

# CHILE

UNITARY COUNTRY

## BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: CHILEAN PESO (CLP)

### POPULATION AND GEOGRAPHY

**Area:** 756 096 km<sup>2</sup>  
**Population:** 18.522 million inhabitants (2017), an increase of 0.89% per year (2010-15)  
**Density:** 24 inhabitants / km<sup>2</sup>  
**Urban population:** 74.5% of national population  
**Urban population growth:** 0.9% (2017 vs 2016)  
**Capital city:** Santiago (36.1% of national population)

### ECONOMIC DATA

**GDP:** 444.8 billion (current PPP international dollars), i.e. 24 635 dollars per inhabitant (2017)  
**Real GDP growth:** 1.5% (2017 vs 2016)  
**Unemployment rate:** 7% (2017)  
**Foreign direct investment, net inflows (FDI):** 6 419 (BoP, current USD millions, 2017)  
**Gross Fixed Capital Formation (GFCF):** 21.6% of GDP (2017)  
**HDI:** 0.843 (very high), rank 44 (2017)

## MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Chile is a representative democratic republic. The President of Chile is at the same time head of state and head of government. Legislative power is vested in both the government and the bicameral National Congress (*Congreso Nacional*), which consists of the Senate (*Senado*, upper house) and the Chamber of Deputies (*Cámara de Diputados*, lower house). Following an election reform in 2015, which replaced the binomial system with a more proportional one, the Chamber of Deputies grew in size to 155 members from the previous 120, while the Senate increased its membership from 38 to 43, and will grow to 50 in 2021.

The 1980 Constitution has been reformed several times since the restoration of democracy in the country in 1990, evolving towards increasing decentralisation. The Constitution defines the Republic of Chile as a unitary, democratic and presidential state whose administration is functionally and territorially decentralised and deconcentrated (article 3 of the Constitution).

In 1992, two organic constitutional laws were adopted, one creating a “mixed” regional government system (both deconcentrated and decentralised) with their own legal status and assets and another law on municipalities reinstating municipal elections at universal suffrage of mayors and municipal councillors and restoring municipal autonomy. In 1999, a new constitutional law extended municipal powers and responsibilities in the field of economic development, environment, planning, equal opportunities, etc. The Chilean government has made decentralisation a priority since the late 2000s and in 2009, there was a new push towards a decentralisation agenda. In fact, regional councillors have been elected directly by citizens since a constitutional reform went into effect. The reform also created a democratically-elected body to manage regional development. The first direct elections took place in 2013 and regional councillors took office on March 2014. The 2014-2018 presidential programme set up a Presidential Advisory Commission for Decentralisation and Regional Development and defined a Decentralisation Agenda. However, its implementation has remained partial. In 2017, a law transforming the “mixed” regional system into a full self-government system was adopted, establishing the direct election of the regional executive (governors) by popular vote every four years. In 2018, a law transferring responsibilities from the national government to the new self-governing regions was adopted. A law reforming the funding system should follow.

Today, communes are governed by a mayor and a municipal council, elected directly for a renewable period of four years. At the regional level, the regional government is still led by the regional intendant, appointed by the President of the Republic. However, elections are to be held for the first time ever IN 2020 to elect regional governors. The deliberative power is in the hands of a regional council, whose members (from 14 to 34 depending on the population) have been directly elected, every four years, since 2014.

Several ministers deal with subnational governments. In particular, the Sub-secretariat for Regional and Administrative Development (SUBDERE) of the Ministry of Interior and Public Security has a special role to collect, process and disseminate information related to municipal financial management, personnel administration and service provision, through the *Sistema Nacional de Información Municipal* (SINIM). Ministerial Regional Secretaries (SEREMIS) are deconcentrated entities making up the regional cabinet. National public agencies have also developed links with subnational government, such as the Chilean Economic Development Agency (*Corporación de Fomento de la Producción* - CORFO). Policy design and implementation are still largely defined from the centre by sectoral ministries and public agencies in a top-down process, and the fragmentation of territorial policies across those various ministries and agencies calls for a more integrated and co-ordinated approach. A relevant step towards this integration has been introduced by the Law No. 21.074 in 2018, which created the Interministerial Commission for City, Housing and Territory, gathering twelve sectoral ministries for cross-cutting coordination on territorial policies and issues.

## TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	345 municipalities ( <i>comunas</i> )		16 regions ( <i>regiones</i> )	
	Average municipal size: 53 688 inhabitants			
	<b>345</b>		<b>16</b>	<b>361</b>

**OVERALL DESCRIPTION.** Chile is a unitary country with a two-tier system of subnational government. The subnational organisation is defined in Chapter XIV of the 1980 Constitution, entitled “Government and Interior State Administration”. Article 110 provides that the territory of the Republic shall be divided into regions, provinces and comunas (managed by municipalities).

**MUNICIPAL LEVEL.** The 1992 Organic Law of Municipalities (Law no. 18.695) established municipal autonomy. Whereas Chilean municipalities have limited powers and resources, a municipal reform has been in effect since 2013 with the aim of transferring new powers to the 345 municipalities. It provides them with the tools, capacities, financial resources and legitimacy to improve their autonomy and performance. In this sense, law no. 20.922 (Plantas Law), passed in May 2016, gave more freedom and flexibility to the mayor to manage municipal staff according to municipal needs in terms of workforce and qualifications. Municipalities are large compared to the OECD average (9 700 inhabitants). However, Chile is not the only Latin America with big municipalities. Elsewhere in the region, municipalities tend to be quite large, ranging from around 18 500 inhabitants in Peru to 75 000 inhabitants in Ecuador. Regarding the number of municipalities by population size category, Chile also ranks high among OECD countries for having very few small municipalities, i.e. fewer than 2 000 inhabitants (5% vs 28% in the OECD). By contrast, 48% of Chilean municipalities have more than 20 000 inhabitants, which is significantly higher than the OECD average of 30%.

**REGIONAL LEVEL.** Administrative regions were created in 1974 based on 25 provinces: 12 regions were designed originally, with the addition of the Metropolitan Region of Santiago in 1976; in 2007, two new regions were created from the division of other regions, and the last region, Nuble, was created in September 2018. Administrative regions became self-governing entities with the introduction of law no. 20.990 of January 2017, and the first regional elections are to take place in 2020. Prior to the reform, regions were mixed entities with a regional executive (the intendant - *Intendente*) who had previously been appointed by the President of the Republic, and a regional council (*consejo regional* or CORE) chaired by the regional governor. Chile is also divided into 54 provinces for administrative purposes. Regions range from 111 200 inhabitants in the Aysén, Region to 7.565 million inhabitants in the Metropolitan Region of Santiago, while the average regional demographic size is around 1.240 million inhabitants. Chile has among the highest levels of territorial disparities in the OECD, with a concentration of high-value economic activities in few regions due to the importance of mining-intensive activities. Between 2000 and 2013, 69% of GDP growth and most labour productivity growth were generated in Santiago.

## SUBNATIONAL GOVERNMENT RESPONSIBILITIES

According to law no. 18.695 (LOCMUN), municipalities have many statutory competences, both exclusive functions (6) and non-exclusive responsibilities (in 13 areas), which are uniform across all municipalities. New tasks are regularly given to municipalities in various areas; however, service delivery is mainly carried out by deconcentrated state territorial entities, state-managed private concessions, and partially by subnational governments. This complex system of shared responsibilities is raising growing concerns and calls for restructuring. In November 2017, the New Public Education Law (*Ley de Nueva Educación Pública*) recentralised the administration and management of public schools, transferring the competences from municipalities to the Ministry of Education, through a network of 70 Local Education Services (*Servicios Locales de Educación*), to be implemented completely by 2030. Regional government responsibilities, defined in the Organic Constitutional Law No. 19.175 on Government and Regional Administration, remain limited. They include approving the regional development plan and regional investments funded by the National Fund for Regional Development, social and cultural development, and the promotion of productive activities. With the adoption of the Law No. 21.074 in 2018, functions of the regional governments are extended in areas related to territorial planning, promotion of economic development, and social and cultural development and infrastructure and housing. This transfer of responsibilities should be completed by 2020. This Law also enables regional governments to ask for further competences to be transferred to them. This Law also gives the possibility for the transfer of further competences from the central level to regional governments, during an experimental period between 2018 and 2022.

### MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONAL LEVEL	MUNICIPAL LEVEL
1. General public services	Internal administration; Municipal advice	Internal administration
2. Public order and safety		Citizen safety (shared)
3. Economic affairs/transport	Regional development; Rural roads; Land management	Local development; Tourism; Local transport regulation; Traffic regulations (shared); Economic development
4. Environmental protection		
5. Housing and community amenities	Regional Planning; Inter-municipal plan (shared)	Municipal zoning plan; Urbanism and construction; Social housing (shared)
6. Health		Basic public health; Hygiene services; Sanitary infrastructure (shared)
7. Recreation, culture & religion	Social and cultural development	Culture (shared)
8. Education		Primary and secondary education (shared)
9. Social protection		

## SUBNATIONAL GOVERNMENT FINANCE

<b>Scope of fiscal data:</b> municipalities. The local finance data available for Chile does not yet include regions, as they are still mixed entities (half devolved and half elected) with no autonomous budget (as of 2016).	SNA 2008	Availability of fiscal data: <b>Medium</b>	Quality/reliability of fiscal data : <b>Medium</b>
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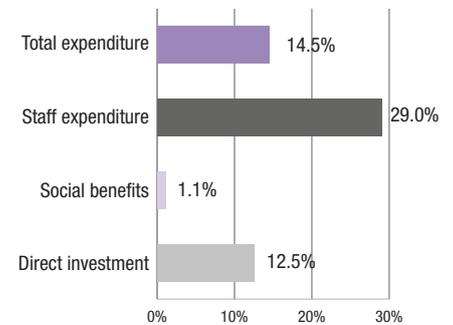
**GENERAL INTRODUCTION.** Chilean SNGs are constrained in terms of staff resources and public services management. Policy design and implementation are still largely defined by the centre in a top-down process. Chilean municipalities have been constrained by the structural mismatch between their spending obligations and the amounts of revenue allocated to them, and therefore have developed relatively high levels of floating and temporary pension debt, which should be addressed for ensuring financial sustainability in the long term. Since 2008, there have been efforts to implement information systems and reduce the technology gap at the municipal level, and auditing of municipal accounts was performed by the Comptroller General's Office. SUBDERE is the national body responsible for promoting regional and local development, including the administration of funds such as the FNDR (*Fondo Nacional de Desarrollo Regional* - National Fund for Regional Development) and FCM (*Fondo Común Municipal* - Municipal Common Fund).

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### SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
<b>Total expenditure</b>	<b>846</b>	<b>3.7%</b>	<b>100%</b>	
<b>Inc. current expenditure</b>	<b>776</b>	<b>3.4%</b>	<b>91.6%</b>	
Staff expenditure	441	1.9%	52.1%	
Intermediate consumption	221	1.0%	26.1%	
Social expenditure	12	0.1%	1.4%	
Subsidies and current transfers	102	0.4%	12.0%	
Financial charges	0	0.0%	0.0%	
Others	0	0.0%	0.0%	
<b>Incl. capital expenditure</b>	<b>71</b>	<b>0.3%</b>	<b>8.4%</b>	
Capital transfers	2	0.0%	0.2%	
Direct investment (or GFCF)	69	0.3%	8.1%	



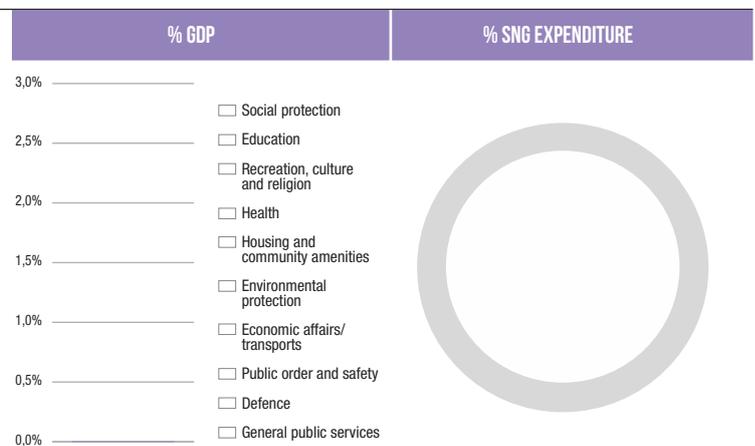
**EXPENDITURE.** Chile ranks among OECD countries in which the weight of SNG spending in GDP and public expenditure is the lowest (alongside Greece and Ireland). Chilean local government expenditure represents 3.7% of GDP and 14.5% of total public expenditure in 2016, compared to OECD average of respectively 16% and 40%. Over half of expenditure is dedicated to staff expenditure, mainly in the education and health sectors, which increased since 2010.

