably between subnational governments (OECD, 2020_[10]). Many countries have therefore adopted regionally differentiated strategies for both confinement and de-confinement measures. The crisis management has required a certain flexibility in the governance frameworks and some space for initiatives of regions and municipalities, in particular those mostly hit by the crisis. As new waves of cases have hit some regions and municipalities, the approaches to containment are much more localised as of mid-2020 – with e.g. localised confinements in Germany, Spain (selected municipalities in Cataluña) or the United Kingdom. The approach is increasingly differentiated within countries.

c) Asymmetric administrative decentralisation at the local level

Local governments are often responsible for a wide selection of public tasks and municipalities, and they also collect considerable revenues. It is therefore not surprising that administrative asymmetric decentralisation is frequently applied at the municipal level. These arrangements are usually linked with assignments delegated by central government to municipalities. Since the capacities of municipalities typically vary, there has been a need to somehow take the capacities of various local governments into account. Another interesting but perhaps somewhat less common motivation for asymmetric decentralisation has been to deregulate and simplify government guidance of local governments.

In the Czech Republic, in the process of decentralisation, the responsibilities of the 76 abolished state “districts” to the municipalities were largely passed on to 205 “municipalities with extended powers” in 2003. These municipalities perform central government delegated functions on behalf of smaller surrounding municipalities such as

child protection and issuing passports. These functions are associated with additional funding. Smaller municipalities can also delegate additional functions to the ORP that they do not want to provide, or cannot provide because of their lack of capacity (OECD, 2017_[2]).

In Denmark, a policy experiment known as the “Free Municipality” initiative was launched first between years 2012 and 2015, and later extended until end of 2019. In the experiment, nine municipalities were granted exemptions from government rules and documentation requirements, in order to test new ways of carrying out their tasks. The main focus in the experiment was on simplification, innovation, quality and a more inclusive approach. The Free Municipality experiment is currently being evaluated until end of 2020, in order to form the basis for potential future legislation on de-bureaucratisation for all municipalities (OECD, 2017_[2]).⁹

Asymmetric fiscal decentralisation

Asymmetric fiscal arrangements consist of wide variety of measures, often in combination, including special spending responsibilities, revenue bases or taxation rights and additional transfers.

a) Asymmetric fiscal decentralisation at the regional level

Over the past decades, the central government in Spain has devolved competences asymmetrically to subnational governments. The so-called “Foral regime” counties that consist of the Basque Country and Navarra, have a special constitutional status. The regions in the Foral regime have an autonomous taxing authority, whereas other regions have limited local taxing authority. The Foral regime regions have responsibility for tax administration and autonomy to set rates and bases (albeit with some limitations). The main tax bases such as income, corporate, wealth, inheritance and wealth transfers are fully administered by the regional governments in the Foral regime. To compensate for the services that the central government provides to these regions, the Basque Country and Navarra regions pay an amount to the central government. In terms of spending responsibilities, the Foral regime does not differ from other Spanish regions (Garcia-Milà and McGuire, 2007_[31]). The development since the 2008-09 economic and financial crisis shows that in Spain the central government has aimed to tighten the fiscal control of regions and to simplify the administration. The impact of the COVID-19 crisis is yet to be seen.

b) Asymmetric fiscal decentralisation at the metropolitan level

In the United Kingdom, the capital financing of local governments provides an example of asymmetric fiscal decentralisation. While borrowing from the Public Works Loan Board has been the most common form of capital financing of local governments in the UK, also new ways have been developed to access capital finance for local infrastructure investment. For instance, the UK government has (in 2013-2014) introduced tax increment financing schemes, which allow local authorities borrow against the future growth in business rate receipts.

