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DECENTRALISED DEVELOPMENT CO-OPERATION - UNLOCKING THE POTENTIAL OF CITIES AND REGIONS

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Abstract

The Addis Ababa Action Agenda raises the urgency to address growing financing and capacity needs at all levels of government in developing countries (para. 34) while the 2030 Agenda calls to “localise” the SDGs. In its High Level Communiqué of 31 October 2017, the DAC stressed that “complex challenges increasingly require coherent approaches at all levels and co-ordinated, inclusive actions”, remaining “committed to improving quality and impact of our development co-operation policies”. Decentralised development co-operation (DDC), or international development co-operation carried out by subnational governments, is one tool OECD Development Assistance Committee (DAC) members can deploy to ensure that development co-operation is fit-for-purpose and responds to the local realities of the 2030 Agenda. The paper provides an assessment of the potential strengthens of DDC approaches as well as new opportunities to overcome longstanding challenges, including through the promotion of new forms of multi-level and multi-stakeholder partnerships.

Keywords:

decentralised development co-operation, official development assistance, cities, regions, subnational governments, Addis Ababa Action Agenda, 2030 Agenda for Sustainable Development

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Executive summary

The 2030 agenda is first and foremost a local agenda: almost 60% of SDG targets can only be achieved by subnational governments providing essential public services in health, education, emergency preparedness, water, energy, housing, etc. In most developing countries, unless central governments and the international community find ways of remedying the sheer lack of financing and expertise those subnational governments are facing, they will certainly fall short of their 2030 Agenda commitments. This paper suggests that, one source of public funding and expertise available to those subnational governments has remained largely untapped and should be re-assessed: decentralised development co-operation (DDC), or development co-operation delivered by subnational governments in one country to subnational governments in another has growing potential.

The challenge: In developing countries, a combination of factors, such as fast population growth, decentralisation, urbanisation and new trade patterns, are widening the gap between the public service responsibilities of subnational governments – cities, municipalities, regions, etc. – and their very limited financial and technical resources. They struggle in particular to generate their own resources: the municipal financing gap in Africa alone is estimated at USD 25 billion per year. Since in most cases central governments themselves are too poorly-endowed to mend such gaps, those subnational entities need all the extra support they can get. Yet only USD 1.87 billion or 1.3% of total bilateral official development assistance (ODA) is provided in support of cities and regions in developing countries.

The solution: Who are better placed to help than subnational peers? Cities and regions in donor countries face similar types of problems to those in developing countries as they strive to achieve low-carbon growth while delivering electricity, water, health, education, security and other social services, etc. to their communities. Although international aid remains overwhelmingly channelled through central governments, both on the donor and partner country sides, networks and associations of cities and regions are emerging that allow for exchange of experience and solutions. Already 70% of cities across donor and developing countries engage in peer-to-peer exchanges, including cross-border partnerships.

Subnational entities in OECD countries are better equipped today than they were before to deliver DDC. Decentralisation reforms that took place in many OECD countries have boosted their expertise together with their responsibilities, and opened access to new resources. OECD subnational governments are responsible for 40% of public expenditure and 57% of public investment (OECD, 2018[1]), including in sectors such as education, housing and community amenities or transport. A recent pilot study further shows that subnational governments are increasingly in charge of environmental and climate-related public spending (55%) and public investment (64%) (OECD, 2019[2]). In many cases, these resources are far from small: California now has the world's fifth largest economy with a USD 3 trillion gross domestic product (GDP) in 2018.

Potential yet to be fulfilled. DDC's track record over the last decades reveals both its advantages and limitations. At its best, it is development co-operation with less "diplomatic noise", focused on technical solutions, closer to people and their daily concerns. It lends itself to forms of co-operation where both donors and partner countries gain expertise and financing. It can create opportunities for local private

investors and civil society organisations. DDC also provides fertile ground for innovation, as illustrated by several global initiatives to address climate change.

DDC is no magic bullet: first, it faces longstanding criticisms related to transparency and accountability. Second, while DDC may be best suited to face the challenges of local development, it could also exacerbate inequalities if only more competitive cities and regions benefit. Finally, it remains poorly documented: while officially, total decentralised development co-operation grew (by 35% in 12 years), to USD 2.3 billion in 2017, these volumes are largely underestimated as fewer than half, or only 13 out of 30 OECD DAC members, report on DDC activities.

What can the OECD DAC do? Champions have emerged in DAC and other countries who could show the way to their peers. In Germany, national aid agencies help to provide the means for their local and regional leaders to initiate partnerships in developing countries where needs are greatest. Less competitive cities and regions in developing countries can be overlooked without proper incentives. ODA has a major re-distribution role to promote subnational exchanges that leaves no one behind. Overcoming DDC's failures of the past (e.g. fragmentation, corruption, etc.) requires new efforts to deliver value-added, development impact, policy coherence and alignment to local priorities. DAC members could build on new and existing DDC networks and associations to encourage co-ordination among the different actors -- civil society, private sector, academia, etc. -- and ensure more effective co-operation across levels of government.

Address the data challenge

- Heighten the transparency and accountability of decentralised development co-operation by sharing best practices and strategies to incentivise reporting on official development assistance by subnational governments, for instance by integrating subnational reporting in OECD DAC statistical peer reviews.
- Reach out to subnational governments in OECD countries, inform them of the role and modalities of ODA, and of the possibility of reporting their ODA-eligible activities.
- Enrol OECD subnational governments' expertise in supporting statistical capacity building in developing countries to manage data on finance and investment at local levels. Strengthen collaboration between key subnational capacity building efforts such as PARIS21 and the OECD-UCLG World Observatory on Subnational Government Finance and Investment initiative (SNG-WOFI).

Facilitate the flow of resources and expertise between sub-national development co-operation partners

- Review existing initiatives, such as the decentralised "Stock Exchange" hosted by the Committee of Regions, to "pool" and/or "export" OECD DAC members' subnational financing and expertise, including for mutual benefit and on commercial terms. Carry out a structured assessment --possibly in the context of OECD development co-operation peer reviews-- on how OECD DAC members facilitate technical assistance at the subnational levels.
- Promote access to subnational financing in developing countries from donors through pooled financing instruments that include "hard" lending or de-risking investment, such as guarantees for municipal bonds. Tailor OECD DAC Blended Finance Principles to the sub-national level.
- Ensure that lending to subnational governments in developing countries is aligned to debt sustainability frameworks and country priorities. Carry out country-level assessments of subnational financing and development strategies.

Support co-ordination for more effective DDC across actors and levels of government

- Strengthen platforms (national, regional and international) that match supply and demand across subnational governments. Promote DDC in multi-level and multi-stakeholder partnerships to improve the effectiveness of official development assistance with civil society, private sector, and

emerging providers, e.g. the Global Partnership for Effective Development Co-operation (GPEDC), World Observatory on Subnational Government Finance and Investment, OECD Roundtables of Cities and Regions for the SDGs, PLATFORMA-CEMR, etc.

- Explore opportunities for private sector engagement, building on existing decentralised co-operation modalities, e.g. the Regions for Climate Action (R20) platform structures financing projects through its Subnational Climate Fund for Africa, bringing together subnational governments, private sector investors, development finance institutions, philanthropists, etc. The SDGs could provide a common language to facilitate the engagement of the private sector.
- Encourage OECD DAC subnational governments, including those that do or could carry out DDC, to participate in SDG progress reviews. This should help monitor policy coherence across the different levels of government, and in particular ensure DDC does not contribute to subnational inequalities in developing countries. Initiate a joint DAC-Regional Development Policy Committee (RDPC) dialogue to facilitate policy coherence across levels of government.
- Use the Voluntary National Review (VNR) process as a tool to engage sub-national governments in the reporting of DDC activities contributing to the SDGs. The VNR could provide an opportunity for cities and regions to highlight best practices on domestic and external implementation, including DDC and beyond.

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Abbreviations and acronyms

AAAA	Addis Ababa Action Agenda
AfD	French Development Agency (Agence Française de Développement)
BMZ	Germany's Federal Ministry of Economic Co-operation and Development (Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung)
BRI	Belt and Road Initiative
C40	C40 Cities Climate Leadership Group
CAPEX	Capital expenditure
CNCD	France's national commission for decentralised co-operation (Commission nationale de la coopération décentralisée)
CO2	Carbon dioxide
COFOG	Classification of the functions of government
CROs	Chief Resilience Officers
CRS	Creditor Reporting System
CSOs	Civil society organisations
DAC	Development Assistance Committee
DDC	decentralised development co-operation
DFID	United Kingdom's Department for International Development (United Kingdom)
EU	European Union
EUR	Euro
FAMP	Andalusian Federation of Municipalities and Provinces (Federación Andaluza de Municipios y Provincias)
FAMSI	Andalusian Fund of Municipalities for International Solidarity

FDFA	Flanders Department of Foreign Affairs
FIRE-D	USAID's Financial Institutions Reform and Expansion Debt
FMDV	Global Fund for Cities Development (Fonds Mondial pour le Développement des Villes)
GAWC	Globalization and World Cities Research Network
GDP	Gross domestic product
GHG	Greenhouse gases
GoTN	State Government of Tamil Nadu
GPEDC	Global Partnership for Effective Development Co-operation
ICED	Infrastructure and Cities for Economic Development
ICLEI	International Council for Local Environmental Initiatives
ICMA	The United States Agency for International Development and the International City/County Management Association
IMF	International Monetary Fund
IUC	International Urban Co-operation programme
JICA	Japanese International Co-operation Agency
LDCs	Least developed countries
LMICs	Lower middle income countries
MEAE	Ministry of Europe and Foreign Affairs (Ministère de l'Europe et des Affaires Étrangères)
MEP	China's Ministry of Ecology and Environment
NDRC	China's National Development and Reform Commission
NGO	Nongovernmental organization
NUPs	National urban policies
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
PARIS21	Partnership in Statistics for Development in the 21st Century

PCSD	Policy coherence for sustainable development
PEFA	Public Expenditure and Financial Accountability
R20	Regions 20 - Regions of Climate Action
RDPC	Regional Development Policy Committee
SDGs	Sustainable Development Goals
SKEW	Service Agency Communities in One World
SMEs	Small and medium-sized enterprises
SnCF Africa	Subnational Climate Fund Africa
SNG	Subnational government
SNG-WOFI	World Observatory on Subnational Government Finance and Investment
SWAC	Sahel and West Africa Club
SWOT	Strengths, Weaknesses, Opportunities, and Threats
TADAT	Tax Administration Diagnostic Assessment Tool
TIWB	Tax Inspectors Without Borders
TNUDF	Tamil Nadu Urban Development Fund
UCLG	United Cities and Local Governments
UK	United Kingdom
ULBs	Urban Local Bodies
UN	United Nations
UNCDF	United Nations Capital Development Fund
UNICEF	United Nations Children's Fund
USA	United States of America
USAID	United States Agency for International Development
USD	United States Dollar
USTDA	United States Trade and Development Agency
VLR	Voluntary local review

VNG International	International Co-operation Agency of the Association of Netherlands Municipalities
VVSG	Association of Flemish Cities and Municipalities (Vereniging van Vlaamse Steden en Gemeenten)
WSPF	Water and Sanitation Pooled Fund
ZIGESA Trialogue	Zimbabwe Germany South Africa Trialogue

1. Background – Why does decentralised development co-operation matter?

The section highlights the objectives, context and scope of recent work carried out to assess international development co-operation between subnational governments, also known as decentralised development co-operation. Although lacking a common definition, decentralised development co-operation provides a form of local-to-local support that can help to strengthen the role of subnational entities to finance sustainable development globally.

1.1. Context – What is decentralised development co-operation?

In recent years, the OECD has improved its policy dialogue and research on international development co-operation carried out by local and state governments in OECD countries, i.e. decentralised development co-operation. A previous OECD study, entitled, *Aid extended by Local and State Governments* defined DDC as aid provided by the public sector other than the central government (OECD, 2005[3]). More recently, the OECD with support from the EU Commission published a report in 2018, *Reshaping decentralised development co-operation,* which provided an analysis of recent trends and evolutions in financing and approaches, focusing particularly on subnational governments within the European Union (OECD, 2018[4]). It identified emerging paradigms and policy recommendations for effective multi-level governance across central, regional and local governments.

Seeking to reflect views and realities on the ground, the *2018 Reshaping decentralised development co-operation* report relied on data collection from four OECD surveys and four case studies carried out with subnational government stakeholders. Box 1.1 highlights that cities and regions are not the only subnational entities. The four case studies of the project included:

- Tuscany, Italy – support localisation of the Sustainable Development Goals (SDGs)
- Flanders, Belgium –promote healthcare, agriculture and food security
- Basque Country, Spain –promote gender equality
- France – water

Previous work, confirmed in this report, note that ODA provided by subnational entities in OECD countries is increasing. Volumes of decentralised development co-operation increased by 35% in 12 years from USD 1.7 billion in 2005 to USD 2.3 billion in 2017. Main thematic areas include addressing climate change (USD 41 million in 2014-15) and gender equality and women's empowerment (USD 163 million in 2014-15).

Box 1.1. Subnational governments are not limited to "cities and regions"

At the subnational level, a variety of municipal, intermediary and regional/state entities exist. While the terms "cities and regions" are frequently employed, decentralised development co-operation is actually comprised of a variety of subnational actors: provinces, city-states, federal states, districts, inter-municipal co-operation bodies etc. The focus on cities and regions is a consequence of both the prominence of these actors as subnational entities and their strong voice in international agendas. For example, SDG 11 has a special focus on cities. However, other actors, such as intermediary cities -- with a population between 50 000 and 1 million people--, also play a central role in implementing basic facilities and services in both urban and rural areas. The reality of challenges facing different subnational governments is complex and the nuances of these contexts could be further explored.

There is no standard definition of decentralised co-operation. Not all countries recognise cities and regions as having the authority to carry out international affairs. For example, American federal states are expressly forbidden from entering into treaties, alliances, agreements, or compacts with foreign powers under Article I, section 10 of the Constitution. However, American states and cities regularly engage in development co-operation with foreign nations (e.g. see 2013 bilateral pact agreed between California and the People's Republic of China in **Section 2.1** and the Box 1.2 below).

The terms "decentralised co-operation" and "decentralised development co-operation" (DDC) can be used interchangeably. "Decentralised co-operation" is a concept that became prominent in the 1980s when aid agencies sought to improve the effectiveness of development co-operation through local governments and their associations as implementing agents (Hafteck, 2003[5]). It traces its origins to efforts to improve the delivery and impact of ODA. In fragile contexts, for example, co-operation at the level of central government can be challenging while at the local level, highly effective co-operation can be carried out in areas related to service delivery. Both "Decentralised co-operation" and "decentralized development co-operation" refer to external development finance and co-operation provided by subnational governments in support of partner countries to achieve the 2030 Agenda.

ODA data provides trends regarding the financial component of decentralised co-operation, defined as, "aid provided by the public sector other than the central government" (OECD, 2018[4])**.** The 2018 OECD Report *Reshaping decentralised development co-operation* introduced the term "decentralised development co-operation" which emphasises the sustainable development dimension of co-operation between subnational actors. For the purposes of this report, the term DDC is employed to designate international development co-operation and finance provided by sub-national governments, including and beyond what is captured in ODA.

Decentralised co-operation extends far beyond financial transfers and beyond the "donor-recipient" paradigm. Non-state actors such as civil society organisations (CSOs) and universities (autonomous and publicly funded) are key partners in the implementation of local service delivery, strengthening local governance, decentralisation, social inclusion and promoting local economic development, yet in-kind or non-financial support cannot be captured empirically. Cities and regions can also partner to exchange knowledge and good practices without providing financial support. Moreover, not all CSOs and universities or research institutions are considered "official" or state-sponsored actors.

While the origins of DDC are rooted in town twinning and sister cities, new modalities are emerging. Town twinning started as a means of building relations and developing lasting connections between European towns following World War II. The UN General Assembly formally recognised municipal twinning as a form of international co-operation in 1971 (OECD, 2018[6]). Certain countries, such as the United States, are longstanding supporters of city diplomacy (see Box 1.2). Over time, sister city partnerships have extended across continents and take on more specific development objectives.

Box 1.2. City diplomacy in the United States

Although subnational governments are forbidden from entering into treaties, alliances, agreements, or compacts with foreign powers, the United States has a longstanding history of promoting non-binding city diplomacy for exchange of technical expertise. President Eisenhower established the first "People-to-People" programme in 1956 to promote "citizen diplomacy" (Sister Cities International, 2019[7]). The first United States technical assistance programme in support of decentralised development co-operation was launched in 1977 to exchange technical expertise between American communities and communities and developing countries, sponsored partially by a grant from USAID. Sister Cities International estimates that more than 2 000 cities are partnered in more than 140 countries. The aim of these programmes is to get closer to people by improving implementation of aid provided by city governments.

The 2018 *Decentralised Development Co-operation* report further provided a set of key recommendations to national and subnational governments to improve the effectiveness of DDC activities. These included:

- Use DDC to improve local and regional policies in partner and donor countries and ultimately contribute to the SDGs.

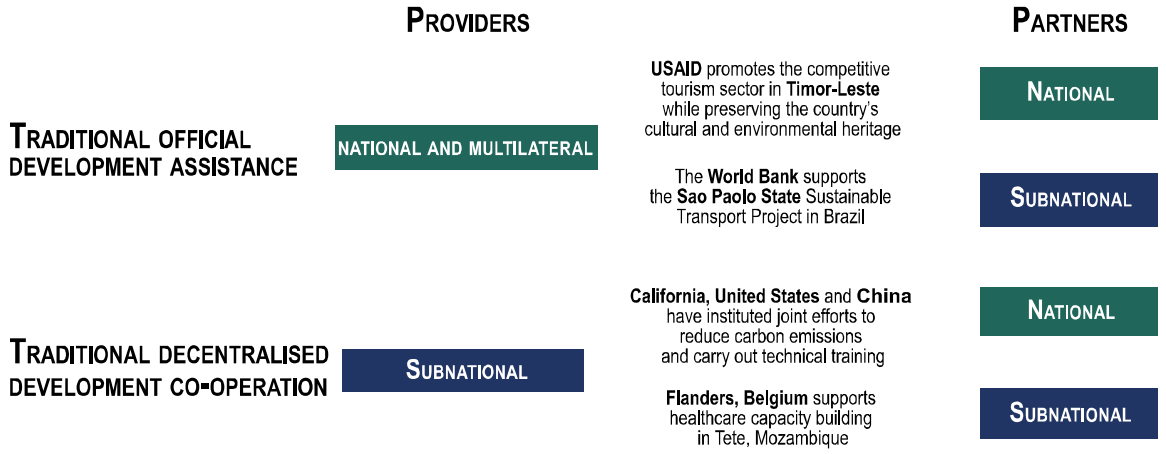
- Recognise the diversity of DDC concepts, characteristics, modalities and actors.
- Promote a territorial approach to DDC by fostering place-based and demand-driven initiatives for mutual benefits over time.
- Encourage better co-ordination across levels of governments in promoter and partner countries for greater DDC effectiveness and impact.
- Set incentives to improve reporting on DDC financial flows, priorities and practices and better communicate on outcomes and results.
- Promote results-oriented monitoring and evaluation frameworks for informed decision-making and better transparency.

