

The situation of decentralisation and fiscal relations between levels of government

Highlights from the third edition of the OECD-UCLG World Observatory on Subnational Government Finance

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SNGWOFI
World Observatory on Subnational
Government Finance and Investment



Red de Descentralización y Gestión Fiscal
Subnacional de América Latina e Caribe





SNG-WOFI : A multi-stakeholder initiative led jointly by the OECD and UCLG

1st Pilot Edition

2015-2016



With the support of



2nd Edition

2017-2019



With the support of



3rd Edition

2020-2022



With the support of



The Steering Committee of the SNG-WOFI : putting multi-level governance in practice

2017



2018



2022





What does the SNG-WOFI offer ?



Database

+

“Compare you country”
visualisation tool

Income Group	Country
High income	Austria
	Belgium
	Germany
	Spain
	Switzerland
	Australia
	Canada
	United States of America
	Bosnia and Herzegovina
	Argentina
Upper middle income	Brazil
	Mexico
	South Africa
	Malaysia
	Nigeria
	India
	Nepal
	China
	Indonesia
	Philippines
Lower middle income	Colombia
	Venezuela
	Peru
	Ecuador
	Bolivia
	Paraguay
	Uruguay
	Costa Rica
	Panama
	Dominican Republic



Country Profiles

Incl.

19 countries from Latin America
and the Caribbean (LAC)

BASIC SOCIO-ECONOMIC INDICATORS	
POPULATION AND GEOGRAPHY	ECONOMIC DATA
Area: 756 700 km ² (2018)	GDP: 483.0 billion (current PPP international dollars), i.e. 25 110 dollars per inhabitant (2020)
Population: 19 116 million inhabitants (2020), an increase of 1.2% per year (2015-2020)	Real GDP growth: -5.8% (2020 vs 2019)
Density: 25 inhabitants / km ²	Unemployment rate: 11.1% (2021)
Urban population: 87.7% of national population (2020)	Foreign direct investment, net inflows (FDI): 8 528 (Bn) current USD millions, 2020
Urban population growth: 1.0% (2020 vs 2019)	Gross Fixed Capital Formation (GFCF): 20.9% of GDP (2020)
Capital city: Santiago (2.8% of national population, 2020)	NDI: 0.851 (very high), rank 43 (2019)

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). Since 2015, after a reform that replaced the electoral binomial system with a more proportional one, the Chamber of Deputies and the Senate have 155 and 50 members respectively.

The 1980 Constitution defines the Republic of Chile as a unitary, democratic and presidential State whose administration is functionally and territorially decentralised, or deconcentrated as the case may be, in accordance with the law (art. 3 of the Constitution). In a plebiscite held in October 2020, Chileans voted in favour of a new Constitution, for the drafting of which a Constituent Convention was mandated, made up of 155 men and women in gender parity and with seats reserved for indigenous peoples; the final drafting proposal for the new Constitution was presented on July 5, 2022. In a final referendum that took place on September 4, 2022, the proposal for a new constitution was rejected.

Since the late 2000s, the Chilean government has pursued important decentralisation and regionalisation reforms. At the regional level, the deliberative power is in the hands of a regional council, whose members (from 14 to 34 depending on the population size) have been directly elected every four years, since 2014. Regional councils have a normative, resolutive and supervisory role within the sphere of competences regional governments. Laws N. 20.960/2017 and N. 21.072/2018 transformed the “mixed” regional system (both