Furthermore, the UK’s 2010-2015 Coalition Government initiated a series of ‘deals’ (City Deals, Growth Deals and Devolution Deals) with selected cities to devolve powers and

⁹ In fact, the tradition of experimenting using the “Free municipality” initiatives began in several Nordic countries already in the 1980s. The first free municipality trials were implemented in Sweden in 1984, Denmark in 1985, Norway in 1987, and Finland in 1989. In Norway, there has been a law for continuous experimenting since 1993. The law allows voluntary experimenting in municipalities, counties and central government.

resources in particular policy domains. The City Deals and Growth Deals have aimed to help cities deliver local strategies through investment in housing, transport, employment, skills and business support. Some cities have used the Deals to make investment in support for the unemployed (Green, 2018_[32]).

In South Africa, the 278 municipalities have different fiscal and administrative capacities. The South African government has therefore adopted a differentiated decentralisation approach, in particular with respect to municipal funding. In order to accomplish this, several classifications are used to group municipalities. The 1996 Constitution provides for three categories: A (metropolitan municipalities), B (local municipalities) and C (district municipalities). Other classifications exist in other areas, such as the Municipal Infrastructure Investment Framework Investment that defines seven categories based on, among others, spatial characteristics, size of institution and budget, and population variables. The National Treasury also classifies municipalities into six “performance groups” using economic, demographic and performance variables such as access to basic services, poverty rate, municipal viability, staff vacancy, municipal debt, population density and size of the municipality’s economy. As underlined by the South African Financial and Fiscal Commission, the different classification methodologies highlighted above recognise that municipalities need differentiated approaches that take into considerations their different characteristics and needs. However, the Financial and Fiscal Commission has argued that differentiation approach is not always clear, and some classifications are not always useful for making decisions or allocating resources. This is because categorisation often depends on the policy purpose and often detracts from looking at the linkages between rural and urban municipalities. In addition, the large volume of classification methodologies may undermine coordinated decision-making and intervention strategies (South African Financial and Fiscal Commission, 2012_[33]).

c) Asymmetric fiscal decentralisation at the local level

In Colombia, the country’s 1101 municipalities are responsible for providing electricity, urban transport, cadastre, local planning and municipal police. Municipalities are grouped into “certified” or “non-certified” units: only certified municipalities are allowed to provide important services such as health, education, water and sanitation. If the municipality is considered too weak or it is otherwise ineligible for service provision, the service is provided by the upper (department) government level (OECD, 2014_[34]; OECD and UCLG, 2016_[35]) (see also Box 3.5).

Box 3.5. Colombian experiences with asymmetric decentralisation

Political asymmetric decentralisation

There have been a number of political asymmetric arrangements in the Colombian multilevel governance model. At the regional level, a key asymmetric policy measure has been the special right of indigenous peoples to manage their own territory. There are currently about 811 indigenous territories in Colombia, and the indigenous population in Colombia is estimated at 1.5 million, which represents approximately 3.4% of the national population. The land area covered by indigenous territories (*resguardos*) is nearly 30% and in some departments about 70%. At the local level, the special status of Bogotá forms another important example of political asymmetric decentralisation in Colombia. The 1991

Constitution and the organic statute in 1993 granted Bogotá more political, fiscal and administrative autonomy than the rest of the municipalities. Since then, Bogotá has been considered as an example of successful implementation of asymmetric decentralisation in Colombia. In particular, Bogotá has been able to improve revenue collection, curb excess spending and enhance the efficiency of service provision (Fedelino and Ter-Minassian, 2010_[36]). Bogotá's current challenges are related to population growth not just in the city itself but also in the surrounding municipalities. However, forming an area-wide metropolitan governance body in Bogotá area has not yet gained enough political support. Another example of asymmetric political arrangement at the local level is the special "district" status of five municipalities (*distritos especiales*): Bogotá, Barranquilla, Buenaventura, Cartagena de Indias and Santa Marta (OECD, 2019_[37]). These municipalities were been selected due to their particular political, commercial, historical, industrial, cultural or environmental characteristics.