Following these recommendations, there is a need for further research and policy guidance to ensure the effectiveness of the OECD DAC in supporting DDC approaches. In response to OECD DAC commitments to strengthen the financing and capacities of subnational governments in developing countries as enshrined in the 2030 Agenda (SDG 11), AAAA (para 34) and New Urban Agenda, there is a greater urgency to ensure the catalytic effects of ODA at all levels of government, including DDC (UN, 2015[8]); (United Nations, 2016[9]). The section below outlines the objectives and scope of the present paper with a focus on the role of OECD DAC members to meet the growing needs at the subnational level.

1.2. Objectives and scope

This paper expands on the findings and recommendations of the first edition of the 2018 DDC Report to articulate the respective roles of traditional ODA in contrast to DDC modalities. The paper seeks to identify the value-added of financing and expertise provided *by* and *to* subnational governments: local to local (traditional DDC), local to national (DDC), national to local and national to national (traditional ODA). Figure 1.1 provides several examples to contextualise traditional DDC within the broader landscape of development co-operation relationships (mainly between developed to developing countries, but also including South-South and triangular co-operation).

Figure 1.1. Development co-operation channels are not limited to national-to-national modalities



Source: Author's design

The paper further assesses the strengths, weaknesses, opportunities and threats (SWOT) of the DDC modality in comparison to other forms of development co-operation. A SWOT analysis in Parts 2. 3. 4. ' provides an overview of the current and future risks and opportunities of the DDC modalities highlighted in the paper (see Figure 1.2). It reveals that DDC holds the potential to cut through geopolitical challenges to address the concerns of people in their daily lives (e.g. public transportation, education,

water and sanitation). In addition to basic service delivery, DDC contributes to local governance, decentralisation, social inclusion and local economic development, among others. In addition, it highlights the dual opportunities of growing demand from subnational governments in developing countries mirrored by the growing supply of resources and competencies in OECD subnational governments.

Figure 1.2. Decentralised development co-operation: SWOT Analysis

STRENGTHS

- Brings aid and impact closer to people and daily concerns (bottom-up as opposed to top-down approach)
- Cuts through political noise (less influenced by diplomacy)
- Focuses on technical competencies in basic service delivery, technology, climate and disaster risk reduction
- Delivers mutual benefits through peer-to-peer assistance and learning (developing and developed countries share common challenges at subnational level)

WEAKNESSES

- Transparency and lack of available data (e.g. ODA reporting)
- Bad reputation and past failures (corruption and lack accountability)
- Lack and cost of co-ordination among the actors at various levels of government (demand and supply sides)
- Often small scale and ad-hoc projects
- Insufficient awareness of opportunities to carry out development co-operation

OPPORTUNITIES

- Growing resources from decentralisation in OECD countries (supply)
- Growing demand from decentralised governments in developing countries (access to new capital, innovative financing)
- Export and pool technical/ local expertise, including on commercial terms (e.g. culture, energy, transport, waste management, water, etc.)
- Strengthen effectiveness of traditional ODA and country development strategies (adapted to multiple levels of governance, policy coherence, SDG reporting and alignment)
- Developing expertise through practice and experience sharing

THREATS

- Risk of exacerbating regional inequalities (regions and cities at the margins of major networks)
- Risk of local action counteracting national action or vice versa (alignment and coherence of different levels of co-operation)
- Risk of further fragmentation of aid
- Debt sustainability (transparency and management of subnational debt)

Source: Authors' design.

Although the scope of this paper extends beyond DDC in a narrow sense, it does not intend to provide an exhaustive assessment of decentralised or multi-level governance issues and reforms. A more extensive literature review could be carried out, particularly to identify the trends in decentralisation by geographical region, sector, income-level, etc. Instead, this paper intends to provide a "big picture" assessment of the issues related to DDC and directions for future research.

The next section identifies the gaps at the subnational level to achieve the ambition of the 2030 Agenda. It presents the urgency to address domestic financing and capacity needs among subnational governments, particularly in low-income and least developed countries. As outlined in the 2030 Agenda, Addis Ababa Action Agenda, and New Urban Agenda, these countries are identified as having the greatest potential DDC needs.

2. Challenge: Demand for co-operation and financing is increasing at the subnational level in developing countries

Devolution of expenditure responsibilities to subnational governments in developing countries creates greater subnational demand for financing and capacities for effective fiscal decentralisation.

The section highlights several examples of increasing needs at the subnational level in developing countries, e.g. technical expertise in water and sanitation, energy, waste management, urban management, climate and disaster risk reduction etc. It demonstrates challenges mobilise resources at the subnational level in developing countries. In particular, low-income countries and least developed countries struggle to overcome financing and capacity gaps.

2.1. Cities and regions in developing countries are being left behind

Subnational governments represent the "last mile" to address development challenges in many countries and are necessary to achieve the 2030 Agenda. As responsibilities are devolved to local governments, local actors are at the core of SDG implementation (Kusakabe, 2013[10]). The OECD estimates that nearly 60% (100 of the 169) of the SDG targets require engagement with subnational governments (SNGs)[1] in OECD and partner countries. The UN Secretary General's Synthesis Report on the SDGs further emphasises that "many of the investments to achieve the sustainable development goals will take place at the subnational level and be led by local authorities." Box 2.1 provides an overview of the focus placed on cities in the 2030 Agenda. As detailed previously, cities are not the only form of subnational government. However, these actors tend to have a stronger voice in shaping international agendas.

Box 2.1. A stronger recognition of cities to achieve the SDGs

With SDG 11, the Agenda 2030 calls specifically upon cities to help implement global agendas at the local level. Several key sections explicitly recognise that role:

- SDG 11 "Make cities and human settlements inclusive, safe, resilient and sustainable"
- SDG 11.6 "By 2030, reduce adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management".
- SDG 11.B "By 2020, substantially increase the number of cities and human settlements adopting and implementing integrated policies and plans toward inclusion, resource efficiency, mitigation and adaptation to climate change, resilience to disasters and development and implement, in line with the Sendai Framework for Disaster Risk Reduction 2015-30, holistic disaster risk management at all levels".

Beyond SDG 11, implementation of nearly all SDGs will require subnational financing and capacities. Most SDGs rely on subnational entities to provide expertise and resources for essential public services in health, education, emergency preparedness, water, energy, housing, etc. (SDSN, 2016[11]).[2] For example, SDG 1 "End Poverty" requires local actors to provide basic services such as water and sanitation, create jobs, develop local economies, and build resilience to shocks and disasters (UCLG, 2019[12]). SDG 8 "Promoting decent work and economic growth" requires implementation of national policy by subnational governments. Moreover, cities and metropolitan areas are recognised as "engines of growth", attracting productive activity and investments (e.g. from micro to SMEs and MNEs) and building quality infrastructure. One example, local and regional governments in Argentina, Bolivia, Ecuador, France, Morocco and Ivory Coast among others have adopted a strategic approach to "responsible and sustainable regional food initiatives" (RSRFIs) which provides a common framework for the adoption of sustainability criteria and objectives (Global Taskforce of Local and Regional Governments, 2019[13]) Finally, SDG 10 "reducing inequalities" requires disaggregated data by cities and regions to guide evidence-based and context specific policies. National averages can misrepresent realities on the ground and mask large regional disparities.

To achieve the SDGs, sub-national governments also seek economic development through external action. Subnational co-operation increasingly favours models based on shared economic

[1] A subnational government (SNG) is defined as a decentralised entity whose governance bodies are elected through universal suffrage and which has general responsibilities and some autonomy with respect to budget, staff and assets (World Observatory of Subnational Government Finance and Investment, 2016[113]).

[2] Other estimates suggest that 103 of the 169 SDG targets (61%) require active participation of subnational actors (Greene and Meixell, 2017[111]).

benefits and reciprocity to increase competitiveness. The opportunities to enhance the productivity and export potential of countries, while upgrading jobs and incomes for their populations, can translate into demand for higher-value imported goods and services. Subnational actors aim to help firms and industries create jobs, raise productivity and increase the incomes and well-being of citizens, while addressing global challenges (e.g. reducing air pollution, addressing disaster risk reduction, etc.).

Governors, mayors, and local councillors increasingly connect with their counterparts internationally, seeking international investment, tourism, education, and trade ties to grow their economies. Fast-growing markets with large populations, such as the People's Republic of China ("China") and India, have become countries of focus for state and city leaders as a result (Council of Foreign Relations, 2017[14]). In many instances, subnational governments are taking action independent of national processes (e.g. climate adaptation policies adopted by American cities, green growth strategies, and other efforts that require capital investments) (Smoke, 2019[15]).

Several examples demonstrate efforts by subnational governments to engage in "win-win" partnerships via external action:

- *Global Cities Economic Partnership:* In 2013, Mexico City[3] and Chicago agreed a Global Cities Economic Partnership including joint initiatives in trade, innovation, and education to strengthen global competitiveness. Although the cities themselves do not trade, city and regional leaders provide policy guidance to promote competitive industries (firms and institutions) (Liu and Donahue, 2013[16]); (City of Chicago; City of Mexico City, 2013[17]).
- *Clean energy pact*: In 2013, China (both national and subnational actors) and the state of California signed a clean energy pact agreeing to lower carbon emissions. Both parties benefit from exchange of competencies and trainings, and business opportunities that also reduce greenhouse gases (Asia Society, 2014[18]); (Barnes, 2015[19]).

However, as recognised in the Addis Agenda, not all subnational entities are benefiting from international co-operation: "expenditures and investments in sustainable development are being devolved to the subnational level which often lacks adequate technical and technological capacity, financing and support" (para 34). The demand for development co-operation (financing and technical assistance) emanating from subnational entities has therefore increased, reflecting the gap between the need for localisation and the challenges these actors face to secure expertise and resources.

Many subnational entities in developing countries risk being left behind if they cannot access global networks. Many cities in the poorest developing countries, including the least developed countries (LDCs) are not tapping into cross-border urban business networks (Figure 2.1). Global firms mainly concentrate in mega cities or cities that are highly connected to globalised networks. This attraction to cities with the greatest level of connectedness results in an accumulation of wealth highly concentrated in just a handful of cities. Fifteen cities from mainly developed countries hold 11% of the world's wealth or USD 24 trillion (Desjardins, 2018[20]). If 2% of these resources were channelled to cities in Africa (e.g. establishing firms, connecting to financial networks), an additional USD 480 billion (more than three times current aid volumes USD 153 billion in 2018) in financing could be raised where it is needed most.

[3] Mexico is an upper middle-income country and an ODA-eligible country as of 2018-19.

Figure 2.1. Measures of the connectedness of global firms at the municipal level

Note: The GAWC city classification maps the magnitude of a city's business service connections to other major cities. The magnitude of these connections are tiered from highest to lowest, with alpha ++ (i.e. largest circles on the map) representing the most connected cities (e.g. London-New York). In this figure for 2010, the measure of connectedness is derived from the office networks of 100 advanced producer service firms in 315 cities.

Source: (Carta and González, 2010[21]), Mapping Connectedness of Global Cities: α, β and γ tiers, https://www.lboro.ac.uk/gawc/visual/globalcities2010.html

The barriers to development at the subnational level vary across subnational actors. While rural exodus could be seen from the perspective of cities as a challenge to sustain population growth, from the perspective of rural governments, it could be seen as a challenge to overcome revenue losses. Nonetheless, both rural and urban entities face the challenge of delivering basic services with limited resources. The following section provides some examples of challenges faced by a selection of subnational entities and is not exhaustive.

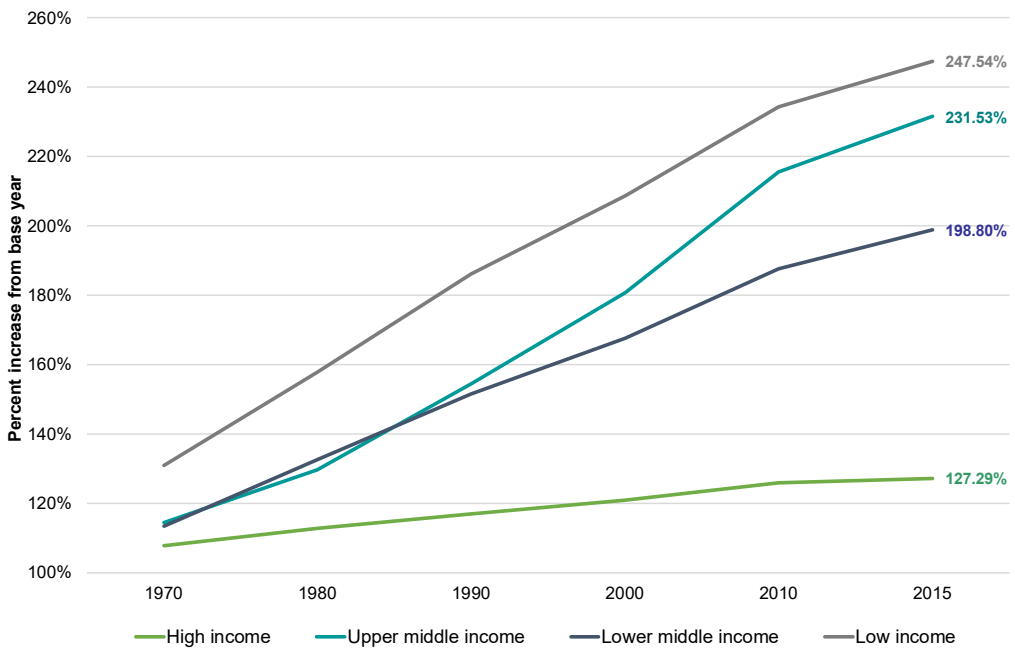
Among the development challenges at the subnational level, urban population growth is one major trend particularly in developing countries. Developing countries account for 75% of the world's urban population. Figure 2.3 demonstrates that across developing countries, the share of the urban population has doubled over the past 50 years with the highest rate in low-income countries, increasing by 250%. According to UN World Urbanization Prospects, India, China and Nigeria alone will account for over a third of urban growth between 2014 and 2050.

Some of the most vulnerable countries are experiencing the highest rates of urban population growth (see Figure 2.2 from Africapolis[4]). 6 of the 10 countries with the highest urbanisation rates in the world are in sub-Saharan Africa. In addition, thirty of the thirty-five most rapidly growing cities are in least developed countries (UNCDF, 2019[22]).

[4] Produced by the Sahel and West Africa Club (SWAC) in collaboration with E-geopolis, Africapolis.org is a comprehensive and standardised geospatial database on cities and urbanisation dynamics in Africa. It enables comparative and long-term analyses of urban dynamics - covering 7 500 agglomerations in 50 countries. For more information see: http://www.oecd.org/swac/topics/africapolis/:

Figure 2.2. Increase in urban population share (%) relative to base year

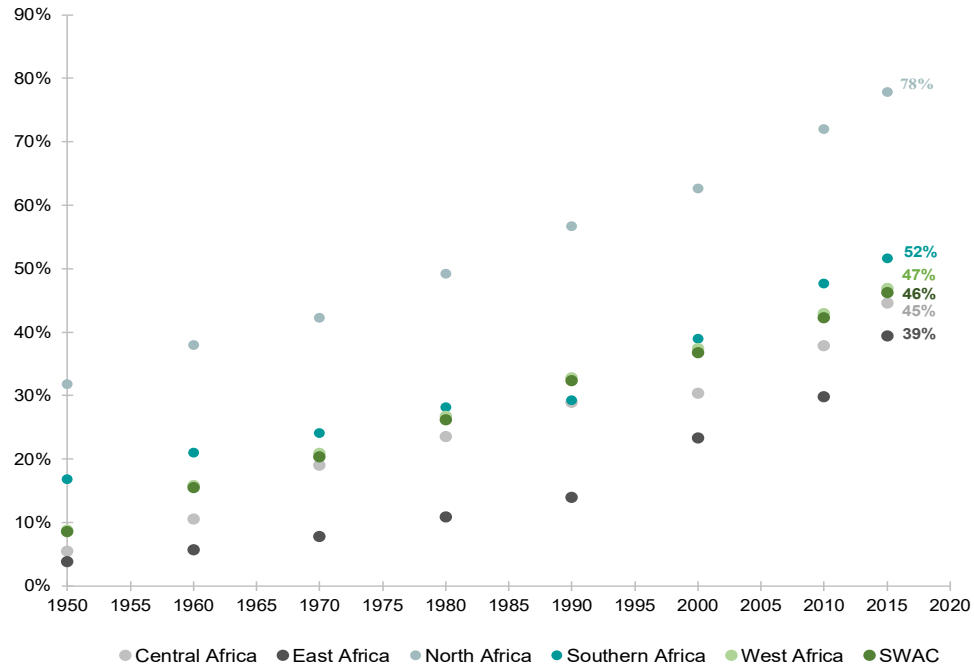
Base year=1960



Source: (World Bank, 2019[23]), World Development Indicators (database), https://databank.worldbank.org/source/world-development-indicators

Figure 2.3. Urbanisation in African regions over time

Share of urban population in the total population



Source: (OECD/SWAC, 2019[24]) Africapolis (database), http://www.africapolis.org/data

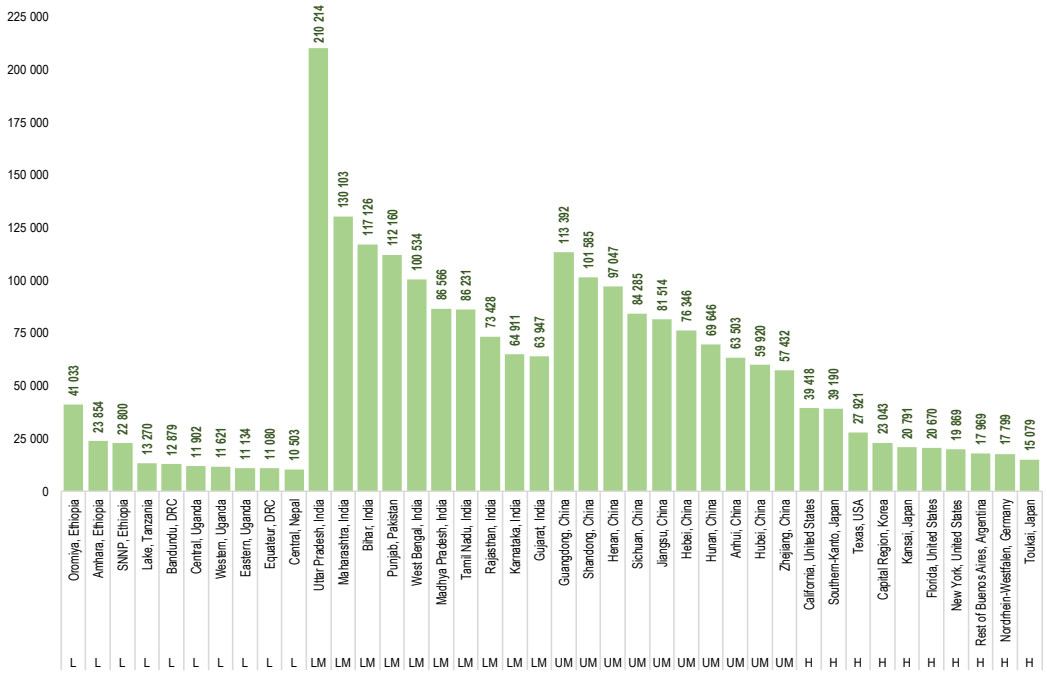
Rapid, unplanned urbanisation can have widespread negative impacts. As areas transition from rural to urban, and populations grow, municipal and regional governments, particularly in the poorest countries, face challenges to address the immense pressure of shifting revenues base, delivering public services, and generating sustainable and inclusive growth. Urban infrastructure including water, electricity, housing, etc. is costly and complex to carry out effectively. As urban populations grow, governments must scale up public housing programmes and leverage limited public funds to attract private finance.