Synthesis Report

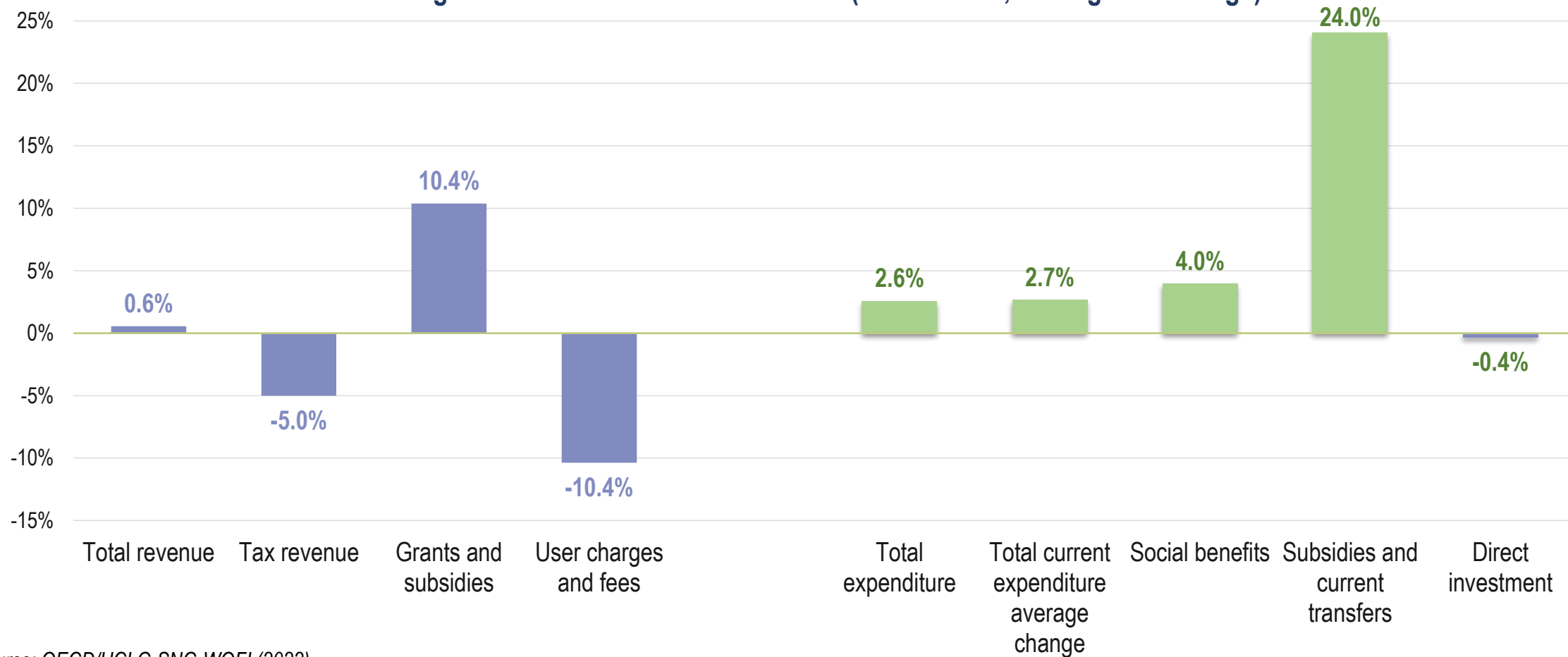


www.sng-wofi.org



COVID-19 has put additional pressure on subnational finances

Change between 2019-2020 in real terms (61 countries, unweighted average)