Administrative asymmetric decentralisation

The special status of six metropolitan areas, or *áreas metropolitanas*, is an example of administrative asymmetric decentralisation in Colombia. The legally recognised metropolitan governance model has been implemented in Valle de Aburrá, Bucaramanga, Barranquilla, Cúcuta, Centro Occidente and Valle del Cacique Upar (OECD, 2019_[37]). These metropolitan areas have been granted more administrative and fiscal autonomy than other urban regions. According to law, the initiative for the metropolitan governance must come from the municipalities located in the areas, and the central government then makes a separate decision on the legal status of the arrangement. The arrangement allows municipalities to manage jointly some services of area-wide importance (e.g. transport) that require administrative agreements (Sanchez-Serra, 2016_[38]). Another example of administrative asymmetric decentralisation is the inter-municipal co-operation. However, while the Colombian government has provided a new legal basis for inter-municipal cooperation with the 2011 Organic Law governing the Territorial Organisation (*Ley Orgánica de Ordenamiento Territorial*, LOOT), in 2016 there were only 11 cooperative structures at the municipal level that had directly followed the LOOT.

The system to classify municipalities and departments has been an important administrative tool for the central government to organise differentiated policies concerning subnational governments. The current classification of municipalities into seven groups has been based on their population and revenue base. The categorisation has included a "special category" which consists of the largest cities and six other categories.

Fiscal asymmetric decentralisation

Since the capacities traditionally vary a great deal between subnational governments, the Colombian government has used a certification system to identify the subnational governments that are best capable to provide important public services. The certifications have been mostly operated by line ministries and they are sector specific (education, health, water and sewage) so that a certification in one sector has not automatically led to certification in another sector. The certified municipalities have been given more autonomy to allocate the central transfers and to organise service provision. The certified subnational governments have been in an advanced position to apply for special central government funding for projects, a policy which has been criticised because it may maintain or even fuel inequality between subnational governments (OECD, 2019_[37]).

In order to improve coordination of investments among different levels of government and to create stronger incentives for subnational governments for effective co-operative activities, the Colombian government launched a model of “*Contratos Plans*” in 2011. The *Contratos Plans* are in effect investment programmes in specific areas. The Plans are defined jointly by the national government, departments and municipalities and they are tailored to local needs. Once the agreement is made, the central government finances a large share of the programme. The latest *Contrato Plans* have focused on supporting areas that have been affected by the conflict, and on areas with low economic, social and environmental circumstances (OECD, 2019^[37]).

The system of royalties from mostly the mining and oil industries provides another example of asymmetric fiscal decentralisation in Colombia. There is a notable differentiation present in the distribution of royalties in Colombia. For instance, in 2013-2014, about 30% of this funding was paid to the eight most important oil- and mining-producing departments, even though they represented only 17% of the national population (OECD, 2014^[34]).

Sources: (OECD, 2014^[34]; OECD, 2016^[39]; OECD, 2019^[37]; Fedelino and Ter-Minassian, 2010^[36]; Sanchez-Serra, 2016^[38])

In Norway, the small rural local governments with substantial tax revenue from hydropower plants provide another example of asymmetric fiscal decentralisation. The municipalities where the power plants are located receive taxes and other revenues from the power company. These revenues are considered as compensation for environmental damages, and have been important to generate local support for projects that are profitable for the society at large. The average total revenue per capita among local governments with hydropower revenue was NOK 32 600 (USD 6 520) in 2007. In comparison, the revenues for all other local governments was NOK 28 300 (USD 5 430). (Borge, Parmer and Torvik, 2015^[40]).

In Sweden, the intergovernmental grant system is an example of “Robin Hood” equalisation, which evens out a considerable share of differences in subnational government revenue bases and service costs. A rather detailed formula is used to define the grants for subnational governments. While the transfer system is mostly based on general grants, also some discretionary grants and earmarking has been used. The so called “structural grants” are related to regional policy and their aim is to strengthen municipalities with a small population, with decreased population and/or with a problematic labour market. Structural grants mainly benefit the more remote municipalities, for example in Norrland County (OECD, 2017^[28]).