For example, rapid urbanisation can lead to a higher incidence of slums, particularly in developing countries. The challenges of housing are particularly stark in the poorest countries. 62% of sub-Saharan Africa's urban population lives in slums (AfDB/OECD/UNDP, 2017[25]). Approximately 880 million people lived in city slums in 2014 – a number that could rise to 3 billion by 2050 (Murali Meera, 2018[26]). Achieving SDG 11, which calls for universal access to affordable housing and basic services will depend largely on the capacity of municipalities. Current estimates reveal that replacing substandard housing and building additional units by 2030 will require USD 525 billion per year or 0.7% of GDP (World Bank Group, 2016[27]).

Sub-national regions in developing countries also face challenges of growing populations, many of which have surpassed the largest OECD regions. As shown in Figure 2.4, subnational regions in low and upper middle-income countries are larger in terms of population size than high-income countries. In fact, some of the most populous subnational regions are located in lower middle-income countries. Certain subnational regions in low-income countries are also larger than OECD subnational regions. For example, Oromiya, Ethiopia is larger in terms of population size than the state of California, United States.

Figure 2.4. Subnational regions in many developing countries are larger than those in developed countries

Population in thousands



Source: Author's based on data from (Smits and Permanyer, 2019[28]), *The Subnational Human Development Database,* https://www.nature.com/articles/sdata201938

To what extent can the consequent spending needs of growing population size be filled by domestic resources? The role of the national government in developing countries to redistribute resources will be further developed in the following section. Local governments in developing countries rely heavily on national governments for their funding due to limited tax take (citizens with low revenues) and low tax capacities (e.g. limited ability to levy taxes due to legal limitations as well as lack of technical expertise and resources). However, in many instances, intergovernmental transfers are not sufficient and external resource mobilisation must be strengthened.

Decentralisation reforms are not always accompanied by adequate powers to collect resources or sufficient capacities to fulfil growing responsibilities. In some developing countries local and regional governments have been assigned responsibility over basic service delivery such as health and education, agriculture, local water supply and road construction without ensuring adequate capacities of staff in financial management (e.g. Tanzania, Sierra Leone) (Florian Blum, 2016[29]). Local government staff and planning, if controlled by the central government, requires effective mechanisms for co-operation between central government and local government agencies.

In contrast to the magnitude of development challenges, the following section identifies pressing gaps in financing and expertise. Rapid urbanisation and unplanned decentralisation provide examples of major hurdles that can slow SDG progress and lead to setbacks when coupled with a lack of resources and capacities needed to manage the shifting landscape effectively.

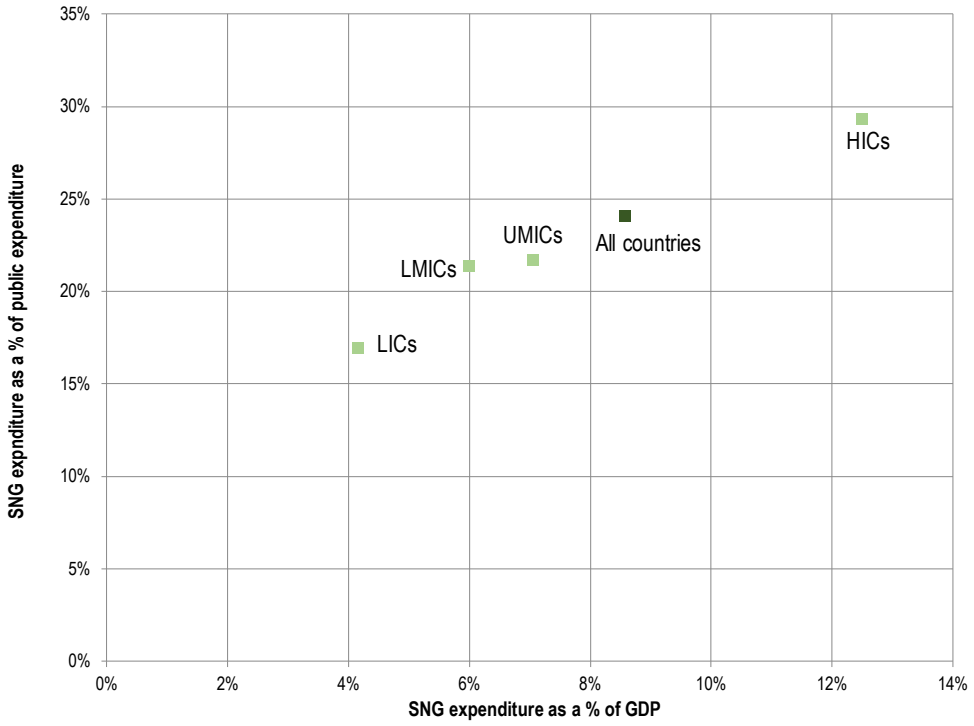
2.2. Both financing and capacity gaps persist at the subnational level in developing countries

2.2.1. Financing gaps at the sub-national level in developing countries

In low-income countries, subnational governments' share of total government spending is small and reflects a subnational finance gap. A 2012 study estimated that Africa is facing a "municipal investment gap" at USD 25 billion per annum. Urban investment needs in sub-Saharan Africa (where the majority of low-income countries are located) are estimated between USD 12.5 billion and USD 35 billion per year depending on urban extension and population densities (Paulais, 2012[30]).

Sub-national governments account for 30% of public expenditure and 12% of GDP in high-income countries, yet in low-income countries spending levels are significantly lower, at only 17% of public expenditure and 4% of GDP (see Figure 2.5) (World Observatory, 2019[31]). Lower expenditures reflect the gap in subnational resources to finance public services and/or levels of decentralisation of responsibility. Further research could seek to estimate the minimum threshold of subnational expenditure required to meet the needs of the population in the context of varying levels of decentralisation.

Figure 2.5. Subnational government expenditure by country-income groups



Note: LIC: Low-income countries, LMICs: Lower middle-income countries, UMICs: Upper middle-income countries, and HICs: High-income countries

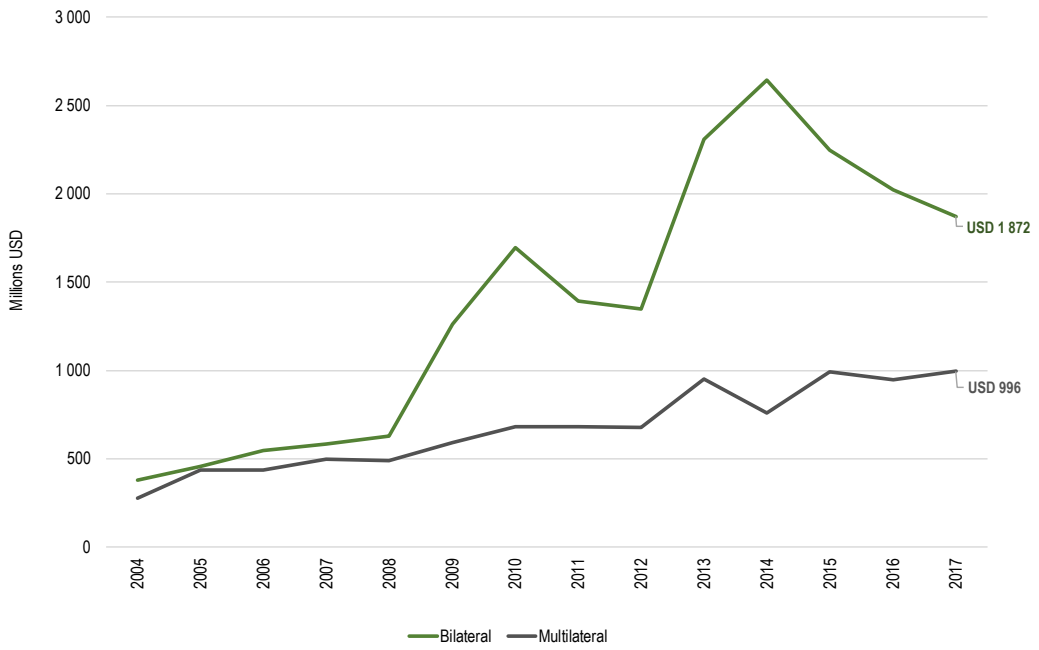
Source: Author's based on (World Observatory on Subnational Government Finance and Investment, 2019[32]), *World Observatory on Subnational Government Finance and Investment* (database), https://stats.oecd.org/viewhtml.aspx?datasetcode=SNGF_WO&vh=0000&vf=00&l&il=blank&lang=en&vcq=1111 and http://www.sng-wofi.org

What is the cause of the financing gap? Subnational entities in many developing countries have limited sources of domestic and external financing needed to achieve the SDGs, further explored below.

Subnational governments in developing countries lack central government transfers and struggle to generate own source resources. In low-income countries, subnational governments are highly dependent on central government transfers and subsidies (60% of their revenue in 2016) compared to 46% in high-income countries (World Observatory, 2019[31]). African cities are dependent on central government transfers for more than 80% of their operating revenues. Reliance on central government transfers can further "crowd out" own source revenue generation at the local level and remove incentives for subnational governments to assume responsibilities (Takaaki, 2016[33]). Yet, domestic revenue collection in countries with an already limited tax base is not sufficient. Central government transfers also play a key role to ensure adequate redistribution of public service provision among rural and urban areas.

External support is also limited. ODA provided by OECD DAC national governments in support of cities and regions in developing countries remains at only 1.3% of total bilateral ODA. Figure 2.6 reveals that total bilateral ODA in support of cities and regions has increased from USD 380 million in 2004 to USD 1.87 billion in 2017, yet remains at only 1.3% of total bilateral ODA.[5] Bilateral ODA has experienced two periods of notable increases, once after 2008 due to a surge in ODA from the United States and France and again after 2012, driven by reporting by the United Arab Emirates. In 2017, the majority of ODA is provided by bilateral providers, namely France, European Union and Germany. Their share (yearly average 2015-2017) of bilateral ODA in support of cities and regions is 21.36%, 16.21%, and 15.76% respectively. The share of bilateral ODA in support of cities and regions provided by France will be increased by 2020 in accordance with the decision in 2018 to double the amount of funding in support of local government for their external action.

Figure 2.6. Bilateral and multilateral ODA in support of cities and regions

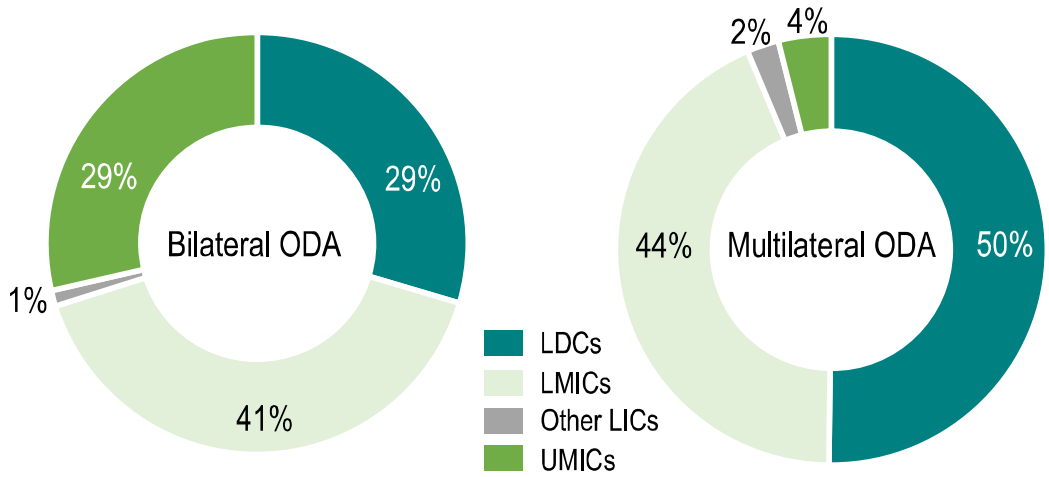


Note: The OECD CRS database disaggregates by purpose codes that support institutional and capacity building: decentralisation, urban development, low-cost housing and housing policy. The purpose codes selected do not attempt to assess how ODA fills the SDG financing needs (electricity, water, infrastructure, etc.) presented previously. Instead, the figures provided represent financing aimed to provide upstream capacity and institutional support in sub-national governments to improve access to financing. Future analysis should seek to devise a methodology (e.g. text search analysis or geocoding) for disaggregating volumes and projects carried out by sub-national government.
Source: Author's based on (OECD, 2019[34]), *Creditor Reporting System* (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1

[5] A methodological framework is needed to assess development finance provided directly to cities and regions. Current OECD CRS purpose codes do not disaggregate ODA volumes channelled directly to sub-national governments (e.g. budget support). Instead, the estimates are based on purpose codes that support areas most relevant to subnational actors, i.e. decentralisation, urban development, low-cost housing and housing policy. Future analysis should seek to devise a methodology (e.g. text search analysis or geocoding) for disaggregating volumes and projects carried out by sub-national government In addition, development finance can be provided to the central government and subsequently redistributed to sub-national actors (i.e. intergovernmental transfers) which represents a further challenge to providing accurate estimates.

Least developed countries and other low-income countries, in particular, face stark challenges to access external sub-sovereign financing. Multilateral organisations succeed in targeting 50% of subnational financing to LDCs, while only 29% of bilateral ODA reaches subnational governments in these countries (see Figure 2.7). Multilateral organisations have initiated thematic work which aims to provide targeted support to address the financial and institutional barriers facing subnational governments (e.g. World Bank City Creditworthiness Initiative, UNCDF-UCLG International Municipal Investment Fund).

Figure 2.7. The share of ODA in support of cities and regions provided by bilateral vs multilateral providers



Source: Author's based on (OECD, 2019[34]), *Creditor Reporting System* (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1

Access to other forms of financing, such as capital markets and debt financing, are also insufficient. Infrastructure financing at the sub-national level in more advanced economies is often carried out through access to markets. SNGs are responsible for about 40%, on average, of public investment in the various regions of the world, with the exception of Africa where this percentage is less than 20% (World Observatory, 2019[31]). Less than a third of African countries have national urbanisation strategies to effectively attract investment in sustainable development (AfDB/OECD/UNDP, 2016[35]). Investment in local infrastructure requires partnerships with national and local governments. Engaging the local private sector, particularly SMEs and other philanthropic actors and impact investors provides an opportunity to strengthen alignment with sustainable development.[6] See Part 4.3.

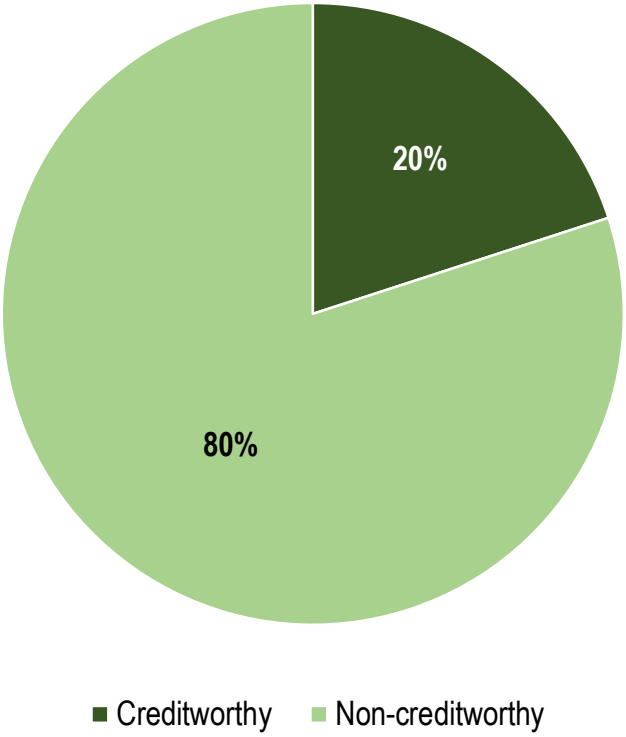
Several roadblocks impede access to subnational financing in developing countries:

- **Achieving creditworthiness[7].** While creditworthiness is a prerequisite for long-term financial sustainability and local empowerment, less than 20% of cities in developing countries can issue bonds to local investors, and only 4% are creditworthy enough to access international capital markets (Climate Policy Initiative, 2016[36]). Figure 2.8 shows that less than 20% of the 500 largest cities in developing countries are deemed creditworthy (Cities Climate Finance Leadership Alliance, 2017[37]).

[6] Non-traditional sources such as the Rockefeller Foundation, the Bill & Melinda Gates Foundation and the Bloomberg C40 network have targeted efforts to improve the capacity of cities in recent years

[7] Creditworthiness is defined as "a risk assessment on 'ability and willingness' to service financial obligations".

Figure 2.8. "Creditworthy" status of 500 largest cities in developing countries



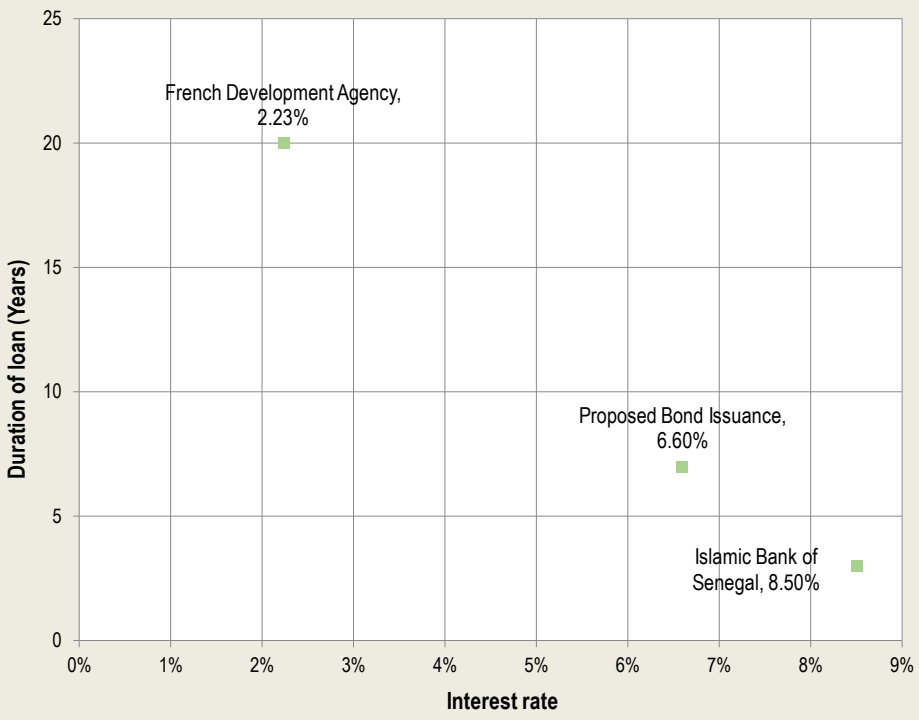
Source: Author's design based on (World Bank Group, 2015[38]), *City Creditworthiness Initiative: A Partnership to Deliver Municipal Finance,* http://www.worldbank.org/en/topic/urbandevelopment/brief/city-creditworthiness-initiative

- **Regulatory financing frameworks.** Sound subnational government borrowing regulations and fiscal responsibility frameworks are needed to attract private capital. In many instances, borrowing is limited to the short term. Better regulatory frameworks are needed in the case of government default. The case of Dakar presents the challenges facing cities attempting to issue municipal bonds, particularly due to opaque regulatory frameworks that limit municipal autonomy in urban borrowing (see Box 2.2).