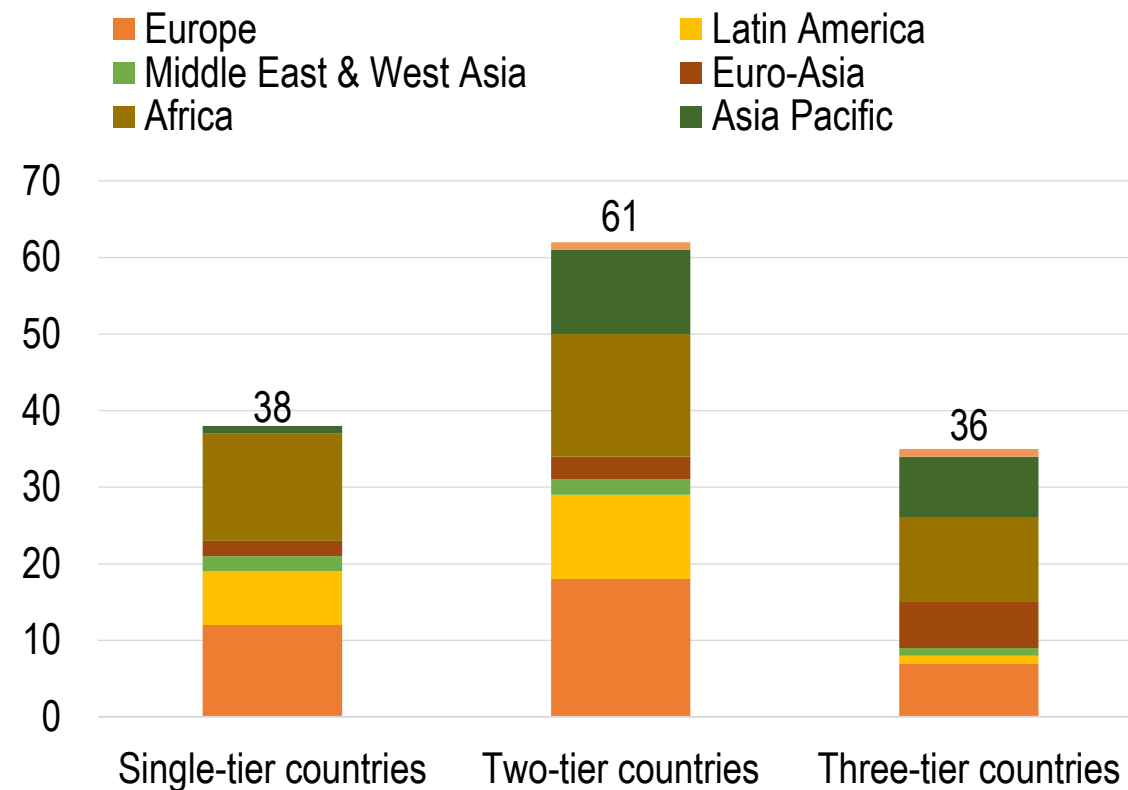
Source: OECD/UCLG SNG-WOFI (2022)



Decentralisation and multi-level governance reforms are underway in several LAC countries

- Sample of **19 countries** (14% of the WOFI country sample)
 - 11 « upper-middle income », 5 « lower-middle income », 3 « high income »
 - 15 unitary and 4 federal countries (Argentina, Brazil, Mexico, Venezuela)
- Latin American countries have **one or two levels** of subnational governments
 - Specific cases of Bolivia and Ecuador
- **Decentralisation** processes have been non-linear and at varied paces: a mixed institutional landscape
- **Regionalisation** processes e.g. Chile, Colombia (RAPs)
- **Asymmetric** decentralisation

Subnational tiers of government by world regions (2020)

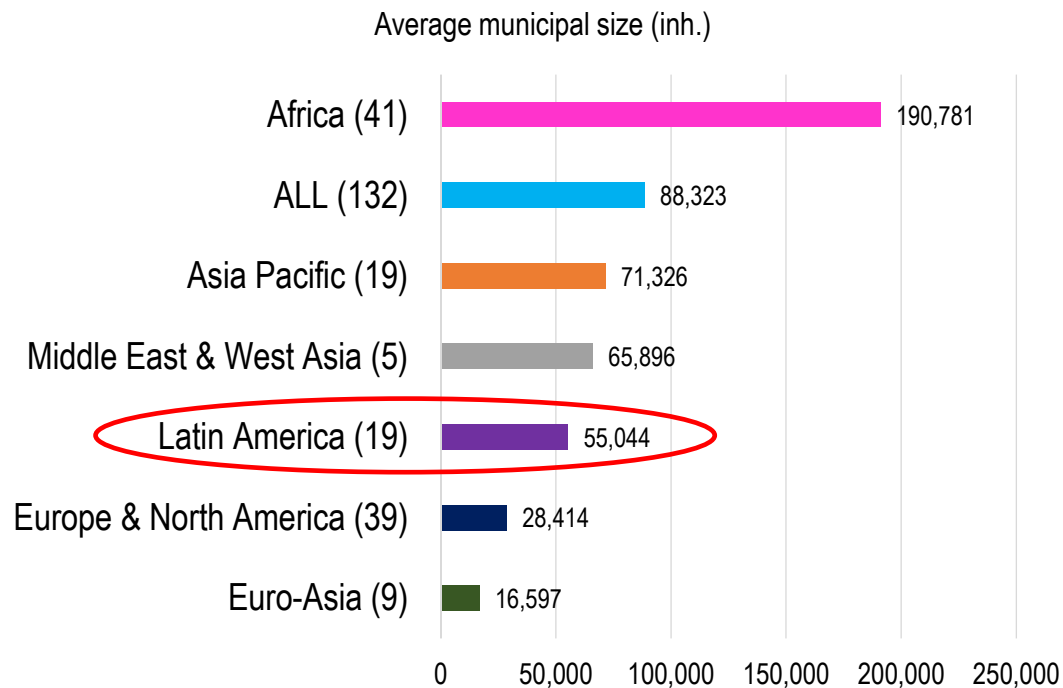


Source: OECD/UCLG SNG-WOFI (2022)