Table 3.2. Examples of practices of asymmetric decentralisation summarised in different scales and types

| | Political | Administrative | Fiscal |
|----------------|---|--|--|
| Regional | <ul style="list-style-type: none"> • Italy: Five regions with special constitutional status. • France: The French territory of Corsica has a special regional status. • Portugal: The autonomous regions of Madeira and Azores have special legislative responsibilities • Canada: Province of Quebec has used actively the “opt in, opt out” choices available to all provinces. | <ul style="list-style-type: none"> • Sweden: A voluntary regionalisation reform from 1990s until 2018 in terms of political representation and responsibilities in different regions and in different phases. Since the beginning of 2019 all Swedish counties have been responsible (by law) for regional development. Called now “regions”, they all have the same status. | <ul style="list-style-type: none"> • Spain: The autonomous taxing authority of “Foral Regime” autonomous communities. |
| Metropolitan - | | <ul style="list-style-type: none"> • France: 14 metropolises will be granted greater responsibilities than “standard” municipalities • Italy: 14 metropolitan cities created to administer large urban areas. | <ul style="list-style-type: none"> • UK: Special investment funding for core cities. • US: Some states assign a portion of state tax revenues to municipalities with a substantial share of the state population (New York City, St. Louis, Kansas City). • Germany: The “City-States” like Berlin have both state and local government responsibilities and revenues. |
| Local - | | <ul style="list-style-type: none"> • Denmark: Free municipality experiment in order to simplify regulation. • Czech Republic: Limited number of municipalities perform central government delegated functions on behalf of smaller surrounding municipalities. | <ul style="list-style-type: none"> • Colombia: Royalty revenues for municipalities in certain mining/oil regions. • Norway: Hydropower revenues for specific municipalities. • Sweden: Special grants for the most rural/remote municipalities. |

Source: (OECD, 2019^[3]).

4. Lessons on asymmetric decentralisation for policy-makers

There is no blueprint or optimal strategy for choosing between asymmetric or symmetric implementation because the optimal strategy is usually case specific and depends on local circumstances. Nonetheless, some observations and conclusions from the economics literature and experiences from practical implementation can be made. This section aims to shed light on the pros and cons of asymmetric arrangements from the main policy aspects.

There are both benefits and challenges associated with asymmetric decentralisation (Table 4.1). Benefits are linked to institutional and fiscal frameworks that allow better responses to local needs. In general, asymmetric decentralisation favours experimentation, learning-by-doing and innovation in policy-making. Ultimately, it represents an advanced form of place-based policy. There are some challenges, however, often associated with the cost of coordinating a complex system that may not be clear for citizens and lead to accountability challenges, notably at the metropolitan level. Other challenges may be linked to the increasing disparities in capacity across regions, and in extreme cases to risks for national unity. This section aims to highlight policies that help to reap the benefits and to minimise the risks linked to asymmetric decentralisation.

Table 4.1. Benefits and challenges for asymmetric decentralisation policies

| Benefits | Challenges |
|---|--|
| <ul style="list-style-type: none"> • Accommodate diverse preferences for autonomy across regions • Adapting the institutional and fiscal frameworks to the capacities of subnational governments • Advanced form of place-based policies • Experimenting • Sequencing decentralisation • Providing the enabling institutional environment to design territorial development strategies more targeted to local needs • Tailoring solutions for special challenges | <ul style="list-style-type: none"> • Lack of accountability and transparency • Complexity and coordination costs • Lack of clarity for citizens • Potential risks of increased disparities (in capacities) • Secession and autonomy |

Source: OECD.