Box 2.2. Subnational regulatory frameworks to promote access to financing: the case of Dakar

In 2015, Dakar lost access to municipal debt markets due to regulatory barriers. The capital of Senegal began the process to issue municipal bonds on the local exchange in order to access long-term debt. The city was the first in African history to carry out a Public Expenditure and Financial Accountability (PEFA) review of its financial management system with a view to accessing loans and other external finance (Edward, 2016[39]). The city improved its credit rating with the help of Moody's and received a 50% partial risk guarantee from USAID. The proposed bond issuance amount was set at USD 40 million to be repaid after seven years. Annual interest of 6.6% was offered to investors – between the concessional terms provided by AfD, 2.23% over 20 years, and market terms provided by the Islamic Bank of Senegal, 8.5% under five years (see Figure 2.9). However, Ministry of Economy and Finance considered that the city's level of indebtedness was too high and that the potential liability of the state was also too high in the event of a default for the 50% of the issue not covered by USAID's guarantee. Thus, the bond issuance was cancelled.

Figure 2.9. Municipal bond issuance in Dakar



Source: (Gorelick, 2018[40]) Supporting the future of municipal bonds in sub-Saharan Africa, 2018. https://journals.sagepub.com/doi/pdf/10.1177/0956247817741853

Sub-sovereign lending requires advanced legal and regulatory frameworks and capacities to access financing. Sub-sovereign lending mechanisms that attract private finance often require the creation of a separate legal entity structured to meet the requirements of commercial banks and investors. Access to such entities and a means of credit support (such as partial guarantees) are often needed for subnational governments in developing countries to access finance given their constrained fiscal position.

Although beyond the scope of DDC, Part 4.2 highlights that the OECD DAC can play a role to provide finance that mitigates the risks of external investment at the subnational level.

The following section provides an overview of the technical capacity gaps facing subnational governments in developing countries.

2.2.2. Sub-national capacity gaps in developing countries

Cities and regions in developing countries require technical capacities to provide basic services. Developing country sub-national governments are increasingly responsible for health, education, delivery of water and energy systems, yet lack the expertise to deliver effectively. For example, a recent study of urban service delivery shows that 42 African and Asian cities in developing countries have less than half of the necessary capacities in solid waste management and water and sanitation needed to function (Boex, 2016[41]). Subnational governance frameworks are weakest in developing countries which lack strategic policy orientation and skills to carry out sustainable decentralised management.

As decentralisation accelerates, the effectiveness of subnational government revenue collection and expenditure remain largely unknown. The coverage of the two main fiscal decentralisation databases, provided by the OECD and IMF, are limited mainly to developed countries (IMF, 2019[42]); (OECD, 2018[1]). Section 4.1 highlights the potential of new multilateral initiatives (e.g. the World Observatory on Subnational Government Finance and Investment) that increase the coverage and quality of cross-country subnational data. With these new sources of data, future research could address the following questions: Which fiscal policy instruments at the subnational level are most effective to raise own source revenues (i.e. property taxes, business taxes and avoiding a “race to the bottom”)? How can subnational expenditure better target key sectors to achieve the SDGs and avoid setbacks (e.g. spending in health and education sectors)? How to ensure the sub-sovereign lending does not come at the cost of debt sustainability?

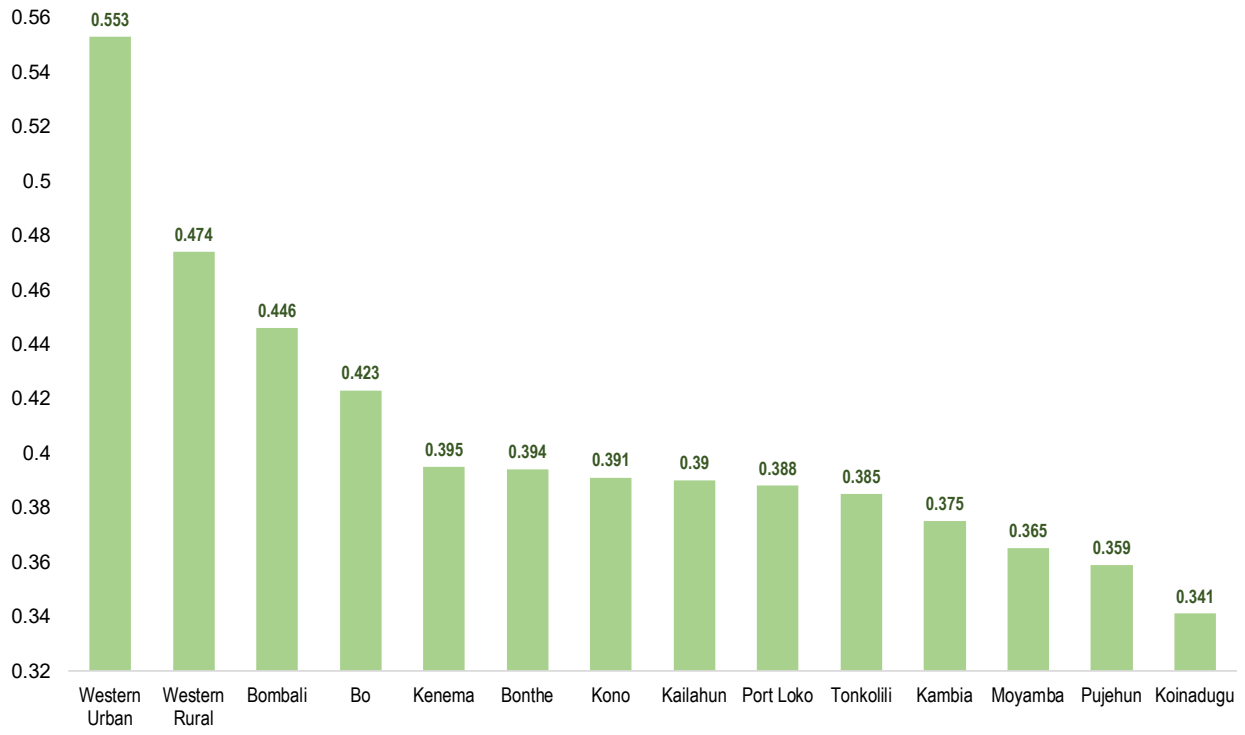
Developing statistical infrastructures and capacities, including to measure revenues and expenditures in developing countries at the subnational level, are needed to effectively address the financing gaps. In many developing countries, public revenues and expenditures at subnational level are not captured in systematic data collection. For example, only 10 out 72 low-income countries, LDC and LMICs (14%) publish sufficiently recent budget information to assess the level of total government spending from all sources at a subnational level for both health and education (Manuel et al., 2019[43]). Similarly, among the 23 least developed countries considered in the World Observatory on SNG Finance and Investment, fiscal data could only be collected in ten of them (World Observatory, 2019[31]). Budgets are often prepared with a one-year horizon which does not allow for clarification on how money will be spent.

The lack of robust and credible data leads to uncertainty over regulation and governance. An absence of clear models and outcome data makes complex and long-term planning, such as infrastructure projects, more complicated. Deficiencies in established data on transaction costs and financial returns make financial preparation difficult (Cities Climate Finance Leadership Alliance, 2015[44]). In addition, developing countries that are highly dependent on ODA or commodities, face planning challenges due to the volatility of resources at the national level.

Moreover, uneven subnational growth can worsen poverty and inequalities *within* developing countries. In many developing countries, the shift from rural to urban is compounding economic barriers

and increasing urban poverty levels (Cobbinah, 2015[45]). As cities gain access to greater financing, particular redistribution efforts are needed to ensure inclusive growth across urban and rural areas. Sierra Leone presents an example: benefits from extractive industries, such as iron ore and bauxite, have been unevenly distributed across urban and rural regions (Voors et al., 2017[46]). Figure 2.10 shows a considerable variation in the Subnational Human Development Index across the country's regions. Attracting external private investment in one city or region can contribute to long-term growth of inequalities. Development co-operation can support national capacities to redistribute wealth.

Figure 2.10. Subnational human development index for regions in Sierra Leone (2017)



Source: Author's creation based on data from (Smits and Permanyer, 2019[28]), *The Subnational Human Development Database,* https://www.nature.com/articles/sdata201938

The next section asks whether the increasing demand for resources can be met by international development co-operation. SDG implementation globally will rely heavily on local action that leaves no one behind. As cities and regions in OECD countries and developing countries alike seek to achieve the goals, opportunities are arising to join in support of common objectives. "Connecting the dots" will require better platforms for partnerships to tackle targeted development issues more effectively (OECD, 2019[47]). The section asks how DDC modalities can be utilised to leverage the increasing role of cities and regions in OECD countries to meet the SDG financing needs in developing countries.

3. Solution: Unlocking the potential of decentralised development co-operation

While many developing country subnational entities face growing challenges at the subnational level, decentralisation over long periods of time in OECD countries has increased available resources and expertise. Subnational governments in OECD countries, through DDC modalities, hold the potential to fill the gaps and accelerate collective SDG progress. This section examines through a SWOT analysis the potential “strengths” and “opportunities” of the DDC partnerships.

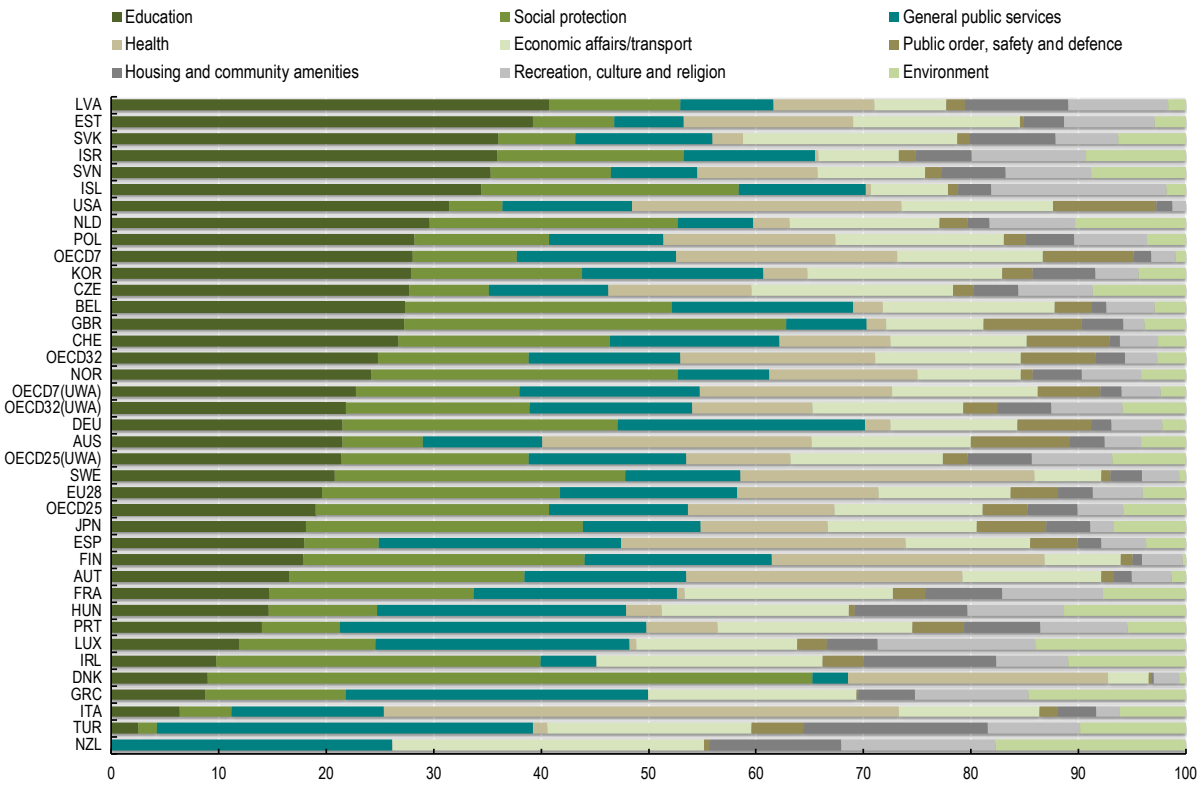
3.1. Decentralised capacities and expertise are increasing

OECD subnational governments are gaining competencies and expertise across several key sectors. While fiscal decentralisation is limited to a few OECD countries, territorial and institutional reforms, i.e. regional and municipal mergers, decentralisation - mainly in education, public transportation, and healthcare, etc. – and recentralisation processes have taken place over the last two decades, particularly as a result of austerity policies following the crisis (Allain-Dupré, 2017[48]); (OECD, 2017[49]).

An important portion of public spending and investment in OECD countries is delivered by subnational governments. Spending authority reflects increasing levels of expertise and capacities across sectors and new opportunities to exchange DDC expertise. 40% of public expenditure, including in sectors such as education, housing and community amenities and 57% of public investment. 55% of public expenditure and 64% of public investment in environmental and climate-related projects is provided by subnational governments in a sample of 30 OECD countries (OECD, 2019[2]).

Figure 3.1 demonstrates the sectors such as education, housing, and environmental protection, subnational governments are responsible for public spending and investment.

Figure 3.1. Breakdown of subnational government expenditure by function (COFOG), 2015



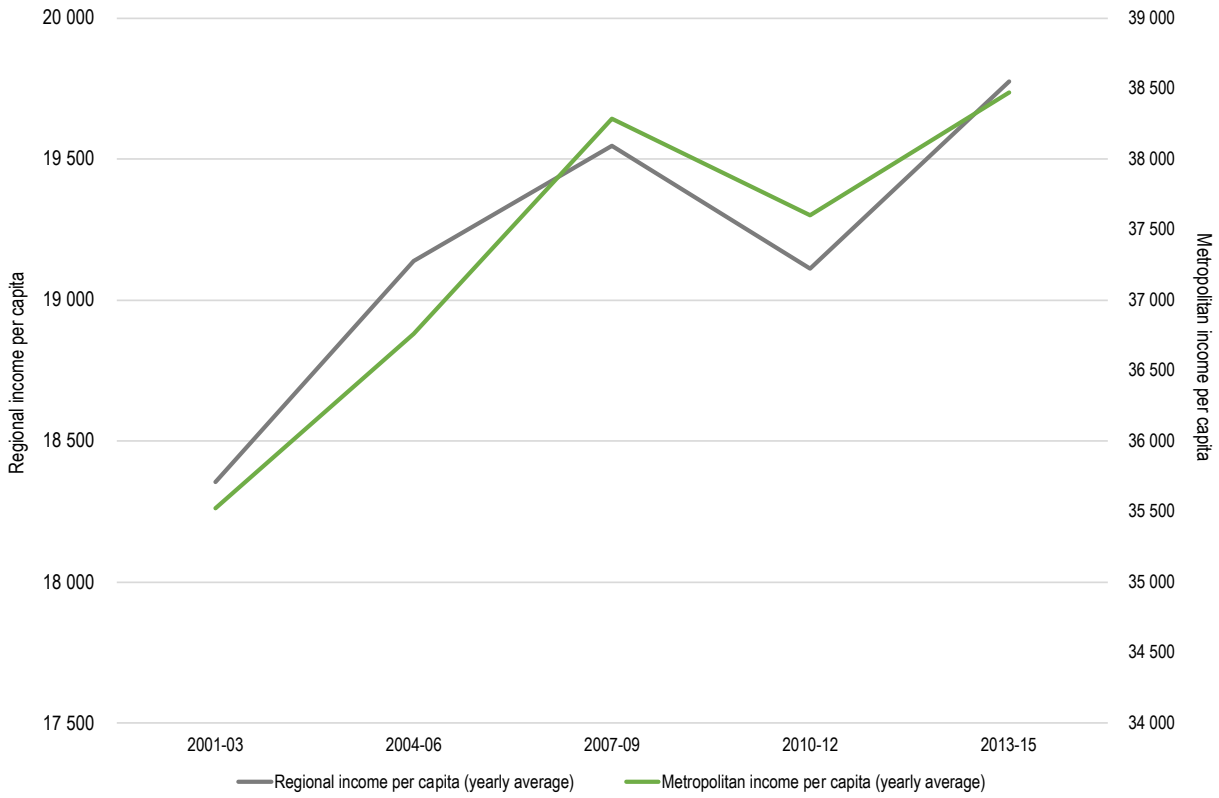
Source: Adapted from (OECD, 2018[50]), *OECD Regions and Cities at a Glance 2018*, https://www.oecd-ilibrary.org/governance/oecd-regions-and-cities-at-a-glance-2018_reg_cit_glance-2018-en

The wealth of some cities and regions in OECD countries has also increased. Figure 3.2 reveals that both regional and metropolitan income per capita in OECD countries are growing over the long term and despite the global financial crisis (increasing 7.7% among regions and 8.3% metropolitan since 2001).

Cities alone are estimated to account for 70% of global GDP (World Economic Forum, 2016[51]).[8] According to recent estimates, achieving the SDGs in cities could generate USD 3.7 trillion in savings and new sustainable business opportunities (World Business Council for Sustainable Development, 2017[52]).

Figure 3.2. OECD regional vs. metropolitan income per capita

(USD per head, constant prices, constant PPP)



Source: (OECD, 2019[53]), *OECD.Stat* (database), https://stats.oecd.org/

Several OECD subnational governments are amongst the world's largest economies, yet their contribution as decentralised development co-operation is unknown. On average, in 2015 and 2016, 24 of the top 40 global economies were regions (see Figure 3.3). Their average yearly GDP in that time span accounted for 29% of total GDP among the top 40 economies. However, financial data and indicators on how these sub-national regions contribute to sustainable development (i.e. exchange and aid to the poorest countries) is undefined. For example, in 2018 the GDP of California was USD 3 trillion, ranking as the fifth largest world economy. The state provides an important tax base for national ODA spending as well as engaging directly in international development co-operation[9]. While China is not a member of the

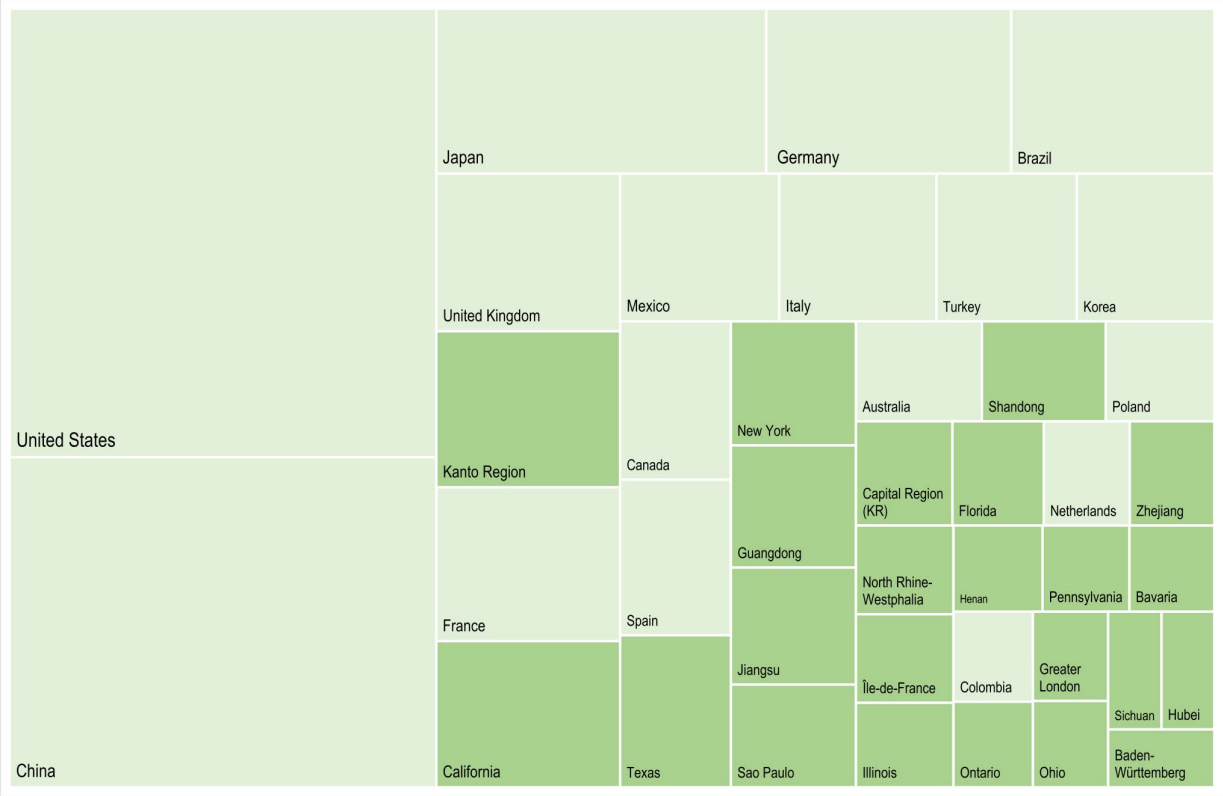
[8] An increase in income per capita or global GDP among subnational governments does not always imply that these governments have greater financial resources to engage internationally. For example, the Region Ile-de-France is required since 2018 to limit its operational expenditures (public grants included) to 1.2% which hinders incentives of DAECT funding.