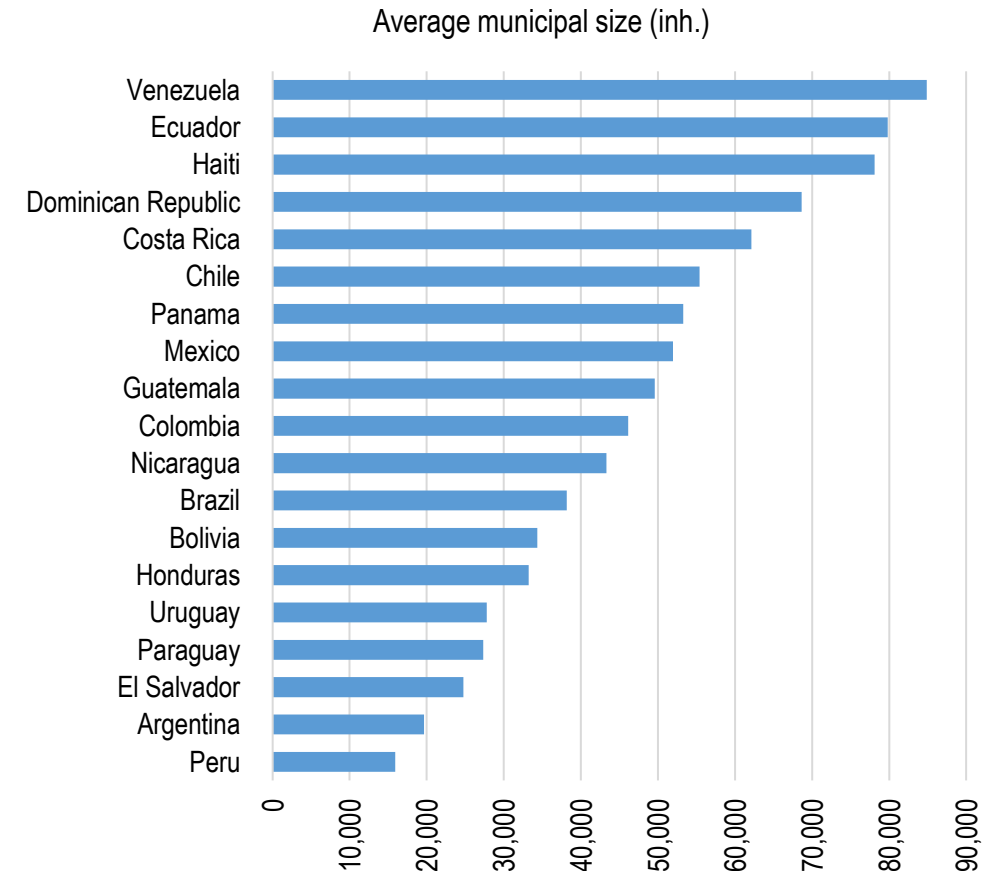
Average municipal size in the LAC region

On average, municipalities are larger than those in Europe, but smaller than those in Africa or Asia and the Pacific



Inter-municipal cooperation is generally allowed but not very used in the LAC region, and it is progressing (e.g in Guatemala, Honduras, Brazil, Bolivia)