**DIRECT INVESTMENT.** The share of capital expenditure fell from 45% in 1990 to 8.4% in 2016, and direct investment is very limited, in SNG expenditure, GDP as well as total public investment Chile ranks last in the OECD as regards SNG involvement in public investment. SNG investment accounted for 0.3% of GDP and 12.5% of public investment, versus respectively 1.7% and 56.9% on average in the OECD. Investment accounted for 9.9% of SNG expenditure in the municipal sector, 3.2% in education and 1.6% in the health sector. This low level of local public investment, despite huge local needs, emphasises the extent to which public action is centralised, and the difficulties for municipalities to generate self-financing for investments.

### SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

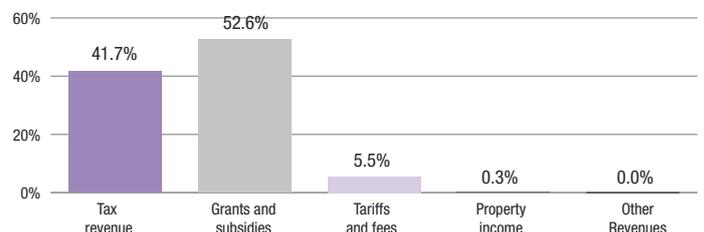
Municipal budgets are structured in three main sectors: municipal services, education and health. The municipal sector (which encompasses internal management, municipal activities, community services, social programmes, recreational programmes and cultural programmes), accounted for 51% of the budget of communes, followed by education (32%) and healthcare (17%).

Spending related to education and basic public services are for the main part dedicated to staff expenditure. In those sectors, subsidies from the central government are often insufficient to cover the needs of many rural municipalities, which therefore have to supplement with their own local resources.



### SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERNMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE
<b>Total revenue</b>	<b>861</b>	<b>3.7%</b>	<b>16.5%</b>	
Tax revenue	359	1.6%	8.2%	41.7%
Grants and subsidies	453	2.0%		52.6%
Tariffs and fees	47	0.2%		5.5%
Property income	2	0.0%		0.3%
Other revenues	0	0.0%		0.0%



**OVERALL DESCRIPTION.** Chilean municipalities receive revenues from grants from the central government, own-tax revenues and, to a lesser extent, tariffs and fees. Grants and subsidies represent a significant (and growing) share of subnational revenues (52.6%, compared to the OECD average of 37.2% in 2016), which reflects the high level of dependency of municipalities vis-a-vis the central government. Most of those grants are earmarked transfers to fund specific sectors. Local tax revenue are the second source of SNG revenue, accounting for 41.7% of SNG revenue, yet they represent a very small share of the GDP, well below the OECD average (1.6% vs 7.1% in 2016), and provide limited own-source revenue to municipalities.

**TAX REVENUE.** Although tax revenue represents a significant share of SNG revenue in Chile, it is significantly lower than the OECD average both in terms of share of GDP and general government tax revenue (respectively 1.6% and 8.2% versus 7.1% and 31.9% in 2016). Municipalities are only allowed to receive tax revenue, but this situation could change with the new system of regional financing based on own-source revenues. The most important tax is the property tax called the “territorial tax” (43.6% of municipal tax revenue in 2016 and 18.2% of SNG revenue), applicable at a fixed rate of the fiscal value of rural and urban land and buildings. It is more like a national tax – allocated to municipalities based on a distribution mechanism using the territorial distribution of the net value (after exemptions) of property wealth – rather than a genuine, local own-source tax. A significant share of the resource is redistributed, via the FCM, in the name of redistributive principles. Municipalities cannot set the rate and the territorial tax includes a long and extremely precise list of total or partial exonerations that are provided by the central government and which substantially erode its effectiveness. In 2014, nearly two-thirds of all properties benefited from an exemption, 80% of which were agricultural properties. In 2019, it represented 0.7% of GDP to be compared with 1.1% in the OECD on average.

Other significant municipal taxes are business licences (26.2% of municipal tax revenue and 10.9% of municipal revenue) paid on commercial activities undertaken in the municipal area, and the motor vehicle tax (16.4% of municipal tax revenue and 6.8% of municipal revenue). Municipalities collect the business and vehicle tax, but the central government collects the property tax (municipalities remain responsible for assessing property value). The business tax is the only tax for which municipalities may vary the rate within a given range (from 2.5% to 5%).