[9] The California Governor's office has an International Affairs and Trade Unit which seeks to develop international agreements that promote economic cooperation internationally.

OECD DAC, its regions feature among the top global economies and are contributing to efforts to reduce CO2 emissions and to promote development co-operation internationally.

Figure 3.3. Top 40 GDPs: Countries and regions

Yearly average GDP (2015-16), constant prices, constant PPP



Note: Dark green indicates a subnational region while light green signifies a country. Data was extracted for years 2015-16 for greatest coverage. However, these years do not include coverage of all non-OECD countries. Data was unavailable from Russia, South Africa, India and others. The figure provides a comprehensive comparison among all OECD economies and available non-OECD economies (e.g. China and Brazil).
Source: (OECD, 2019[53]), OECD.Stat (database), https://stats.oecd.org/

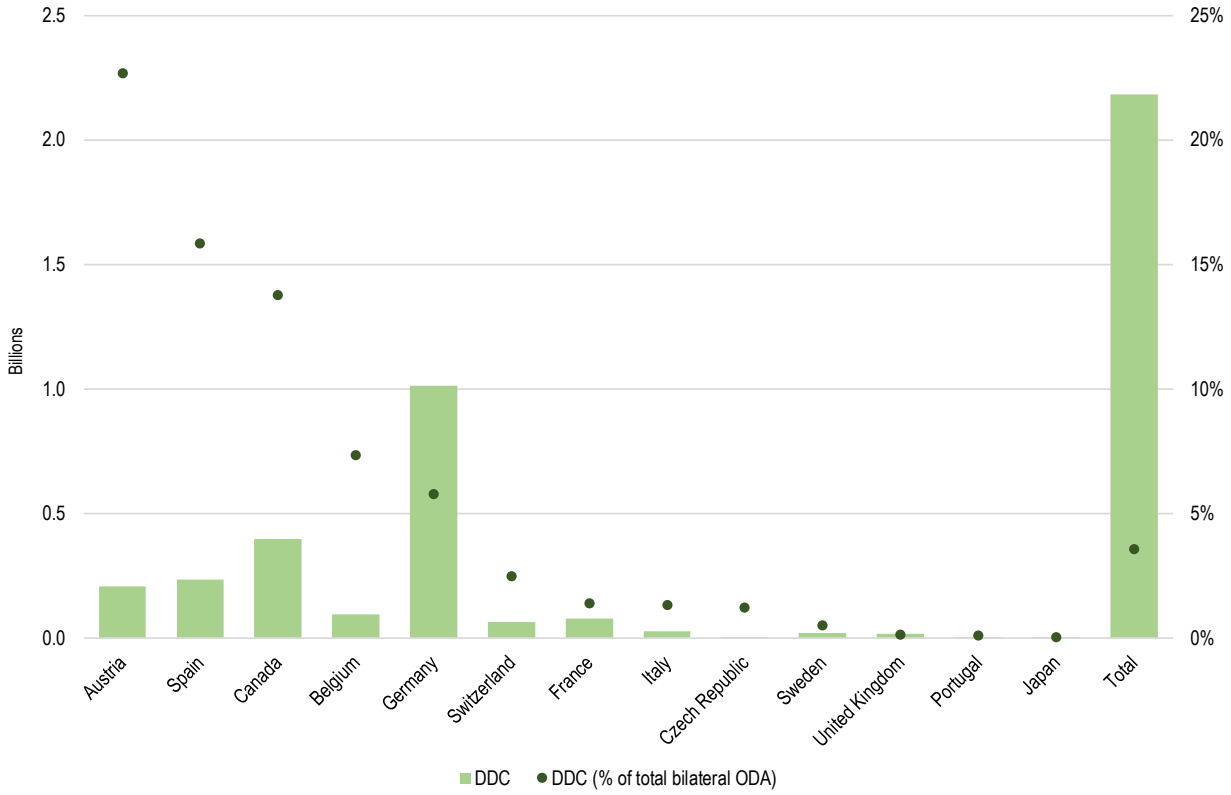
ODA remains the most comprehensive measure of DDC. Yet, fewer than half of DAC members provide DDC data. Coverage of ODA extended by local and regional governments has increased over the years. The number of countries reporting on DDC has grown from 9 to 17 (13 of which are DAC members[10]) since 2005. Fewer than half of DAC members report on cities and regions as ODA, leaving a gap in data on some of the world's largest cities and regions (see chart above).

Despite the reporting challenges, the volume of DDC is growing. Since 2005, total DDC volumes have grown in absolute terms (see Figure 3.4). Although some providers scaled back DDC activities following the global crisis, others increased ODA spending via subnational entities. The total DDC volume continued to increase over the past 12 years. It grew from roughly USD 1.8 billion in 2005 to USD 2.3 billion in 2017 (net disbursements, constant prices). In five OECD DAC countries, DDC represents 5% or more of total bilateral ODA across several DAC members - Austria (23%), Canada (14%), Spain (16%), Belgium (7%) and Germany (6%).

[10] See Annex 1

Figure 3.4. Decentralised development co-operation volumes are highest in the European Union, Canada and Japan

(2015-16 yearly averages)



Note: Total DDC volume includes three non-DAC members (Latvia, Lithuania, and the United Arab Emirates) in addition to the DAC members shown.
Source: (OECD, 2019[34]), *Creditor Reporting System* (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1

To raise the transparency of DDC activities, several European countries as well as Japan and Canada seek to improve reporting. [11] The EU encourages its members to report on the development assistance provided by local authorities. Decentralised co-operation is at the core of the European Union's external action.[12] Box 3.1 provides the example of Spain in improving ODA reporting among municipalities. Beyond the European Union, Canada and Japan have a longstanding commitment to promoting DDC and are among the top reporters of DDC as ODA. The Federation of Canadian Municipalities launched its first international co-operation programme in 1987. The Japanese Council of Local Authorities for International Relations created in 1988 was designed to support international endeavours among Japanese local authorities (Hafteck, 2003[5]).

[11] Until recently, Germany was the only OECD DAC member to report on DDC provided by individual cities and regions (3 city-states and 13 Federal States). In 2018, Spain introduced 17 new agency codes to disaggregate reporting by autonomous governments.

[12] Decentralised co-operation, as defined by the European Commission, is "development cooperation between local authorities from Europe and their counterparts from partner countries". In the EU's vocabulary, the term "local authorities" is defined very widely – it includes a diverse array of sub-national governments, from the powerful law-making regions (German Länder, or Spanish regions) to small towns and municipalities (European Commission, 2008[112]).

Box 3.1. Improving reporting on official development assistance among municipalities: Spain

The Spanish Federation of Municipalities and Provinces (FEMP) uses its ad-hoc platform to allow municipalities to introduce their own ODA data. This tool was built after an agreement among FEMP and the Spanish Ministry of Foreign Affairs signed in 2005.

Source: (FEMP, 2019[54]) Federacion Espanola de Municipios y Provincias

In light of the growing supply of resources and competencies, the next section explores the potential of DDC to deliver collective SDG impact.

3.2. A growing potential for decentralised development co-operation

The AAAA places the responsibility at all levels of government to collectively implement the 2030 Agenda. This section identifies the common SDG challenges facing subnational governments in developing and developed countries. It presents the added-value of DDC partnerships to fulfil a holistic and integrated approach to SDG implementation.

To meet the growing demand, DDC can address SDG challenges faced by subnational governments in both developing and developed countries. An estimated 70% of the world's cities are involved in some form of city-to-city information exchange, including cross-border partnerships (UCLG, 2016[55]). As mentioned previously, 60% of SDG indicators will rely on subnational implementation and DDC can help. DDC is at the core of the European Commission's efforts to advance progress on SDG 11, notably through its Local Authorities, Partners for sustainable cities Program 2018-2020 which finances partnerships between local authorities in EU and EU partner countries.

The mapping below identifies a selection of SDGs where DDC partnerships could be strengthened based on common needs and for mutual benefit.[13] The list is not exhaustive and other commonalities could be further identified:

- **SDG 11: Strengthen development planning for urban, peri-urban and rural areas.** The Global State of National Urban Policies carries out a global review of national urban policies (NUPs) which seek to improve urban planning and design in both developed and developing countries (OECD/UN-HABITAT, 2018[56])**.** It finds that out of the 150 countries with NUPs, 48 were African while 33 were European or North American. For example, both Rwanda and the Republic of Korea develop national urban policies and could further share knowledge to harness the economic opportunities of urbanisation through strategic planning to ensure sustainability and resilience (Jo, 2012[57]).
- **SDG 6: Access to basic water and sanitation.** Water and sanitation services provided largely by local and regional governments struggle to keep pace with increasing urban populations. In 2018, 61% of the world's population had no access to safely managed sanitation services while 30% lack basic sanitary installations (Laure, 2018[58]). By 2030 it is estimated that the global water supply will not meet the demand for 40% of the world's population. Both high-income and developing countries are home to water scarce cities that face common policy, technology and management challenges.

[13] While this paper focuses on the commonalities, it is important to note that subnational governments in developing and developed countries face many different development challenges. For instance, the prevalence of slum populations is a phenomenon concentrated predominantly in developing countries. Likewise, wealthier countries tend to hold a greater share of responsibility for carbon emissions.

- **SDG 7: Urban energy demand is growing and contributing to greenhouse gas emissions.** Today cities account for 70% of worldwide energy consumption, mainly powered by fossil fuels – and thus are responsible for 80% of CO2 global emissions (UNEP, 2015[59]); (Seto, 2014[60]). For low-income communities, fossil fuel dependence is likely to threaten energy security and the quality of energy access. Furthermore, financing for SDG 7 will need to double globally. Universal electrification needs are estimated at USD 52 billion per year. Of the additional investment, 95% needs to be directed to sub-Saharan Africa.
- **SDG 9: Ensuring adequate financing for low emission and climate resilient urban infrastructure**. Investing in climate resilient transportation, for example, is crucial to reduce CO2 emissions (e.g. improving transit in the periphery can offset CO2 from cars). However, many countries' central governments are unwilling or unable to guarantee sub-national borrowing in developed and developing countries. Indeed, USD 4.1-4.3 trillion will be needed for urban infrastructure per year. An incremental 9 to 27% (USD 0.4 trillion to USD 1.1 trillion) will be needed to make this urban infrastructure low emission and climate resilient (Cities Climate Finance Leadership Alliance, 2015[61]).

A SWOT analysis suggests that the strengths and opportunities of DDC outweigh the weaknesses and threats (see Figure 1.2). Local-to-local partnerships provide highly impactful forms of development co-operation that in many instances are better suited to deliver timely and targeted local solutions. DDC projects connect subnational governments to address common challenges and allow them to engage as peers. Partnerships that seek mutual benefit are less prone to entanglement in diplomatic concerns, and succeed in cutting through "political noise" which detracts from effective development co-operation. The core of DDC focuses on strengthening technical competencies to deliver basic services, sharing new technologies, strengthening subnational financing and planning, promoting local economic development and gaining capacities in climate and disaster risk reduction, among others. While DDC has several specific weaknesses which are further addressed in part 4. , recent trends suggest there is new potential to address the challenges and presents several recommendations to overcome them.

By targeting resources and co-operation at the subnational level, DDC brings aid closer to people and their daily concerns (i.e. bottom-up as opposed to a top-down approach). In an era of growing populism and nationalist tendencies, reinforcing trust in public institutions is fundamental. While the structure and degree of decentralisation[14] varies greatly from country to country, "localisation" of the SDGs, or the promotion of local solutions to global challenges, is required to ensure that subnational governments effectively deliver on the global goals and respond to the needs of local communities. Subnational governments are directly accountable to citizens who have the potential to exert greater influence (e.g. participating in public meetings, elections, establishing direct contact with officials) and are often perceived to have a better understanding of local spending needs and preferences than central administrations (i.e. located "closer to citizens").

An additional strength, subnational governments and their citizens carry out DDC in order to tackle global challenges that directly impact them. Citizens see DDC as a tool that empowers them to strengthen transparency and directly control development impact. For instance, over the past ten years the city of Coulaines, France has co-financed water supply infrastructure in the town of Kouré, Niger. The project has contributed to bringing water to 15 000 people and diminished the risks of waterborne diseases as well as enabling job creation. The elected officials in Coulaines note that the project is highly supported by citizens due to its contributions in areas related to migration, terrorism and protection of the environment.

[14] 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.), having some degree of autonomy (OECD, 2019[110]).

DDC partnerships increasingly bring mutual benefits including on commercial terms in technical expertise for basic service delivery (e.g. energy, transportation, waste management, water, etc.), technology, culture, and climate and disaster risk reduction. The examples below as well as Box 3.2 provide insights into mutually beneficial DDC partnerships across a wide range of sectors.

- In the energy sector, the United Kingdom has a number of programmes (e.g. Africa Clean Energy) that seek to develop commercial markets for off-grid solar products in African countries while creating market opportunities for subnational expertise and private sector engagement.
- The City of London Corporation's Sustainable Development Capital Initiative (SDCI), supported by DFID, the United Kingdom government-owned development finance institution CDC, and several private sector partners, aims to position London's financial markets to help mobilise investment and innovation required to meet the UN Sustainable Development Goals.
- Cultural exchange is also a growing market. Agence France Museum and other territorial museums are tapping into demand for technical capacities in emerging economies for commercial returns.
- Hamburg in Germany and Dar es Salaam in Tanzania have been partnering in solid waste management. Their co-operation began with technical support, and then led to an organic waste composting plant in Dar es Salaam. Though Hamburg funded the project at first, the cities now co-finance it, strengthening the ownership by Dar es Salaam's city council (Lainé, 2016[62]).

Box 3.2. Knowledge sharing for resilient cities

At the Third United Nations World Conference on Disaster Risk Reduction (Sendai, 14-18 March 2015), a new global framework was generated. The Sendai Framework calls for efforts to reduce exposure and vulnerability in general, while identifying unplanned and rapid urbanisation as key underlying drivers of disaster risk. To this end, the Sendai Framework calls for integrating hazard and risk considerations in all stages of the urban development cycle, including the investments made by multilateral and bilateral development assistance programs.

For example, the cities of Los Angeles and Mexico City participated in a city-to-city exchange facilitated by UNISDR and the Chief Resilience Officers (CROs) to encourage exchange of best practices in response to natural disasters including earthquakes and achieve multi-hazard resilience.

DDC networks create new opportunities for knowledge sharing and are based on peer-to-peer collaboration and learning. A plethora of DDC networks are emerging internationally that connect local officials to share expertise across borders. For example, C40 cities hosts network initiatives led by cities in several key areas: climate adaptation implementation, air quality, energy and buildings, food, waste and water, and transportation and urban planning. In the area of urban planning, the mobility management network is led by Paris and includes cities in developing countries such as Kolkata and Nairobi. Amman is another example of a city that has worked effectively with C40 cities to amplify impact. With the Connective Cities platform, GIZ, the German Association of Cities (DST) and SKEW carry out dialogues and knowledge sharing between municipal officials from Jordan and Germany on strategies for integrated urban districts, including energy and water smart districts.

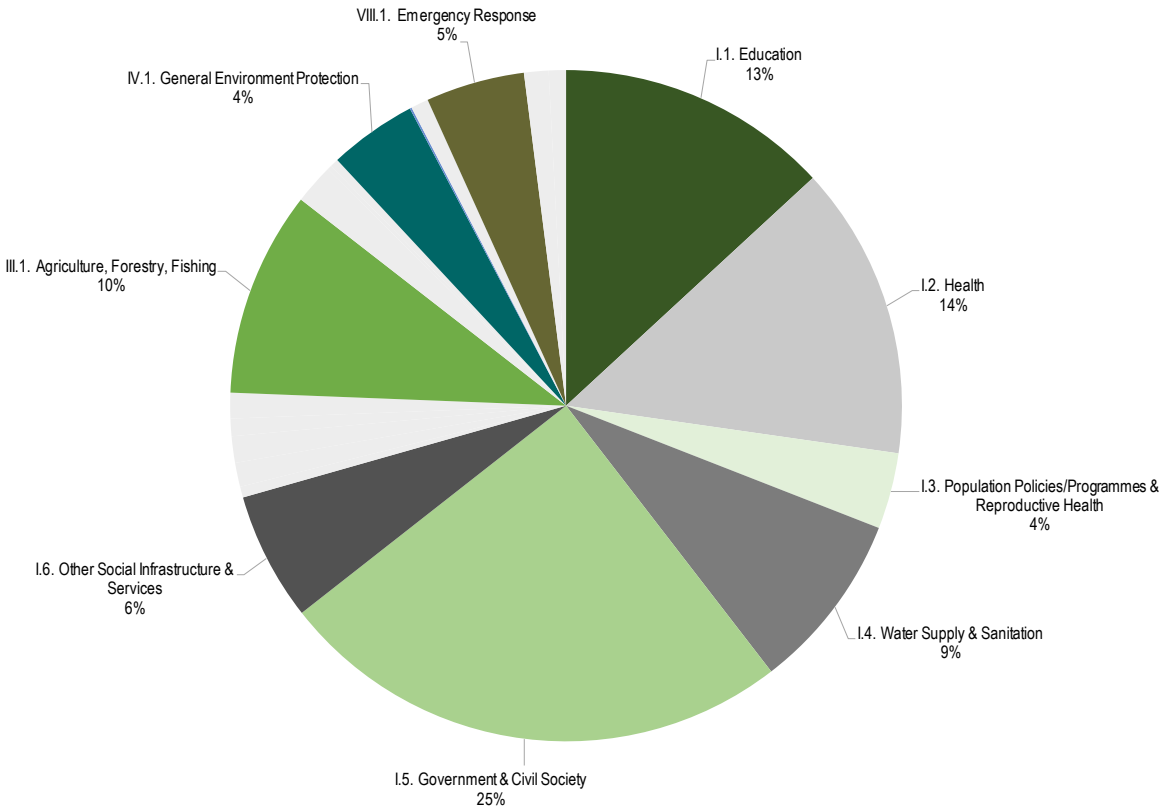
DDC partnerships can help to develop expertise in subnational financing through practice and experience sharing. DDC actors coalesce in support of approaches for achieving municipal financing and planning. The city of Malaga developed its Strategy Malaga 2020 which aims to reduce GHGs by 20% and lift at least 20 million people out of poverty by 2020. The city engages in DDC by sharing lessons learned internationally (Salafranca, 2012[63]). The Malaga Coalition led by the Malaga City Council, UNCDF and UCLG promotes the development of a network of cities from the north and the south to exchange experiences related to municipal finance (e.g. public accounting on national debt, pooled financing and

asset allocation strategies of institutional investors) (UCLG, 2018[64]). The Malaga Coalition has the express aim of strengthening mutual learning and capacity building for municipalities in developed and developing countries.