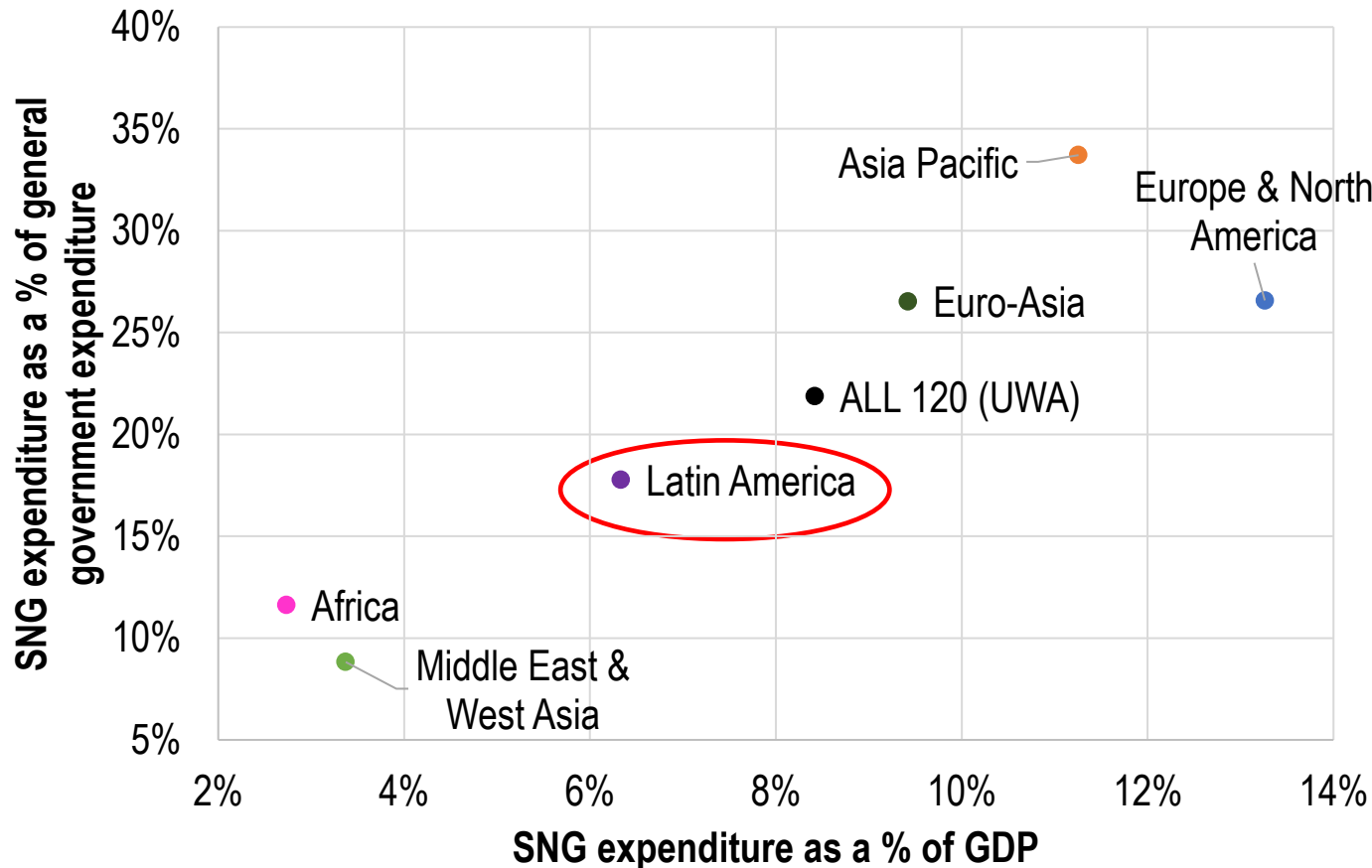
However, average municipal sizes vary widely across LAC countries and within countries





Subnational government spending in Latin America is below the world average

Subnational government expenditure as % of GDP and as % of total public expenditure (2020)



Source: OECD/UCLG SNG-WOFI (2022) – All averages are unweighted

- **Subnational governments in Latin America** account on average for **17.8%** of total public spending and **6.3%** of GDP:
 - Less than the global (**21.5%** of public spending and **8.3%** of GDP), Asia-Pacific and Europe & North America averages
 - More than Africa and MEWA
- **Variations across countries**
 - Very low in Panama, Paraguay, Dominican Republic (< 1% of GDP and < 1% of total public)
 - Higher in federal countries (Brazil, Argentina, Mexico) and in some unitary countries such as Colombia, Peru and Bolivia
- However, **the spending indicator can be misleading** and overestimate the real degree of decentralisation.

