Challenges of effective governance for sustainable development at subnational government levels: introduction to this thematic issue of Public Sector Economics

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Guest editors' introduction
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The UN's Agenda 2030 and Sustainable Development Goals (SDGs), as well as the principles of effectiveness, accountability and inclusiveness they are built upon, have been rather challenging for national and even more so for subnational governments. The situation has usually been exacerbated by the inflexibility, complexity or political determents of many multi-level governance arrangements, which tend to limit action at lower levels. Unsurprisingly, there has been limited progress.

And yet subnational governments are on the front line of sustainability efforts, undertaking a wide range of initiatives, addressing such matters as responses to climate change (storm surge barriers, heat mitigation, water conservation, expanding tree canopies, public transit, bike and electric vehicle policies, energy saving efforts and building codes). They are experimenting with a variety of financing tools to pay for these efforts, including issuing green bonds, public-private partnerships, state matching funds, as well as specific incentives, own-source taxes, fees, borrowing and regulations. In many cases these efforts require new levels of collaboration with other actors, such as community foundations and other civil society groups, voter approval and political leadership.

Institutional design for multi-level governance coordination to address sustainability challenges, whether in climate, public health, urbanisation, migration or other fields, requires subnational governments to work in close horizontal coordination with each other and vertically with national/federal governments. Designing institutions for horizontal and vertical coordination that play an appropriate mediating role might be crucial for governance, fiscal challenges and a whole-of-society approach to implementing the SDGs. Subnational governments are increasingly engaged in addressing the challenges raised by SDGs, driven by the urgency and scale of the consequences of inaction or increasing engagement or pressures from citizens. This may or may not have led to changes in governance, such as the institutionalization of greater horizontal cooperation or public-private partnerships.

The intention of this special issue of *Public Sector Economics* is to help finding out more about the above issues. How have subnational governments in countries around the world changed and adapted? What policy and implementation challenges have they faced? Which measures have they implemented? How? What are the policy implications and lessons learned?

Against this background, in late 2021 we launched a call for papers for this special issue of *Public Sector Economics* on challenges of effective governance for sustainable development at subnational government levels. From among the submissions, we selected five papers that provide a solid analytical background for discussions on the challenges of effective governance for sustainable development at subnational government levels. The papers cover a broad range of MLG arrangements. One common message of these contributions is the feasibility of progress provided there is creativity and commitment.

Christian Raffer, Henrik Scheller and Oliver Peters, in the article *The UN Sustainable Development Goals as innovation drivers for local sustainability governance?*

Examples from Germany provide a vivid example of how SDGs provide a useful framework for socio-ecological transformation favoured by the high degree of federalism and autonomy of cities. In their policy-oriented contribution, they focus on the question of whether the SDGs themselves are innovation drivers in local sustainability governance, motivating this idea with the theoretical framework of public sector innovation and providing comprehensive examples of the most prevalent current approaches to SDG-related innovations at the German local government level, covering local government sustainability reporting, strategies, budgets, and financing. They emphasize that a small group of early-innovating German local governments has already begun to govern sustainability with the help of SDG-driven innovations and that this became possible by publicly funded support projects and accessible pre-defined localised SDGs.

Sean Dougherty and Andoni Montes Nebreda in the article *Going global, locally? Decentralized environmental expenditure and air quality* claim that despite the importance of the role of intergovernmental institutions for the overall success of SDG objectives, there is still limited progress at the regional and local levels, due to imperfect institutional capacity and doubts about the electoral consequences that unevenly distributed costs may generate. Consequently, they use panel data for the 2010 to 2019 period covering 217 metropolitan areas of OECD European countries, as well as consolidated COFOG environmental expenditure data, and find that subnational public spending on environmental protection is associated with better municipal air quality to a larger extent than environmental expenditure made by all levels of government. Indeed, environmental spending shows a strengthened link with reduced air pollution exposure through the mechanism of higher institutional quality. Finally, higher income per capita and more tree cover are also determinants of lower exposure to air pollution in metropolitan areas.

Mohammed Aminu Yaru in the article *Budget transparency and internal revenue mobilisation at subnational government level: evidence from Nigeria* examines the hypothesis that improved budget transparency leads to greater revenue mobilisation. The study adopts both cross-sectional and panel regression analyses based on data for 2015, 2018 and 2020. The findings suggest that the hypothesis that improved budget transparency improves revenue mobilisation cannot be rejected, but population density (urbanisation), poverty and unemployment are the dominant factors that explain revenue mobilisation by the state governments in Nigeria. The study also reiterates the need to control corruption in order to make sustainable progress in revenue mobilisation at sub-national level.

Marko Primorac, Jorge Martínez-Vázquez and Pedro Arizti in *Achievements and unfinished agenda of the fiscal equalization system in Croatia* explain how the revenue sharing arrangements and the fiscal equalization system in Croatia have long been perceived as inadequate and ineffective. The reform of the personal income tax sharing implemented in 2018 was accompanied by a new fiscal capacity equalization system. To date the effects of these reforms have not been empirically analysed. In addition, the impact of omitting differences in expenditure needs in the new formula has not been adequately analysed either. The authors try to fill those gaps by analysing the existing disparities in fiscal capacity and expenditure needs across subnational governments in Croatia, as a test of the effectiveness of the current fiscal equalization mechanisms. Using Gini coefficients and other measures of inequality they confirm that the new fiscal equalization does reduce disparities in per capita fiscal capacity. However, the equalizing effectiveness of the current equalization grant system regarding expenditure needs arising from decentralized functional responsibilities is overall rather weak.

Nejc Brezovar and Tatjana Stanimirović in the article *Sustainability aspect of participatory budgeting at the municipal level in Slovenia* discuss the Local Self-Government Act which has since 2018 left decisions on participatory budgeting funding, on who can propose and vote on projects, and how, on the nature of proposed and implemented projects as far as they fall under municipal authority and under the public finance rules to the discretion of municipalities. The article reveals that a soft legislative approach resulted in only 30 (out of 212) municipalities being at some time, in period 2015-2021, engaged in such projects, averaging up to one percent of total budgetary expenses for participatory budget purposes, mostly for inclusive, people-centred projects promoting facilities for socializing and public infrastructure capacities (e.g. sports), in line with the municipal social sustainability agenda promoting equality and diversity, social cohesion, democracy and governance, and quality of living.

In conclusion, Dagmar Radin reviews the United Nations World Public Sector Report 2021: *National institutional arrangements for implementation of the Sustainable Development Goals: A five-year stocktaking* which focuses on the national institutional arrangements in twenty-four countries and the evaluation of the progress made since the beginning of the implementation in 2016. It takes into consideration the challenges set forth by the COVID 19 pandemic and its effects on the ability of public institutions to respond while upholding the principles and adjustments needed for the achievement of the SDGs, dealing particularly with: the evolution of institutional arrangements for SDG implementation; the development and performance of monitoring and evaluation systems for the SDGs; and evaluation of the efforts made by governments and other stakeholders to boost public servants' capacity for SDG implementation.

As the guest editors of this special issue, we would like to thank the authors for submitting these interesting and analytically rich papers and for their cooperation during the peer-reviewing process. We are also grateful to the reviewers for their patient reading and rich and helpful feedback, and to the team from the Institute of Public Finance for offering us this opportunity. Not only as the members of the United Nations Committee of Experts for Public Administration (CEPA) but also as all other ordinary citizens of the world, we can only hope that this thematic issue might contribute to the further consideration and advancement of effective governance for sustainable development at subnational government levels and accordingly to the achievement of Agenda 2030 and the SDGs.