DDC can further strengthen the effectiveness of traditional ODA and country development strategies (adapted to multiple levels of governance, policy coherence, SDG reporting and alignment). The SDG alignment of DDC could help to ensure the value-added of DDC expertise across different sectors**.** The use of OECD CRS demonstrates the strong focus of DDC activities in climate and gender sectors. Figure 3.5 shows that DDC further targets several key sectors aligned with areas of basic service delivery, mainly governance and civil society (25%), health (14%), education (13%), agriculture (10%) and water supply and sanitation (9%). Further analysis could to assess the extent to which these sectors complement existing aid programmes at the national level and respond to local capacity needs.

Figure 3.5. Decentralised development co-operation prioritisation by sectors, excluding in-donor costs

2016-17 averages, disbursements



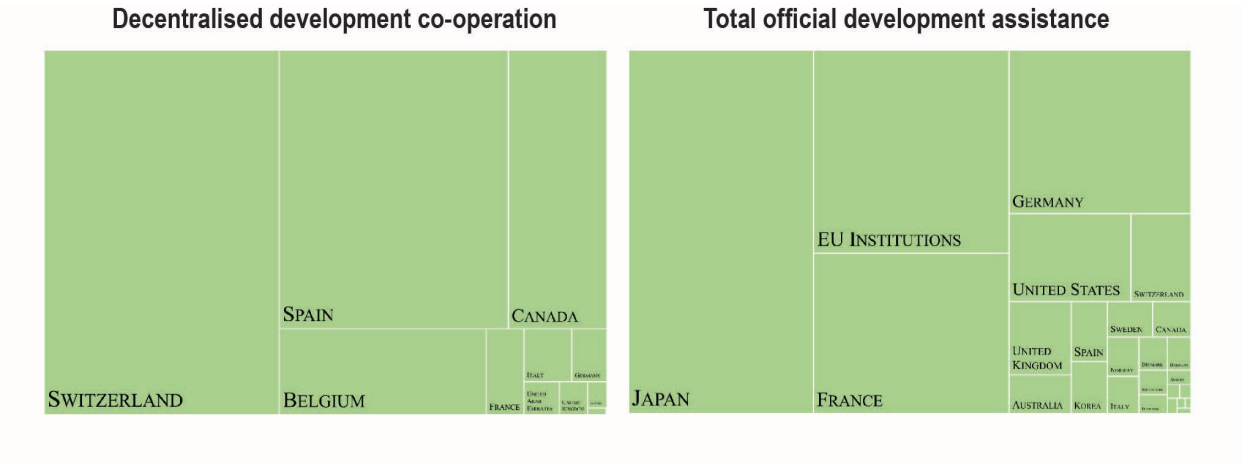
Note: The figure excludes in-donor costs. Germany represents roughly half of the DDC reported as ODA. Without Germany, education is reduced by 1% and agriculture becomes the third largest sector
Source: Author based on (OECD, 2019[34]), Creditor Reporting System (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1

New advances in machine learning shed light on the policy coherence of national and subnational implementation across SDGs. By examining project-level descriptions contained in the OECD CRS database, an algorithm is able to categorise project text according to the SDG targets and indicators framework. The Figure 3.6 reveals that subnational actors target a different set of SDGs than central aid agencies. DDC mainly targets SDG 4 Education (due to German support for academic exchanges) and

SDG 10 Reduce Inequalities (in support for integrating refugees). Germany represents over half of the volumes of DDC data collected which creates some bias in the SDG contribution of DDC. Section 4 details the challenges of DDC data collection with fewer than half of all DAC members providing data on DDC contributions.

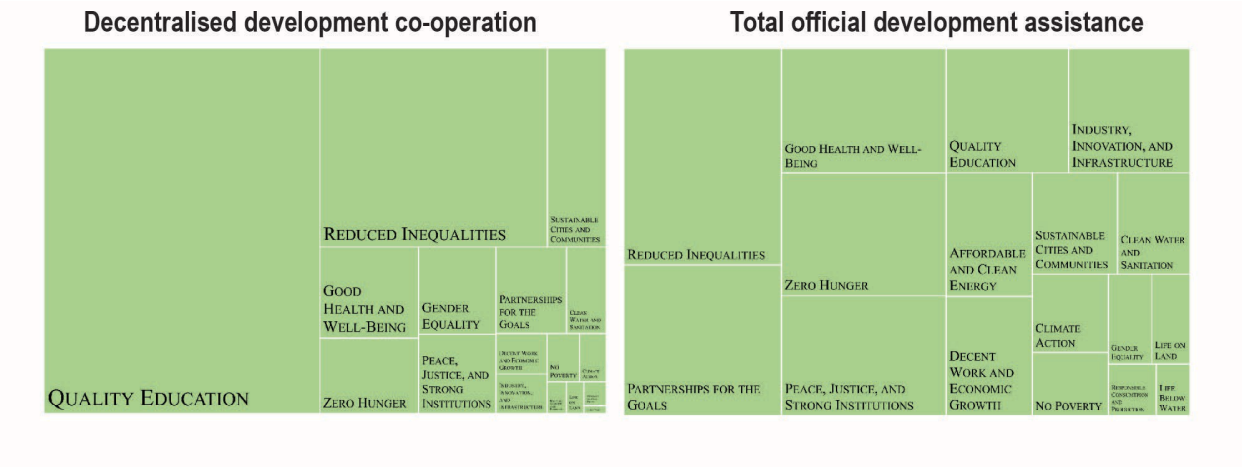
The SDG Financing lab raises the potential to identify best practices in SDG prioritisation between central and sub-national actors. Figure 3.7 shows the composition of ODA provided in support of SDG 11 at the subnational and national levels. The central government of Japan prioritises SDG 11, particularly in support of disaster risk reduction. Although most directly concerned by disaster and emergency relief, DDC actors in Japan are not among the largest providers of support to SDG 11, raising the question of whether Japan's DDC contribution is fully captured in ODA data.

Figure 3.6. Comparing decentralised development co-operation and total ODA



Source: (OECD, 2019[34]), *Creditor Reporting System* (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1; (OECD, 2019[65]), *SDG Financing Lab,* https://sdg-financing-lab.oecd.org/ .

Figure 3.7. Central vs sub-national actor prioritisation of ODA for SDG 11



Source: (OECD, 2019[34]), *Creditor Reporting System* (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1; (OECD, 2019[65]), *SDG Financing Lab* https://sdg-financing-lab.oecd.org/about

Finally, the technical component of DDC can provide support even after ODA is phased out. In countries that are transitioning from ODA, technical assistance and capacity building provided by local actors can help to achieve higher levels of economic performance (Euractiv, 2018[66]). For example, in 2014 the Inter-American Development Bank and the Korea Research Institute for Human Settlements (KRIHS) launched a program called KRIHS-IDB Urban Development Academy, or KIUDA to strengthen LAC-Korea dialogue by facilitating knowledge exchanges on strategies, experiences, and lessons learned in matters of housing and urban development which includes graduated countries (e.g. Chile and Costa Rica).

In order to unlock the potential of DDC partnerships, OECD DAC members must take action to address the longstanding barriers and challenges to this form of development co-operation. The following section calls for OECD DAC members to explore the possibility of moving toward new forms of multi-level co-operation. Doing so will require tackling the longstanding challenges of DDC modalities. The following section provides an overview of the weaknesses and threats to overcome in order to reinvigorate DDC partnerships.

4. Policy recommendations: the role of the national governments to support decentralised development co-operation

Unlocking the potential of DDC means promoting win-win partnerships that address the growing demand from developing countries. Ensuring the effectiveness of subnational expertise held in OECD DAC countries first means tackling the longstanding challenges that have limited DDC modalities in the past (e.g. alignment, corruption and fragmentation).

This section provides recommendations and a way forward for OECD DAC members to carry out implementation of the actions needed to become matchmakers for SDG partnerships at the subnational level. This section explores the challenges and proposes the way forward along three key action areas: i. address the data challenge, ii. design new policies to meet subnational demand, and iii. implement new forms of multi-level partnerships.

4.1. Address the data challenge

Transparency and accountability of financing remain longstanding barriers to effective DDC. The reputation of local governments as engaging in corrupt activities is often a product of weak financial transparency and insufficient national fiscal rules frameworks. For example, the Region Ile de France conducted an audit of spending over 2000-15 and found that 71% of funds provided to associations demonstrated irregularities (Galiero, 2016[67]). Sufficient accountability and transparency of financing are the first steps to ensure that DDC resources are used rationally, reliably, consistently and with high quality standards.

The small size and large number of decentralised actors, alongside a lack of incentives, have impeded the collection and reporting of data at the subnational level. Several DAC members consider that volumes are too small to track and that the collection of data from a growing number of actors

represents a burden. For example, the Netherlands VNG International (International Co-operation Agency of the Association of Netherlands Municipalities) provides capacity building and technical assistance for local governments in 33 countries, including in the context of fragility, migration and forced displacement. Yet, activities are considered too small to merit reporting (22 million EUR in 2017) (VNG International, 2018[68]).

As demonstrated in Part I, data and capacities for budgeting, accounting and reporting at the subnational level in many developing countries also represents a major data gap. Budgeting for basic service delivery in health and education is challenging without accurate and timely financial data, often requiring strong IT systems for subnational statistical systems. Given that cross-country data on domestic financing is available for all OECD countries, methods and techniques could be shared to strengthen the statistical capacities of subnational governments in developing countries.

Moreover, to ensure that resources are deployed efficiently, better measures of SDG progress at the sub-national level are needed. To that end, the OECD localised indicator framework for SDGs can provide cities and regions within the OECD and partner countries an assessment of their standing in relation to the SDG targets. This framework covers over a thousand sub-national governments– including over 600 large regions (TL2) and over 600 functional urban areas (FUA)[15] - and include more than a hundred indicators encompassing 60 out of the 100 targets identified as highly relevant for OECD regions and cities.

4.1.1. Share best practices

The transparency and accountability of DDC can be strengthened by sharing best practices and strategies to incentivise reporting by subnational governments on ODA (e.g. integrate subnational reporting in OECD DAC statistical peer reviews).

DAC members can share best practices on how to reduce the costs of reporting and how to better incentivise reporting by subnational entities. Box 4.1 highlights the example of Germany's DDC reporting practices which succeed in capturing 80% of the Federal States. Spain also recently introduced reporting which achieves a 100% coverage of the 17 autonomous communities. Belgium achieved 100% coverage and disaggregation of its regions: Flanders, Walloon and Brussels. Although France releases an annual report with DDC data disaggregated by city and region, these data are not disaggregated in the OECD CRS database and should be addressed in future OECD DAC Statistical Peer Reviews.

How do these and other countries succeed in reporting on ODA at the subnational level? Promoting mechanisms for dialogue among DAC members with institutions dedicated to DDC could provide a basis for improved reporting.

[15] Large regions (TL2) are equivalent to the first administrative tier of subnational government and functional urban areas refer to metropolitan areas of more than 250 000 people.

Box 4.1. Opportunities to improve best practice in decentralised development co-operation reporting: The case of Germany

Germany demonstrates good reporting practices; yet these could be further strengthened. Germany accounts for over half of total DDC volumes and encourages subnational governments to play a role in ODA provision. The country recognises the potential to increase the competitiveness of federal states by increasing exchanges with developing countries (Ghawami, Ionica and Heise, 2018[69]).

In terms of ODA reporting, Germany disaggregates agency codes by federal states and municipalities, with good coverage of federal states. 80% or 13 of the 16 Länder are included in ODA reporting. On average over 2014-17 North Rhine-Westphalia provided the largest portion of German DDC (27%) followed by the City of Hamburg which provided 23%. However, only 3 of the 1 1092 municipalities are covered in OECD CRS data.

How can the non-financial component of DDC activities be valorised beyond what is captured in ODA? The City of Bonn has gone through a comprehensive process to localise the SDGs with the new Sustainability Strategy, supported by the German national government through BMZ. The city uses the SDGs as a framework to address concrete challenges (e.g. mobility, affordable housing) as well as to promote the global responsibility dimension of the agenda (OECD, 2019[45]). While not included in ODA reporting, the city of Bonn is active in global project partnerships for municipal development co-operation in developing countries (German Federal Foreign Office, 2018[70]).

4.1.2. Increase outreach and awareness

Future work should seek to carry out engagement and outreach on ODA reporting that increases awareness among cities and regions. Dialogue with longstanding subnational actors in top OECD DAC reporting countries can help to shape incentives for better reporting. In many instances, subnational entities are unaware of opportunities to engage in DDC activities, including awareness of the development assistance committee and what constitutes activities eligible as official development assistance. Box 4.2 provides the example of France that has used outreach initiatives with subnational governments to effectively improve DDC reporting. The OECD DAC can support these efforts by providing inputs from OECD development co-operation and statistical peer reviews as well as promoting outreach among cities and regions to raise awareness of their contribution to the SDGs.

Box 4.2. Raise awareness of DDC among subnational governments: the case of France

Since 2015 subnational governments in France are required by law to report on ODA as a prerequisite for co-financing from the MEAE. In addition, an annual survey and report on French DDC is carried out by the Commission nationale de la coopération décentralisée (CNCD) which hosts a web-based platform for reporting, including an “Atlas of Decentralised Co-operation”. The CNCD provides guidance for reporting and information on co-financing DDC projects. Due in part to these outreach initiatives, 109 additional subnational governments have begun reporting since 2017 (Commission nationale de la cooperation decentralisée, 2018[71]).

4.1.3. Build statistical capacity

Better statistical capacity for finance and investment data among subnational governments in developing countries allows for better assessing spending needs and gaps. OECD subnational government expertise could be shared through collaboration with key capacity building mechanisms such as PARIS21 and the SNG-WOFI initiative.

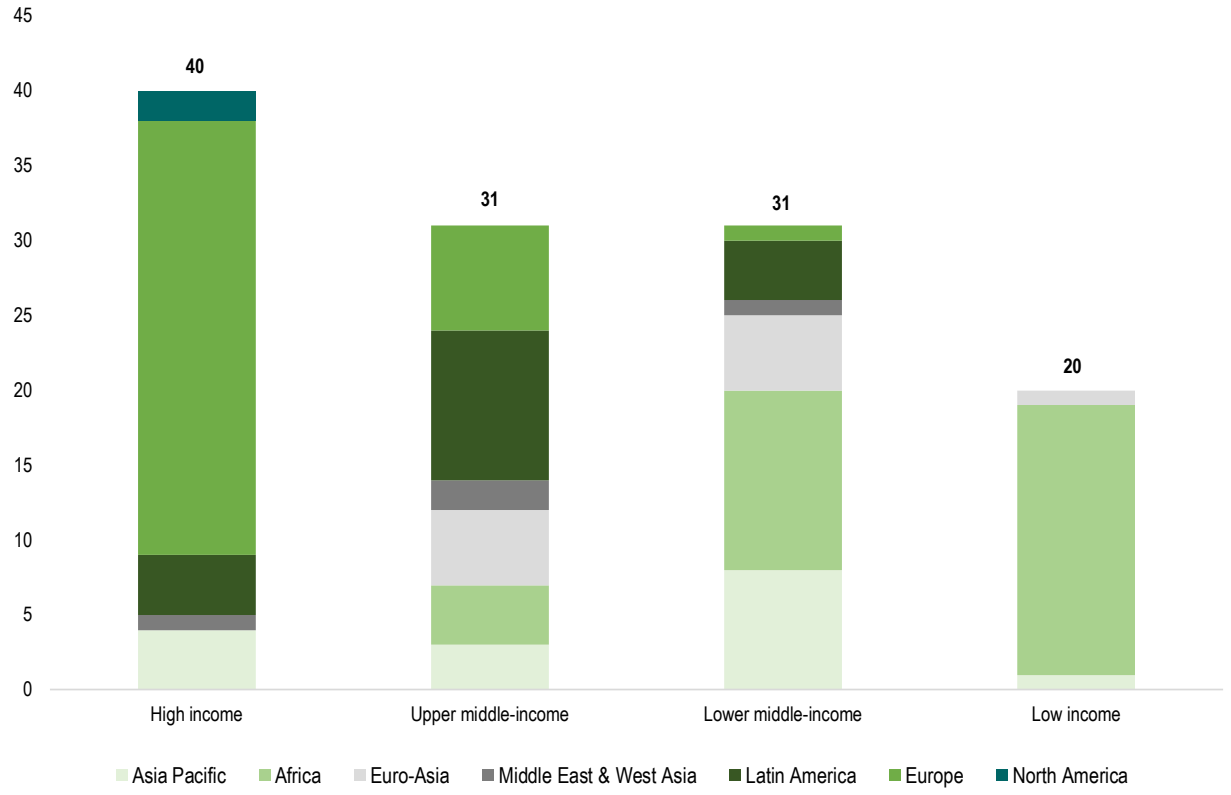
OECD DAC subnational governments can support efforts to build statistical capacities in developing countries by sharing best practices at the subnational level. Recent work carried out by PARIS21 seeks to strengthen subnational statistical capacities, notably by providing best practices from OECD members (Paris21, 2016[72]). The 2016 PARIS21 Engagement Strategy highlights the increasing demand from both central and local government for disaggregated data and the need for subnational components of national strategies for the development of statistics (NSDS). Subnational financing data in developing countries will be crucial to advise future OECD DAC analysis and recommendations (e.g. to tackle subnational regional inequalities and poverty dimensions).

In regard to domestic financing, global data collection efforts are responding to the demand for reliable and comparable financing data and capacity building at the subnational level in developing countries. The World Observatory on Subnational Government Finance and Investment (SNG-WOFI) seeks to improve collection of data and serve as a capacity building tool for subnational finance by developed and developing countries (Investment, 2017[73]). [16] Figure 4.1shows that the database contains data from 130 countries, including a greater focus on least developed countries (LDCs). 37% of countries are high-income economies; 26% and 24% belong to respectively upper and lower middle-income groups while 14% are low-income economies, exclusively from the African continent (Observatory, 2016[74]) . However, further efforts are needed to ensure adequate participation of developing countries subnational governments in capacity building efforts.