Opportunities

Experimenting and sequencing decentralisation

Asymmetric differentiated arrangements can foster gradual learning-by-doing and develop a culture of trial-and-testing to create a practical body of knowledge. A process of adaptive learning can offer a set of benefits for the long-term efficiency of policy implementation and service delivery. Pilot experiences allow policy makers to experiment and learn while avoiding subnational governments with low capacities becoming overwhelmed by new responsibilities. With pilot experiences governments can, for example, test which indicators might facilitate the assessment of performance, or implement specific contractual arrangements with subnational governments to address specific challenges. Yet, while using this “trying and testing” approach, policy makers need to avoid the risk of perpetuating differences and inequalities across places (OECD, 2018_[41]).

Ex ante project evaluation is often difficult to carry out in practice, leading to considerable uncertainties about the eventual effects of a specific decentralisation policy. Uncertainty about the consequences of the policy may impede initiation of important decentralisation reforms. An asymmetric approach, which first devolves tasks or gives revenue powers only to a limited number of subnational governments, could provide the opportunity to collect information and better understand the effects of decentralisation. Only after gaining better understanding about the benefits and costs of decentralisation, the process could be extended to apply a wider range of subnational governments. In this way, asymmetric decentralisation can be seen as a form of experimenting, which enables innovative approaches and "learning by doing" both for local and central government.¹⁰ As the decision-makers cannot predict all the effects and the future outcomes, they should be able to revisit their decision-making. Asymmetric decentralisation gives them this option.

Utilising the strengths of subnational governments

Asymmetric decentralisation can be a way to utilise the varying strengths of the different subnational governments. If decentralisation is applied so that spending or revenue powers are first assigned to the subnational governments that are best capable of handling the new responsibilities, governments can obtain benefits from decentralisation (responsiveness to local needs, administrative efficiency, innovativeness, transparency, accountability and cost efficiency) even if the majority of subnational governments are not yet equipped with the capacity required for implementation.¹¹ Therefore, asymmetric decentralisation contributes to democratisation and efficiency of public service delivery. Since the asymmetric assignments are usually first applied in the biggest subnational governments, benefits can be substantial from the outset. Asymmetric arrangements also avoid giving spending or revenue powers to jurisdictions that are "too small, too weak, or too poor" (Congleton, 2006_[8]).

On the other hand, the smallest and weakest subnational governments may just as well be the first to benefit from asymmetric arrangements. For instance, remote and rural municipalities may be given permission for receiving special revenue bases in order to strengthen their economic position (a revenue from tax on natural resources could be such an example). Naturally, the equalising transfer systems will also have a similar effect. Central governments may also practice asymmetry in their policies, for example by providing extraordinary expert support and advice to the smallest, weakest and poorest subnational governments.

Asymmetric decentralisation also helps implement tailored governance frameworks and place-based regional policies. For example, the effects of major exogenous shocks such as natural disasters or climate change usually affects different regions differently (OECD, 2017_[42]).

¹⁰ A systematic experiment would include a careful planning and selecting a comparison group for the subnational governments that participate the program.

¹¹ Asymmetric decentralisation can be Pareto improving if asymmetric treatment results in benefits in the favoured subnational governments without causing costs for the rest of the society. Even in case costs would occur, provided there are net benefits, at least in theory it is possible to compensate the "losers".

Tailoring solutions for special challenges

Differentiated institutional frameworks are often especially beneficial in major urban and metropolitan areas. It is not always practical to implement policies symmetrically if they are relevant only for a subset of subnational governments such as the main urban areas or the most remote rural regions. The economic growth in major urban areas benefits the economy in general. Therefore, the asymmetric policies that promote agglomeration economies and human capital spillovers in main metropolitan areas are highly valuable for society as a whole.

Diffusing regional tensions

Accommodating diverse preferences for political and fiscal autonomy across regions may mitigate separatist movements and help maintain political stability. These policies have been successful in the sense that wherever those policies have been applied, no secessions have occurred.

Addressing the challenges of asymmetric decentralisation

Successful outcomes of asymmetric decentralisation largely depend on implementation, and like any policy, carry challenges and risks that must be addressed and mitigated. This section discusses ways to avoid unwelcome and unintended effects of asymmetric decentralisation.