**GRANTS AND SUBSIDIES.** In 1979, Chile implemented a large horizontal equalisation scheme, the Municipal Common Fund (FCM). The FCM’s resources come from automatic contributions from municipalities via the transfer of a portion of their tax revenues (i.e. territorial tax, municipal business licenses, vehicle registration tax, and the tax on vehicle transfer and revenues from fines). Municipalities are net contributors when contributions are higher than the allocations they receive or are net receivers when allocations outweigh contributions. The FCM’s mission is unequivocal: decrease inter-municipal inequalities and provide additional resources to municipalities with the lowest tax revenues so they can fulfil their basic competences. Funds are distributed to beneficiaries according to a formula based on criteria such as the population, property exemptions, poverty and local revenue. This mechanism has become a crucial part of how municipal budgets are financed, and redistributes revenue among municipalities on a massive scale – accounting for 29% of total municipal sector revenue and over 42% of their permanent own resources. The architecture of the fund is implicitly based on the two pillars underlying territorial inequalities, i.e. disparities in terms of charges (needs) and in terms of resources. The first category represents 35% of FCM funds and the second 65%. This implies that, in Chile, 35% of inter-municipal inequalities result from greater needs (because of higher costs for a given service) and the remaining 65% result from limited resources (due to weaker per capita tax bases). The FCM has been reformed several times but it is still subject to criticism, due to its lack of transparency, complexity and its counterproductive and disincentive effects (fundamentally encouraging “fiscal laziness” and increasing dependency). Today, the mechanism needs to be strengthened and renewed in order to combine solidarity and equity principles and economic efficiency.

Transfers to municipalities also include vertical transfers from the central government, composed mostly of earmarked transfers for health and education expenditure (delegated functions), and access to specific funds for social and investment programmes. These are expected to decrease in the coming years due to the reform recentralising education. Transfers to regions also include capital transfers from the National Fund for Regional Development (Fondo Nacional de Desarrollo Regional, FNDR), which aims at financing municipal investment approved by the region, but it remains scarce and lacks flexibility.

**OTHER REVENUES.** Because of regulatory limitations, Chilean municipalities rarely charge, directly or indirectly, for public services. When they do, contributions from users tend to be modest. Very few municipalities receive revenues from concessions since concession holders frequently operate in their territory but have a contract with the central government (e.g. ports, roads, mining, etc.). Likewise, revenues derived from property income are limited. The top ten municipalities account for more than half of revenue generated from their properties.

## ■ SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
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### Total outstanding debt

Financial debt\*

\* Currency and deposits, loans and bonds

**FISCAL RULES.** The Constitutional Organic Law for municipalities states that municipal councils should not approve unbalanced budgets. However, the rule does not explicitly refer to the need to have a balanced budget at the end of the budget year (on an accrual basis). OECD recommendations to the Chilean government in this regard include the need to enhance the current budget balance rule, including clear-cut escape clauses in the case of exceptional circumstances, as well as an alert system to monitor unpaid balances and detect municipalities at high risk of non-compliance.

**DEBT.** SNG borrowing is prohibited in Chile for both current and capital financing: Chile is the only OECD country where this is the case. However, in practice, a few municipalities are allowed to generate debt within limits, and others must apply to Congress for the ability to do so. Besides, SNGs hold a non-financial debt through their debt to suppliers (commercial debt), arrears and leasing contracts, or temporary pension debts. Monitoring of municipal arrears in Chile has improved; yet, according to SUBDERE, this floating debt accounts for around 1% of municipal revenues, and is concentrated in 80 municipalities.



Lead responsible: OECD  
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[www.sng-wofi.org](http://www.sng-wofi.org)

**Socio-economic indicators:** OECD // World Bank // UNDP // UN Desa // ILO // Instituto Nacional de Estadísticas Compendio Estadístico, Instituto Nacional de Estadísticas 2018 (INE).

**Fiscal data:** OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database), IMF-GFS.

**Other sources of information:** OECD (2017) Making Decentralisation Work in Chile, Towards Stronger Municipalities // OECD (2013) Urban Policy Reviews, Chile 2013 // Bravo J. (2013) The Income Effect of Unconditional Grants: A Reduction in the Collection Effort of Municipalities, Documento de Trabajo IE-PUC, N° 437 // Letelier S. L. (2010) Theory and evidence of municipal borrowing in Chile // Llanca Etcheverry C. A. (2009) Descentralización: La Experiencia Chilena, un Estudio Sobre los Gobiernos Regionales”, Revista de Estudios Politécnicos Vol 7 // OECD (2009) Territorial Reviews, Chile 2009 // Letelier S. L. (2006) Local Government Organization and Finance in Chile, In: Shah, A. (ed.) Local Governance in Developing Countries. Public Sector Government and Accountability Series (World Bank).