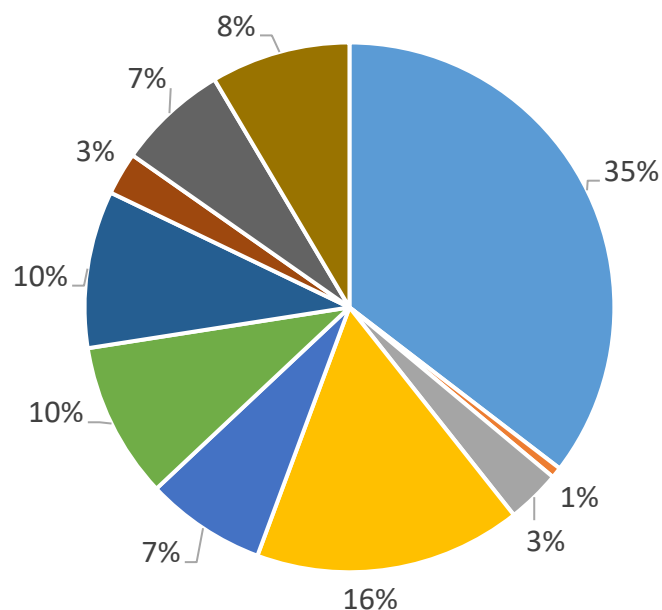


Expenditure by functional classification (COFOG) in LAC and the world

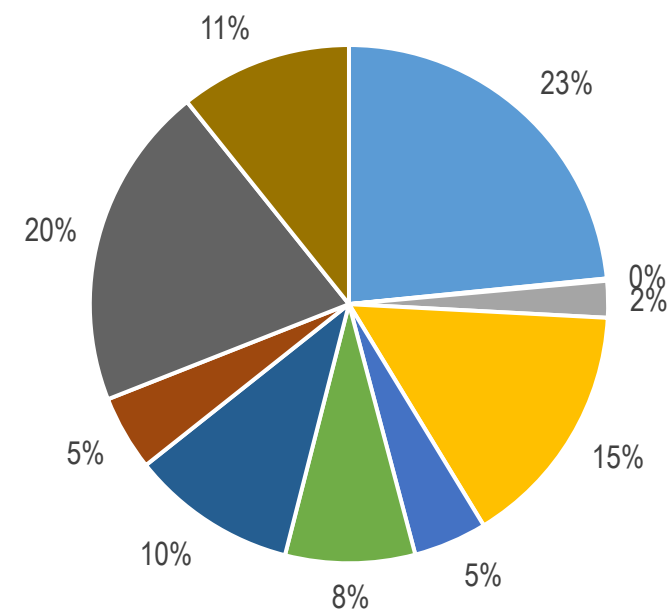
Primary areas of subnational spending in the LAC region (9 countries) are general public services, economic affairs (transport), housing and community amenities and health.

The main difference with the global average is **education**, which accounts for much less in the LAC region.

Regional average for the LAC region (9 countries)



World average (81 countries)