Finding balance between heterogeneity and equity aspects

Perhaps the most significant risk of asymmetric decentralisation relates to the fact that asymmetric arrangements (by definition) do not directly promote equal treatment of subnational governments and citizens. In some cases, asymmetric decentralisation may result in a perception that asymmetry means deviation from an overall objective of equality. Spending assignments with a clear redistributive function such as education, health and social services could be examples of such services. These considerations can be diminished if the participation in an asymmetric arrangement is kept voluntary and if the central government or other higher level of subnational government takes responsibility for service provision in non-participant areas.

Related to the previous argument, there may be a risk that asymmetric decentralisation is perceived as support for the wealthiest regions or subnational governments. The “favored” governments may be able to attract citizens and business from other subnational governments, which could accelerate the differentiated economic and social development between regions. This could result in widening regional differences and horizontal fiscal gaps, and lead to demands that such asymmetries ought to be limited (Congleton, 2006_[8]).

Asymmetric decentralisation may diminish the central government's ability to pursue national objectives and engage in coordination of public policies. For example, national goals for universal service levels and quality standards may be difficult to reach in a very heterogeneous service provision system. These considerations are diminished if asymmetric decentralisation is not very widespread, however. One should also note that centralisation is not the only method of solving coordination problems or of realizing economies of scale (Congleton, 2006_[8]).

Ensuring transparency and accountability

If widely applied, asymmetric arrangements could reduce the transparency and accountability of governance and result in complex administrative systems. These could in turn lead to inefficiency in public administration and service provision in both central and subnational levels of government (Bird, 2003^[9]; Martinez-Vazquez, 2007^[21]). Possibly, also other negative effects such as increased corruption or favoritism could result. These effects are mitigated, however, if asymmetric decentralisation is carried out as part of a wider decentralisation policy (Congleton, 2006^[8]; Bahl and Martinez-Vazquez, 2005^[16]; Congleton, 2015^[17]).

In order to ensure the continuity and the predictability of government, there usually cannot be frequent changes in asymmetric decentralisation policies. Therefore, once the asymmetric assignments have been decided and put in practice, it may not be politically easy to reverse the process. Because of this “path-dependency”, asymmetric decentralisation should be based on careful planning and agreements between all main stakeholders.

Box 4.1. Recommendations for implementing asymmetric decentralisation

- Asymmetric decentralisation should be part of a broader strategy of multi-level governance and territorial development. Asymmetric decentralisation is not an end in itself, it is a means to achieve multi-level governance goals.
- Asymmetric decentralisation should be supported by effective vertical and horizontal coordination mechanisms.
- Asymmetric decentralisation needs to go hand-in-hand with an effective equalisation system.
- The type of asymmetric decentralisation should be well defined (political, administrative/management or/and fiscal) and have a clear rationale as the objectives and instruments will differ in each case.
- The scale and scope should be clear (large part of the territory vs. restricted, regional, metropolitan, local levels; permanent vs. transitory, timing, pilot/experimental).
- The way asymmetric responsibilities are allocated should be explicit, mutually understood and clear to all actors.
- Asymmetric decentralisation approach should be based on dialogue, transparency and agreements between all main stakeholders.
- To the extent possible, participation in an asymmetric arrangement should remain voluntary. The central government or other higher level of subnational government can take responsibility for service provision in non-participant areas.
- A variety of incentives (not just financial) should be used to foster participation in voluntary schemes or pilot experiences.
- A well-defined and transparent approval system for prospective participating subnational governments should be used.

- The effects of asymmetric decentralisation should be carefully monitored on a regular basis and the results of such evaluations should be used to revise the plans if needed (including the effects on equity and national cohesion).
- A system for communicating good practices and lessons learned from the asymmetric arrangements should be organised.
- Keep a rational number of asymmetric arrangements within the same country to limit coordination costs and complexity.

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