[16] The initiative is led by a Steering Committee supported by UNCDF, CEB (Development bank of the Council of Europe DeLoG, and AfD.

Figure 4.1. Geographical scope of the World Observatory's sample countries

Number of countries captured by region



Source: Author's based on (World Observatory on Subnational Government Finance and Investment, 2019[32]), World Observatory on Subnational Government Finance and Investment (database), https://stats.oecd.org/viewhtml.aspx?datasetcode=SNGF_WO&vh=0000&vf=00&l&il=blank&lang=en&vcq=1111

Several key dimensions of the SNG-WOFI database are presented below:

- **Level of coverage**: The 121 countries of the sample represent 5.965 billion inhabitants i.e. 82% of the world's population spread over the seven main regional areas in the world. The sample represents in total 87.5% of the world GDP (Observatory, 2016[74]).
- **Fiscal indicators**: Subnational government expenditure (including by sector: public order and safety, environmental protection, culture and recreation, housing and community amenities, economic affairs/transport, health, general public services, social protection, education, etc.) and by type of expenditure (staff expenditure, intermediate consumption, investment, social benefits, etc.), revenues (including by source: shared and own-source taxes, grants, tariffs and fees, property income, social contributions), debt financing. Data are expressed as ratios (share of GDP, share of general government, share of subnational government) and in USD PPP per capita. . Subnational governments encompass the state government level (in federal countries) and the local government level (in federal and unitary countries).
- **Data sources:** Aside from UCLG material including from its regional sections and OECD databases (including OECD national accounts) and reviews, the main international sources were the International Monetary Fund, Eurostat, the Council of Europe, the Committee of the Regions of the European Union, the Commonwealth Local Government Forum and UN reports and databases (UN-Habitat, World Bank, etc.) (Observatory, 2016[74]).

Future collaboration and dialogue between existing initiatives, such as PARIS21 and SNG-WOFI, should be explored to harmonise approaches and recommendations for statistical capacity building aligned to priorities in developing countries.

4.2. Promote policies and mechanisms for exchange of financial and technical resources

The development effectiveness of DDC is historically a key concern. A critical analysis of the DDC model has revealed dysfunctional, fragmented, and unorganised tendencies with high transaction costs**.** Critics argue that DDC providers often use aid to serve their own agendas, ensure domestic legitimacy, protect foreign identity, or promote nationalistic agendas. (UNDP-ART, 2013[75])

DDC strategies are sometimes developed and implemented without an appropriate consideration of partner country needs. DDC activities in the water sector have been noted to lack transparency, jeopardising the accountability of public officials (OECD, 2018[4]). Similarly, a lack of long-term engagement, misaligned professional skills and inadequate co-ordination are weaknesses that have been raised in other projects (Sanahuja and Martínez Martínez, 2010[76]).

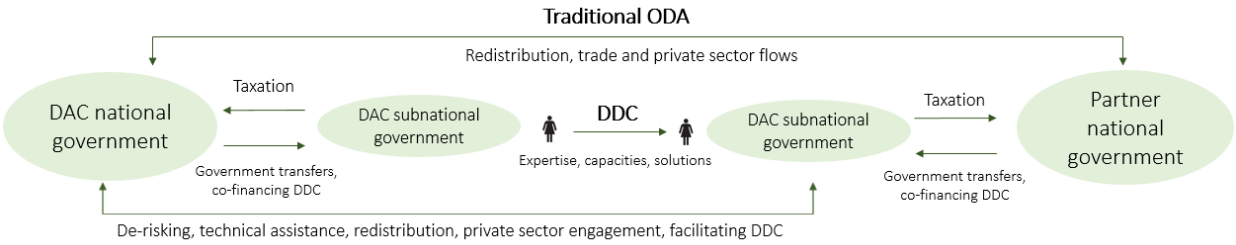
In addition, financial incentives that encourage sharing of knowledge and capacities are not always adapted to the local context and can leave out smaller actors. Technical expertise should be based on the added-value and synergies between external and domestic actors. In certain cases, local staff can have a reluctance to import solutions that are considered foreign or not locally designed. Furthermore, local staff within the public sector in certain instances lack the capacity, i.e. tools and expertise, needed to utilise new practices (GIZ, 2012[77]). In most instances, subnational governments provide co-financing to participate in DDC projects. However, local governments with smaller national budgets are left out (Platforma, 2019[78])

Moreover, demand for subnational financing in developing countries cannot be met by DDC alone. DDC is one tool among many (including support for decentralisation reform and other joint work between national governments) required to ensure adequate financing at the subnational level. Part 1 highlighted the barriers faced by subnational governments in developing countries to gain access to external finance. The portion of bilateral ODA provided to cities and regions is very low. Poor creditworthiness and weak regulatory framework limit resources to fill the financing gap. For example, while approximately USD 17 billion of total flows in the green bond market were directed towards cities in developed countries, only USD 2.2 billion have been directed towards cities in developing countries[17] (Climate Policy Initiative, 2016[79]).

Figure 4.2 shows the channels through which financing transits as well as the roles of the different actors across levels of government. Maximising the SDG impact of DDC will require support for a subnational enabling environment that takes into account all domestic, external, public and private resources available to finance sustainable development. The diagram suggests that maximising DDC will also require action by OECD DAC and traditional ODA.

[17] Pooled financing mechanisms provide an important source of financing in OECD countries. For example, United States cities raised more than USD 111 billion in municipal bonds to finance key infrastructure projects.

Figure 4.2. Decentralised co-operation brings development impact closer to people



Source: Authors' design

Finally, the DAC has a role to tackle the risk that DDC contributes to rising inequalities within developing countries (e.g. urban-rural divide) and ensure proper incentives. As demonstrated in Part 1, trade and investment opportunities are often concentrated in cities or subnational regions that succeed in attracting the private sector. Although beyond the scope of DDC, ODA provided by national aid agencies has a major re-distribution role to promote local-to-local exchanges that are fully inclusive of developing country cities and regions. There is an optimum allocation of development resources and expertise at all levels that varies from country-to-country. As DDC networks expand, ODA provided at the national level will be key to ensuring that the poorest subnational entities are not excluded from partnerships and exchange. OECD DAC members can play a role to facilitate pooling and exporting of expertise that ensures DDC reaches the poorest segments of the population including areas that are not competitive (i.e. to ensure that DDC does not lead to growing regional imbalances).

4.2.1. Facilitate knowledge exchange and pool expertise

OECD DAC members can facilitate exchange of best practices and lessons learned from a wide array of decentralised exchange programmes and agencies at the subnational level, including to address some of the weaknesses mentioned above - small scale, fragmentation, operational costs, etc. Ensuring alignment requires a more comprehensive mapping of success and failure across knowledge exchange partnerships and mechanisms. Multilateral platforms can also help to ensure that capacity building and technical assistance provide results (e.g. Tax Inspectors Without Borders[18]).

Examining the value-added of initiatives to "pool" and/or "export" subnational financing and expertise is important to ensure mutual benefit and/or opportunities for commercial returns.

The list below presents the decentralised platform organisations prominent among OECD DAC members which represent a wealth of untapped expertise:

- **Canada: Global Affairs Canada** finances international programmes carried out by the Federation of Canadian Municipalities. It connects Canadian municipal leaders and experts with local elected officials and municipal staff (e.g. Haiti-Canada municipal exchange 2014-2020). It facilitates peer-to-peer technical assistance to share knowledge, solve problems, deliver services and forge business connections (Federation of Canadian Municipalities, 2019[80]).

[18] Tax Inspectors Without Borders (TIWB) deploys experienced tax auditors to work with countries' revenue authorities, including at the subnational level, particularly the Tax Administration Diagnostic Assessment Tool (TADAT) has witnessed growing demand from subnational entities. TIWB in total has mobilised USD 414 million in additional tax revenue. Its return on investment is thus more than 100:1.

- **France: Expertise France**, created in 2014, acts as the French agency for international technical co-operation and deploys municipal experts to help in 500 projects related to democracy, peace and security, climate issues and health in developing countries (Expertise France, 2017[81]) Its strategic framework aims to ensure that the promotion of expertise abroad strengthens local institutions rather than crowding them out. It develops guidance for pooling expertise to meet local needs in a specific sector connecting a wide array of actors, including subnational governments, academia and research institutions, CSOs, and private sector actors (Expertise France, 2017[81]); (Expertise France, 2019[82]). Since 2011 the DAECT has put into place a programme called **PACT3** which provides a certification of technical expertise to French subnational governments and assists them in establishing decentralised co-operation partnerships for exchange of expertise internationally.
- **United States: The U.S. Agency for International Development and the International City/County Management Association (ICMA**) created CityLinks to share American cities' best practices and urban management expertise, including in China, Europe, Mexico, South Asia, etc. (ICMA, 2019[83]).
- **Japan: JICA** promotes mutually sharing problem awareness and effective solutions while tackling with development challenges. JICA's volunteers are expected to revitalise local regions in Japan by using their overseas working experience (JICA, 2016[84]).
- **Germany:** From 2012-2022, the "Service Agency Communities in One World" (SKEW) is commissioned by the German Federal Ministry for Economic Co-operation and Development (BMZ) to provide specialist knowledge to over 400 existing partner municipalities.
- **Spain: Co-operation and Solidarity Funds** were created in 1986 to improve the efficiency and effectiveness of DDC by jointly managing the international development co-operation budget of municipalities. Since 1995, nine funds including public and private actors work under the umbrella of the Confederation of Funds and seek to coordinate action, foster peer to peer learning and promote joint DDC activities. (La Confederación de Fondos de Cooperación y Solidaridad, 2019[85]). One example, the Andalusian Fund of Municipalities for International Solidarity (FAMSI) is a non-profit association created with the aim of strengthening of development co-operation fostered from municipalities, confederacy, and Andalusian deputation, and to support the promotion of solidarity as a generalised attitude. Work carried out in co-operation with a network of institutions (FAMP, NGDOs co-ordinator, etc.)
- **The Netherlands: VNG International** (International Co-operation Agency of the Association of Netherlands Municipalities) provides capacity building and technical assistance for local governments in 33 countries, including in the context of fragility, migration and forced displacement. With the support of the European Commission, VNG International and Platforma developed the CONNECT mechanism which facilitates exchanges between municipal colleagues from Brazil, Cambodia, Colombia, Ghana, Iceland, Moldova, the Netherlands and Spain (Platforma, 2019[78]).
- **Belgium**: VVSG is an association of 308 Flemish cities and municipalities that aims to support members in carrying out international development co-operation, particularly institutional capacity building. At present, the network includes 40 city-to-city partnerships between Flanders and cities and municipalities in developing countries (Latin America, Africa and Asia)

4.2.2. Carry out structured assessments of technical expertise

A structured assessment of DDC networks, associations and institutions could identify effective tools and best practices for implementation and partnerships, including new business opportunities. OECD DAC members have begun developing new strategies to more effectively meet local demand. For example, Flanders Department of Foreign Affairs (FDFA) targets one sector per country (e.g. healthcare in Mozambique and food and agriculture in Malawi) based on a demand-driven approach. How can DAC members learn from experiences in pooling and exporting decentralised technical assistance?

Another example, partnerships with the private sector allow subnational governments to tap into business opportunities for integrated urban development (see Box 4.3) The 2030 Agenda can be a powerful tool to attract investors who seek to provide SDG-compatible finance. Through its "Local Authorities: Partnerships for sustainable cities" programme, the EU seeks to promote new business opportunities through partnerships among Local Authorities of EU Member States and partner countries globally (European Commission, 2018[86]).

Box 4.3. New business opportunities via the International Urban Co-operation (IUC) Programme

New forms of city-to-city co-operation seek to share technical capacities for peer-to-peer learning. The International Urban Co-operation (IUC) programme, funded by the European Union, connects city policy makers with major international financial institutions and partners to tap into business opportunities for sustainable urban development (IUC, 2019[87]). Today the programme includes 66 city pairings in support of co-operation in many areas (e.g. developing the circular economy in Bologna Italy and South Delhi India).

OECD DAC members could explore new technologies to remove geographical barriers to exchange at the subnational level. A digital approach can help to facilitate long distance partnerships that connect supply and demand in a virtual setting. For example, the Committee of Regions launched a Decentralised Co-operation Stock Exchange platform for information exchange. The now-active "Stock Exchange" is a web-based portal that connects local and regional authorities in the EU with their counterparts in developing countries. Through this portal, subnational governments can submit proposed projects, whether as offers or demand. These proposals are subsequently made available to other subnational governments on the virtual platform, who engage based on relevance. Project proposals must include information on the type of offering/requesting subnational authority, description and goals associated with the project, sector of activity, and estimated financial and human capital needs (European Committee of the Regions, 2019[88]). In this way, the platform functions as a pooled reservoir of SNG expertise that local and regional actors can draw from.

4.2.3. Promote access to subnational financing while ensuring safeguards

Although beyond the scope of DDC, ODA provided by national aid agencies can attract larger private sector actors and soften the terms of borrowing by reducing administrative burden and debt service costs. Meeting the demand from subnational governments in developing countries will also rely on developing subnational financing capacities to attract broader external finance. For instance, pooled financing vehicles, such as municipal bonds in developing countries have mobilised nearly USD 3 billion and represent an untapped potential (FMDV, AfD, 2015[89]). Pooled finance mechanisms deliver joint access to borrowers that share similar objectives and credit characteristics, but lack the financial stability to access credit markets.

Guarantees and other risk mitigation tools provided by central aid agencies, while beyond the scope of DDC, are key tools to raise external resources for basic services such as water & sanitation, energy, transport, telecommunications, education, marketplaces. The Box 4.4 below presents the example of successful subnational pooled finance operations in the water and sanitation sector in India with the support of USAID and the World Bank. USAID's Financial Institutions Reform and Expansion Debt (FIRE-D) project with India raised USD 6.4 million for infrastructure through municipal bonds and credit enhancement (USAID, 2018[90]).

Box 4.4. Promoting sub-national pooled finance operations in India

In 1996, the State of Tamil Nadu, the World Bank, and USAID set up the Tamil Nadu Urban Development Fund (TNUDF) to attract private domestic finance for infrastructure projects. The public-private partnership targeted 13 Urban Local Bodies (ULBs) of small and medium sizes. However, due to the bond issuance fees, legal costs and lack of credit ratings, smaller ULBs were excluded from accessing the capital markets. To overcome these challenges, the State Government of Tamil Nadu (GoTN) created a pooled entity: the Water and Sanitation Pooled Fund (WSPF). The WSPF functions as a special purpose vehicle to help small urban local actors finance their water and sanitation services by raising capital market resources and spreading credit risks to achieve economies of scale (World Bank Group, 2016[91]); (OECD, 2018[92]).

As OECD DAC members seek to align private sector resources, opportunities can be tailored to the sub-national context. Blended finance aims to use concessional funds in a catalytic manner to open up new opportunities for commercial financing in support of sustainable development (OECD, 2016[93]). The OECD DAC Blended Finance Principles call on DAC members to support local development priorities and ensure blended finance promotes a sound local enabling environment for responsible borrowing. The effectiveness of blended finance at the subnational level will be essential to meeting the growing demands for financing.

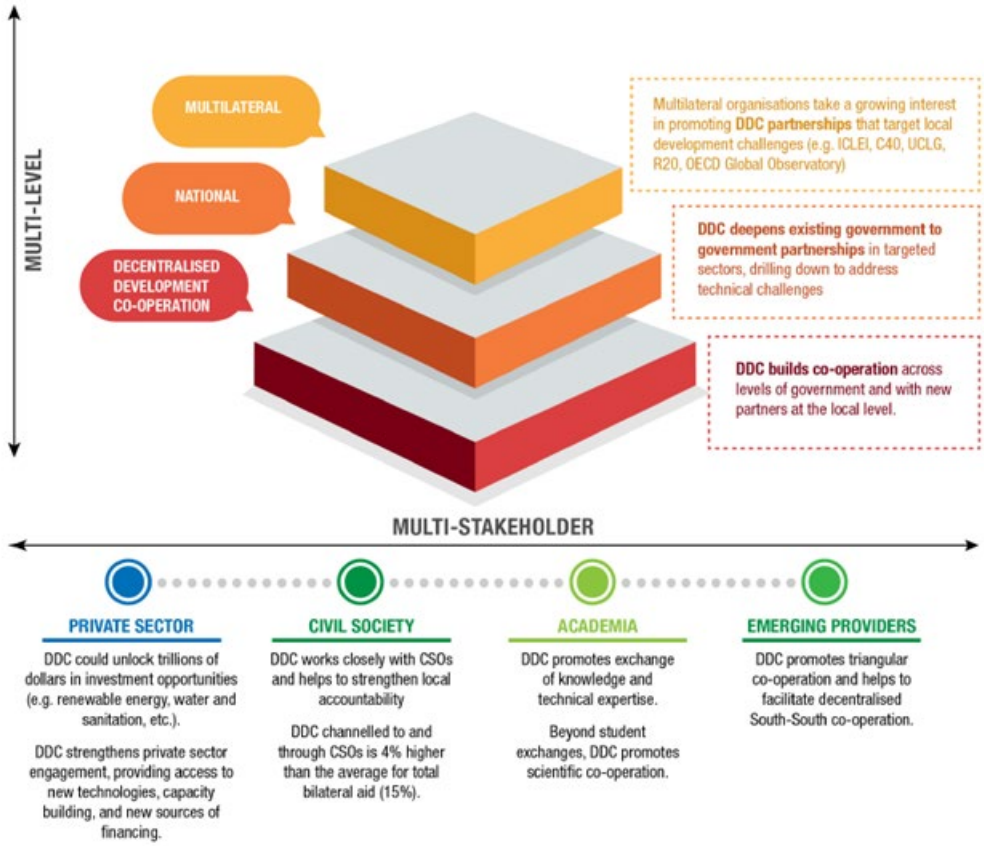
However, the impacts of sub-sovereign financing on absorptive capacity must be further explored. Although the New Urban Agenda recognises innovative sub-sovereign financing mechanisms as potential catalysers of financing, future work should seek to examine country-level capacities, notably to ensure long-term debt sustainability (e.g. sub-sovereign debt risk is often underestimated due to sovereign guarantee contingencies that hide risks). The OECD is well-placed to assess the financing needs and advise best practices in establishing pooled financing mechanisms. Future country-level work should examine the options and provide policy guidance and tools.

4.3. Strengthen decentralised multi-stakeholder and multi-level dialogue

A new “pyramidal” or multi-level approach to development co-operation and partnerships would allow DDC to further strengthen actions with new actors across levels of government. Figure 4.3 conceptualises this approach, showing the importance of co-ordinating across various levels (i.e. multilateral, national, local) of development co-operation, across supply (DDC) and demand (developing countries), and across new actors (CSOs, academia, private sector, and emerging providers).

The OECD DAC could play a “matchmaking” role using new and existing mechanisms for triangulation - connecting needs across levels of government – that are emerging to the benefit of all parties.

Figure 4.3. Building the pyramid: DDC deepens multi-level and multi-stakeholder partnerships



Source: Author's design

4.3.1. Institutionalise multi-level dialogue for policy coherence

A lack of national level co-ordination and oversight create risks that subnational actors do not respond to local priorities. China's Belt and Road Initiative (BRI), although widely perceived as a top-down "grand strategy", presents an example of the newly emerging model of decentralised co-operation in the infrastructure sector. Provincial governments in China have increasing power, resource control and policy making and implementation responsibilities. For example, provincial governors (at the same political level as government ministers) can manage transboundary economic and security relations (Zeng, 2019[94]). As Chinese subnational governments seize new opportunities to export experience and promote business development abroad, competition between subnational governments can demonstrate a lack of national co-ordination and result in duplication of efforts (e.g. rival agreements between Guangxi and Guangdong provinces resulting in two major Malaysian ports).