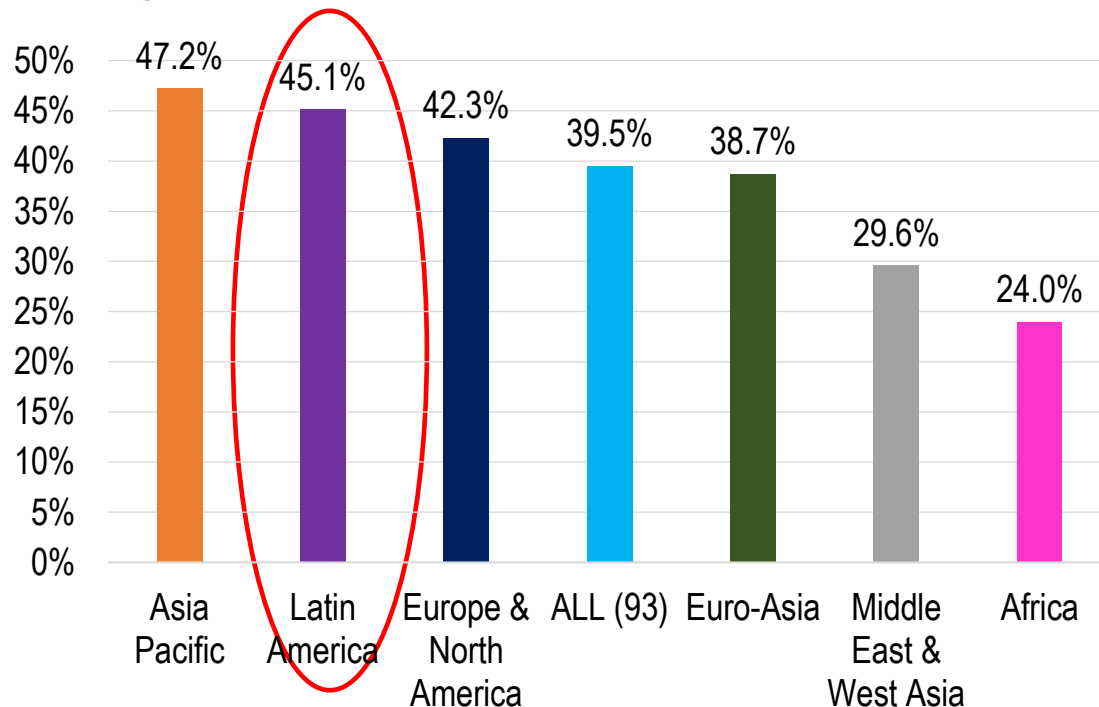


Source: OECD/UCLG SNG-WOFI (2022) – All averages are unweighted

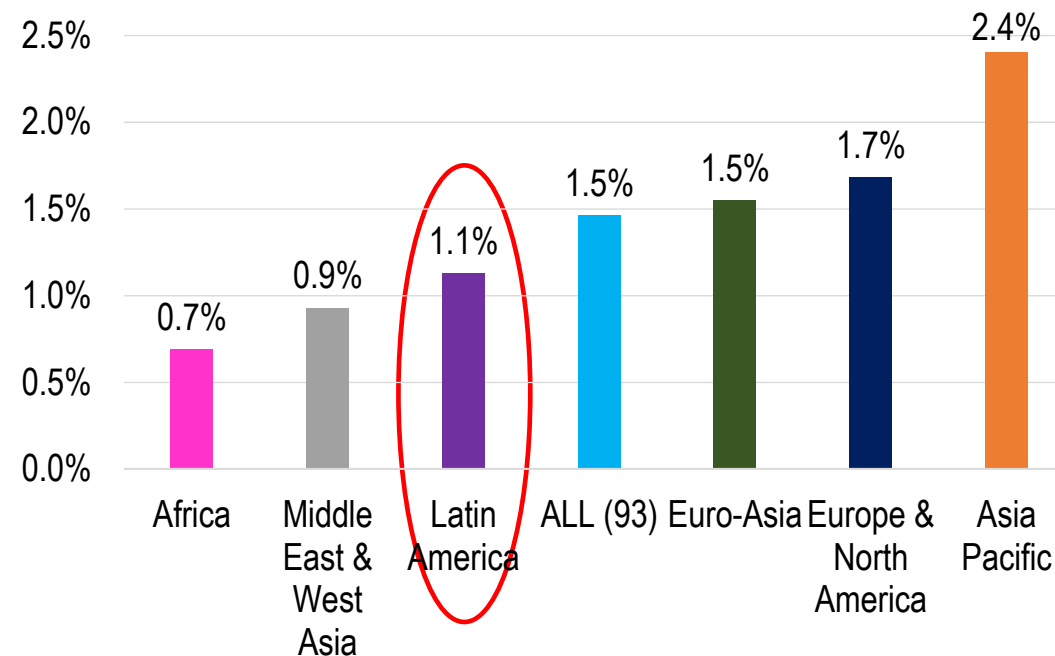


Subnational governments in Latin America are a driving force of public investment, but there is scope for them to invest more

Subnational government investment as % of total public investment (2020)



Subnational government investment as % of GDP (2020)