To ensure the policy coherence of DDC actions, ongoing efforts seek to improve SDG reporting at the subnational (voluntary local reviews) and national (voluntary national reviews). National governments should use the 2030 Agenda as a framework to promote policy coherence across levels of government, align priorities and rethink sustainable development from the ground-up. The OECD Programme on A Territorial Approach to SDGs shows that subnational actors are taking the lead to implement SDG progress, including**:** Flanders 2050 Strategy (Belgium), Kitakyushu's Basic Environmental Plan (Japan), Bonn's Globally Sustainable Municipality strategy (Germany) or Córdoba's Memoria de Gestion Gubernamental (Argentina). Another example, New York City, together with the city of Kitkayushu,

were among the first cities worldwide to report to the UN on its progress towards achieving the SDGs, which it did by submitting a 'voluntary local review' (VLR). See Box 4.5on the role of DDC and multi-level partnerships to promote localisation of the SDGs in Spain.

Box 4.5. Localising the SDGs: The Seville Commitment

On February 25 in Seville, Local 2030 Initiative, in collaboration with the governments of Spain, Ecuador and Cabo Verde, and with the Global Taskforce of Local and Regional Governments (GTF), held a meeting to stimulate dialogue on the localisation of the SDGs. High-level participants agreed to the Seville Commitment which highlights decentralised development co-operation as a key tool to support implementation of the 2030 Agenda, as well as to promote multi-level co-operation between national and sub-national governments, associations and other actors.

National governments must ensure better participation of subnational governments for co-ordinated SDG implementation. Voluntary national reviews (VNRs) provide opportunities to engage regions and cities in monitoring and data collection to align priorities and rethink sustainable development from the ground-up. This opportunity could be further developed - see Box 4.6. According to the Council of Regions-OECD Survey, only 21% of local and regional governments responding are engaged in the VNR.

Local and regional levels often co-operate on SDG implementation:

- 60% local governments co-operate with their regional level;
- 55% respondents co-operate with other regional/intermediary/local authorities;
- The co-operation with the national level is weaker: only 23% of the respondents stating to have joint projects with the national level;
- Most frequent partnerships are with the civil society or NGOs (39%), while collaboration with private sector is weaker (28%).

Box 4.6. A territorial approach to unlock decentralised development co-operation's potential

A territorial approach can help to support cities and regions to localise achievement of the 2030 Agenda and discover DDC opportunities. OECD work seeks to support cities and regions in "localising" the SDGs (Akhmouch and Marta, 2019[95]). This means: tailoring them to place-based contexts; understanding how they translate in their territorial specificities and realities; measuring distance from the national average and peer cities or regions; and providing tailored guidance to mainstream the SDG lens into territorial planning, strategy setting and policy making. The programme helps cities and regions "(re)think" their approach to sustainability and well-being at the scale that matters the most. The OECD Programme Territorial Approach to the SDGs is carrying out pilot studies to help cities and regions in implementing the SDGs in their territories. The implementation of these pilots can further contribute to understanding and knowledge sharing on DDC best practices and learning opportunities (OECD, 2019[96]).

The programme has three primary objectives:

- The first objective is to measure where cities and regions stand vis-à-vis their respective national average and their peers;
- The second objective is to analyse how cities and regions use SDGs as a tool to rethink sustainable development from the ground up
- The third objective of this programme is help facilitate a dialogue between lower and upper levels of government to build consensus on who does what, at what scale and how.

A joint OECD DAC-RDPC dialogue could strengthen recommendations and principles to ensure local policy does not counteract national policies and vice versa. Created in 1999 the Regional Development Policy Committee (RDPC) seeks to reduce regional disparities in all region types, from cities to rural areas. The RDPC identifies strategies to sustain competitive advantages and promote effective and innovative governance at all levels of government. The RDPC promotes an institutional framework for transversal work and participation at all levels (OECD, 2018[97]). The OECD DAC and RDPC could engage in closer policy dialogue to identify opportunities to strengthen the synergies of multi-level governance and international development co-operation.

The OECD DAC and RDPC have developed and engaged in several recommendations and policy frameworks that converge to support greater policy coherence across levels of government between national and subnational actors:

- **The OECD Recommendation on Effective Public Investment Across Levels of Government** was adopted by the OECD Council in 2014 as an official OECD instrument (OECD, 2019[98]). The Recommendation is the first OECD instrument in the area of regional policy and multi-level governance and includes 12 Principles, grouped into three pillars, that represent the systemic challenges to efficiently managing public investment at the national and subnational levels: i) co-ordination challenges; ii) capacity challenges; iii) challenges in framework conditions (OECD, 2019[98]).
- **Development effectiveness principles must recognise the important role of subnational actors within the global partnership for sustainable development**. While cities and regions do not carry out the GPEDC monitoring review, one mechanism aims to ensure the effectiveness of DDC by linking subnational and central actors for policy coherence. The Global Partnership Initiative 14 (GPI14) "Shaping national development agendas: the role of local and regional governments in effective development" seeks to strengthen the voice of cities and regions within dialogues on development effectiveness.
- **Promote guidance to analyse, apply and track progress on policy coherence for sustainable development (PCSD).** The OECD is in the process of updating its 2010 Recommendation on Good Institutional Practices in Promoting Policy coherence for Development as part of its efforts to make its instruments more SDG-relevant. The draft Recommendation on Policy Coherence for Sustainable Development aims to reflect the universal, integrated and transformative nature of the 2030 Agenda. One of the three main pillars aims to promote "effective and inclusive institutional and governance mechanisms to address policy interactions across sectors and align actions between levels of government".

4.3.2. Promote decentralised networks, associations and partnerships for multi-stakeholder partnerships

Strengthen partnership with civil society

Decentralised development co-operation has the advantage of working closely with civil society and people directly affected by public policies (Vital, 2013[99]). The CSO community is a great ally for cities and regions in developing and developed countries alike and is often a key implementing agent in local service delivery and assessing local communities' needs (Habitat, UTO/FMCU, 2001[100]) The Basque country channels 90% of ODA through CSOs. In contrast to central aid agencies, CSOs working at local levels of government are closer to peoples' daily preoccupations, such as transportation, health, sanitation, electricity, education, etc. This is evident from the volume of ODA channelled through CSOs by sector in Annex C. The bulk of this funding, approximately 83%, goes to subsectors such as emergency response, health, education, and agriculture, where service is the likely form of intervention (Wood and Fällman,

2019[101]). The amount of DDC channelled to and through CSOs is 19%, or 4% higher than the average for total bilateral aid (15%).

At the local level, CSOs and subnational governments often engage in mutually beneficial partnerships. While CSOs can help municipalities with planning and capacity building, subnational governments can provide legitimacy and local accountability (e.g. monitoring and evaluation of results). Yet, as mentioned previously, given the small size and large number of CSOs, these actors are prone to many of the same challenges as subnational governments to achieve effectiveness.

OECD DAC members can play a role to raise the effectiveness of partnerships between CSOs and subnational governments. To overcome some of these challenges, subnational governments in OECD countries could support the creation of an international database on CSO financing and track records.[19] The example of the Civil Society Urban Development Platform demonstrates the benefits of a platform created with civil society to address issues related to urban planning and reaching marginalised populations in Kenya. The initiative has led to the creation of a database of 943 screened CSOs from the 15 urban areas and has contributed to increasing the legitimacy of CSOs vis-à-vis state actors (Christoplos et al., 2009[102]) .A similar platform could coalesce CSOs based in OECD DAC countries at the subnational level.

Possible future DAC-CSO recommendations should seek to integrate the DDC perspective in how DAC members engage CSOs. Previous CSO DAC engagement guidelines do not include the role of DDC to ensure effective partnerships between subnational governments and CSOs. Recent OECD-DAC work on CSO engagement provides an opportunity to further explore the potential of DDC to raise the effectiveness of CSOs (Wood and Fällman, 2019[101]).

Promote private sector engagement for mutual benefits

Decentralised development co-operation can promote private sector engagement to ensure mutual benefits from urban and regional innovation globally. Most large subnational governments conduct foreign economic relations to promote trade and attract foreign direct investment (FDI). OECD members seek to support investment promotion at the level of sub-national governments. Urban innovation represents trillions of dollars in investment opportunities for sustainable development (e.g. renewable energy, water and sanitation, etc.). Companies investing in emerging urban technologies could generate an estimated USD 2 trillion in revenue across a number of sectors (UNICEF, 2018[103]). For example, since 2009 USTDA has supported almost 200 projects worldwide helping subnational governments build capacity and implement appropriate regulatory frameworks for smart infrastructure, including through exchange with American cities (International Trade Administration, 2016[104]). Several examples are provided below:

- **Provide access to technology needed to pursue the "smart city model".** Agreed at at the Habitat-III Summit in 2016, the New Urban Agenda notably endorsed the "smart city model"[20] (para 66) to make better use of digitisation, clean energy and technologies (including innovative transportation technologies) to boost sustainable economic growth. Tech Bets for an Urban World, financed by the Swedish International Development Co-operation Agency (Sida) and the Bill and Melinda Gates Foundation, and implemented by UNICEF and ARM, seeks to facilitate DDC by connecting start-ups and large tech companies with municipal governments in developed and

[19] OECD DAC has issued guidance on work with CSOs in 2010, 2011 and 2012. 12 lessons from Peer Reviews further examined the possibilities to improve CSO collaboration.

[20] An internationally agreed definition of what constitutes a "smart city" does not yet exist although it typically refers to urban development that integrates technology, innovation and globalisation.

developing countries to grow markets for technology companies and investors while strengthening positive social and environmental impacts (UNICEF; ARM; Dalberg, 2018[105]).

- **Strengthening private sector engagement in the technology sector can help to leapfrog progress in developing countries.** Foreign investment in Africa's high-tech sector is concentrated in urban areas (AfDB/OECD/UNDP, 2016[35]). A number of DDC initiatives seek to identify technology-based solutions to urban challenges in developing countries. For example, through ICMA, municipal governments in Honduras and Ghana have collaborated with American cities and local software companies to address inefficiencies in land administration to build next generation, more transparent land registration, title, and payment management solutions. These platforms use blockchain technology to track assets, payments and administrative processes to bring accountability and trust into land investments.

Explore opportunities for private sector engagement, building on DDC modalities that promote mutually beneficial investment opportunities. New platforms led by regions and other subnational entities bring together subnational governments, private sector investors, development finance institutions, philanthropists, etc.). For example, the Regions for Climate Action (R20) is an NGO initiated by the former governor of California, Arnold Schwarzenegger. The R20 platform is helping to structure subnational financing projects through its Sub national Climate Fund for Africa (SnCF Africa). Box 4.7 provides further details on the work.

Box 4.7. Partnering with the private sector for a sub-national climate fund for Africa

Regions for Climate Action (R20), a non-profit environmental organisation, and BlueOrchard Finance, a global impact investment manager, created the Sub national Climate Fund Africa (SnCF Africa) to invest in a portfolio of projects that will provide clean energy, waste valorisation and energy efficient lighting services to cities and regions in 15 African countries, including a number of least developed countries (LDCs).

SnCF Africa seeks to address the funding gap for infrastructure projects of between USD 5-50 million in capital expenditure (CAPEX). Projects of this size, conceived and developed at the sub-national level, have the greatest potential to accelerate SDG progress. However, they are often considered too small for institutional investors, too large for sub-nationals and NGOs to finance, or too risky (not bankable) for private investors. They are currently least-served by existing funding and development vehicles.

To bridge this gap, SnCF Africa "blends finance" from philanthropists, foundations, governments, development finance institutions and private investors, and deploys a unique ecosystem that fast-tracks the identification, development and delivery of a portfolio of bankable projects. (R20, 2019[106]).

Leverage decentralised South-South and triangular co-operation partnerships

The rise in partnerships between cities and regions in developing countries serves as an instrument for economic co-operation, cultural exchange, and capacity building, including post-conflict state building. However, insufficient financing can threaten the long-term sustainability of projects, particularly more costly efforts such as transfer of technology. Other challenges are more structural and are due to a lack of information on how to design mechanisms and tools for triangular and South-South co-operation. The Rede de Mercociudades (Mercociudades) facilitates co-operation and exchange between subnational governments, civil society and the private sector actors in Latin America. Additional information is provided in the Box 4.8 below. Similarly, China promotes international exchange

at the sub-national level including through the Belt and Road Initiative (BRI), leveraging technical capacities and providing financial incentives for partnership modalities.

Box 4.8. Latin American cities create multi-stakeholder partnerships for horizontal co-operation

Mercociudades is a network of 349 cities from 10 South American countries that encompasses several initiatives to empower localities that promotes horizontal co-operation among its members. Its activities range from improving policies for social, urban and economic development, to tackling gender and racial inequality issues, sustainable growth and environment protection, among others. The network has been able to create formal and informal mechanisms that promote interaction among subnational governments, the private sector and non-governmental organisations (NGOs) and civil society groups.

Source: (Mercociudades, 2018[109]), Mercidades: Quem somos?, https://mercociudades.org/pt-br/mercocidades/

Below are several examples of how OECD DAC can help to facilitate decentralised triangular and south-south co-operation to reinforce local management capacities in key sectors such as urban planning, local governance, gender and inequality, environmental protection etc.:

- The ZIGESA Trialogue is a peer learning exercise between cities and their associations in South Africa (eThekwini), Zimbabwe (Harare) and Germany (Munich). The partnership delivered exchange in expertise on geographic information systems, advocacy and lobbying, and knowledge management in local government (GPI, forthcoming 2019[107]).
- Another innovative project involves multi-level co-operation to facilitate technical co-operation between 14 Brazil and Mozambican municipalities. The co-operation is co-ordinated at the multilateral level by UCLG and funded by the Government of Norway, Barcelona City Council, and the European Union. The programme enables knowledge exchange in urban planning and cadastre and financial management (UCLG, 2013[108]).

Annex A

The Annex below provides a list of all subnational governments reporting on ODA to the OECD CRS database.

Table A 0.1. Decentralised development co-operation agency codes

Provider	Sub-national Agency Name	Agency Code
Austria	Provincial governments, local communities	6
Belgium	provinces/municipalities	60
Belgium	Flanders Official Regional Ministries	70
Belgium	Walloon Official Regional Ministries	80
Belgium	Brussels Official Regional Ministries	91
Belgium	German speaking Official Regional Ministries	94
Canada	International Development Research Centre	2
Canada	Provincial Governments and municipalities	9
Czech Republic	Regional Governments and Municipalities	14
Czech Republic	Universities	13
France	COOP DECENTRAL/MAE	8
Germany	Federal States and Local Governments	12
Germany	Federal Institutions	14
Germany	Federal State of Schleswig-Holstein	80
Germany	City State of Hamburg	81
Germany	Federal State of Lower-Saxony	82
Germany	City State of Bremen	83
Germany	Federal State of North Rhine-Westphalia	84
Germany	Federal State of Hesse	85
Germany	Federal State of Rhineland-Palatinate	86
Germany	Federal State of Baden-Württemberg	87
Germany	Federal State of Bavaria	88
Germany	Federal State of Saarland	89
Germany	City State of Berlin	90
Germany	Federal State of Brandenburg	91
Germany	Federal State of Mecklenburg-West Pomerania	92
Germany	Federal State of Saxony-Anhalt	93
Germany	Federal State of Saxony	94
Germany	Federal State of Thuringia	95
Greece	Municipalities	15
Italy	Local administration	8
Italy	Public universities, research institutes and Italian red cross	11
Japan	Prefectures	14
Japan	Ordinance-designed Cities	15
Latvia	Local and regional governments	3
Portugal	Municipalities	3
Slovak Republic	Local and Regional governments	30
Spain	Autonomous Governments	15
Spain	Municipalities	16

Spain	Public Universities	20
Spain	Comunidad Autónoma de Andalucía	30
Spain	Comunidad Autónoma de Aragón	31
Spain	Comunidad Autónoma del Principado de Asturias	32
Spain	Comunidad Autónoma de las Illes Balears	33
Spain	Comunidad Autónoma de Canarias	34
Spain	Comunidad Autónoma de Cantabria	35
Spain	Comunidad de Castilla y León	36
Spain	Comunidad Autónoma de Castilla-La Mancha	37
Spain	Comunidad Autónoma de Cataluña	38
Spain	Comunidad Valenciana	39
Spain	Comunidad Autónoma de Extremadura	40
Spain	Comunidad Autónoma de Galicia	41
Spain	Comunidad de Madrid	42
Spain	Comunidad Autónoma de la Región de Murcia	43
Spain	Comunidad Foral de Navarra	44
Spain	Comunidad Autónoma del País Vasco o de Euskadi	45
Spain	Comunidad Autónoma de La Rioja	46
Spain	Ciudad de Ceuta	47
Spain	Ciudad de Melilla	48
Sweden	Folke Bernadotte Academy	20
Switzerland	Cantons and Municipalities	11
United Arab Emirates	International Humanitarian City	7
United Arab Emirates	Dubai Cares	21
United Arab Emirates	Noor Dubai	23
United Kingdom	Scottish Government	21
United Kingdom	Welsh Assembly Government	22

Table A 0.2. Decentralised development co-operation trends

Donors	2015		2016		2017	
	DDC USD disbursements	DDC as % of Total bilateral ODA	DDC USD disbursements	DDC as % of Total bilateral ODA	DDC USD disbursements	DDC as % of Total bilateral ODA
DAC total	2 418 327 071	1.82%	2 283 587 545	1.55%	2 328 257 292	1.58%
Austria	170 806 287	20.92%	244 839 779	24.05%	252 691 838	41.91%
Belgium	96 331 159	8.24%	98 100 825	6.64%	81 692 348	8.24%
Canada	385 433 610	12.80%	411 447 946	14.81%	419 931 726	13.35%
Czech Republic	941 574	1.24%	926 670	1.22%	982 599	1.32%
France	63 634 428	1.20%	91 842 309	1.59%	92 230 543	1.08%
Germany	985 465 203	6.68%	1 041 151 864	5.12%	1 077 682 185	4.99%
Italy	35 146 651	1.86%	23 125 642	0.93%	23 722 191	0.78%
Japan	3 727 463	0.06%	3 451 311	0.05%	3 339 674	0.02%
Portugal	122 828	0.08%	199 453	0.15%	206 418	0.12%
Spain	219 993 296	60.13%	254 278 243	9.69%	259 304 768	23.90%
Sweden	21 618 575	0.44%	23 329 402	0.66%	23 867 865	0.66%
Switzerland	60 797 701	2.31%	73 508 631	2.66%	73 222 332	3.48%
United Kingdom	18 455 630	0.16%	17 385 470	0.15%	19 382 805	0.15%
Non-DAC						
Latvia			36 072	1.01%	40 423	3.72%
Lithuania	319 415	3.03%	276 213	1.87%	400 934	9.75%
United Arab Emirates	12 591 693	0.29%	10 159 910	0.24%	9 292 928	0.32%

Note: Data in the table were extracted from the CRS database and updated on 25 September 2019.
Source: Author's calculation based on (OECD, 2019[34]), *Creditor Reporting System* (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1

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