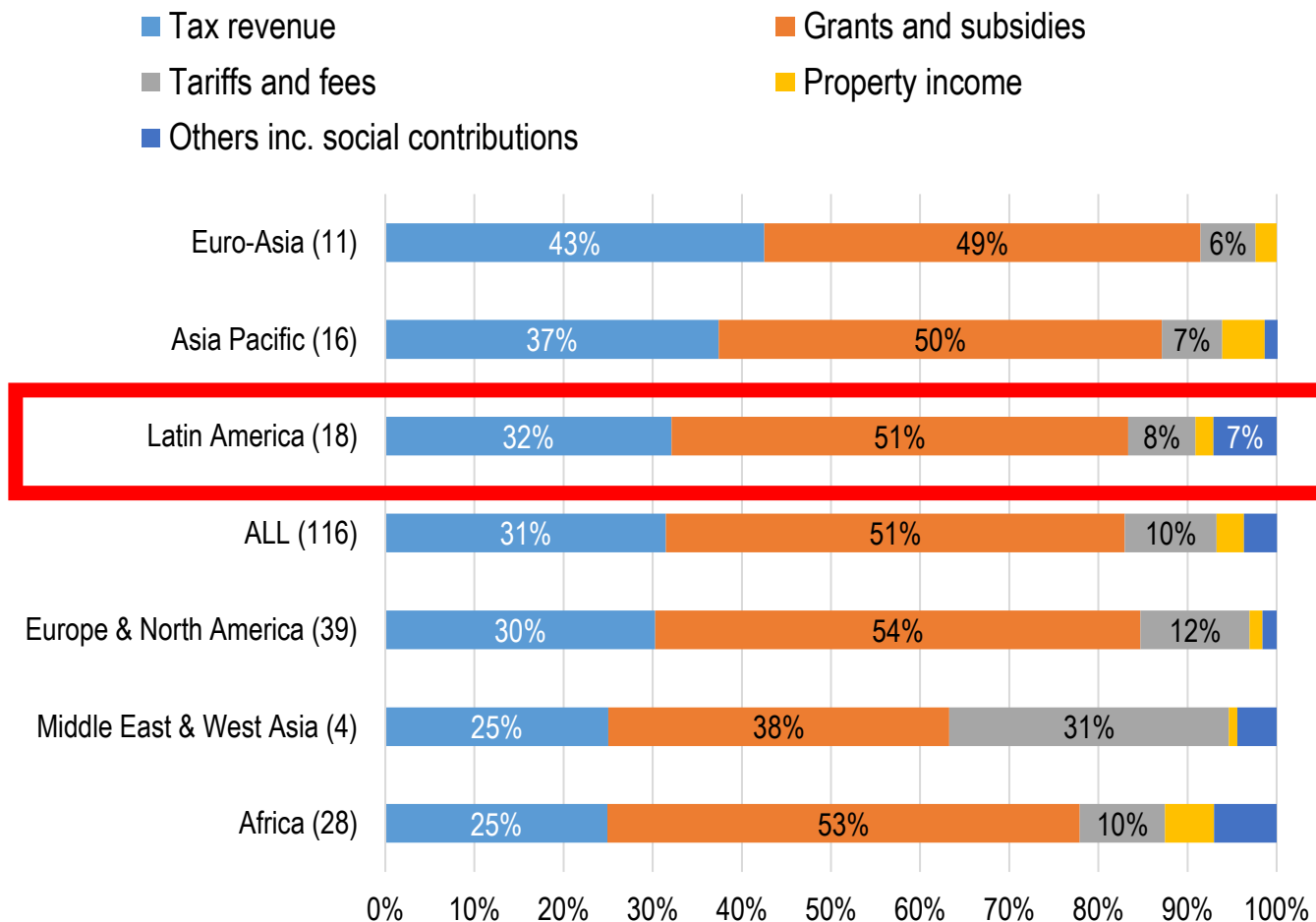
Source: OECD/UCLG SNG-WOFI (2022) – All averages are unweighted

- **Mobilising public investment at all levels of governments is crucial to face current and future crises :**
 - e.g. COVID-19 recovery plans with a territorial dimension, such as Chile’s “Step by step, Chile Recovers” (*Paso a Paso, Chile se recupera*)



There is a need to diversify the basket of subnational revenue to provide subnational governments more autonomy and stability over their revenue

Subnational government revenue by category (2020)



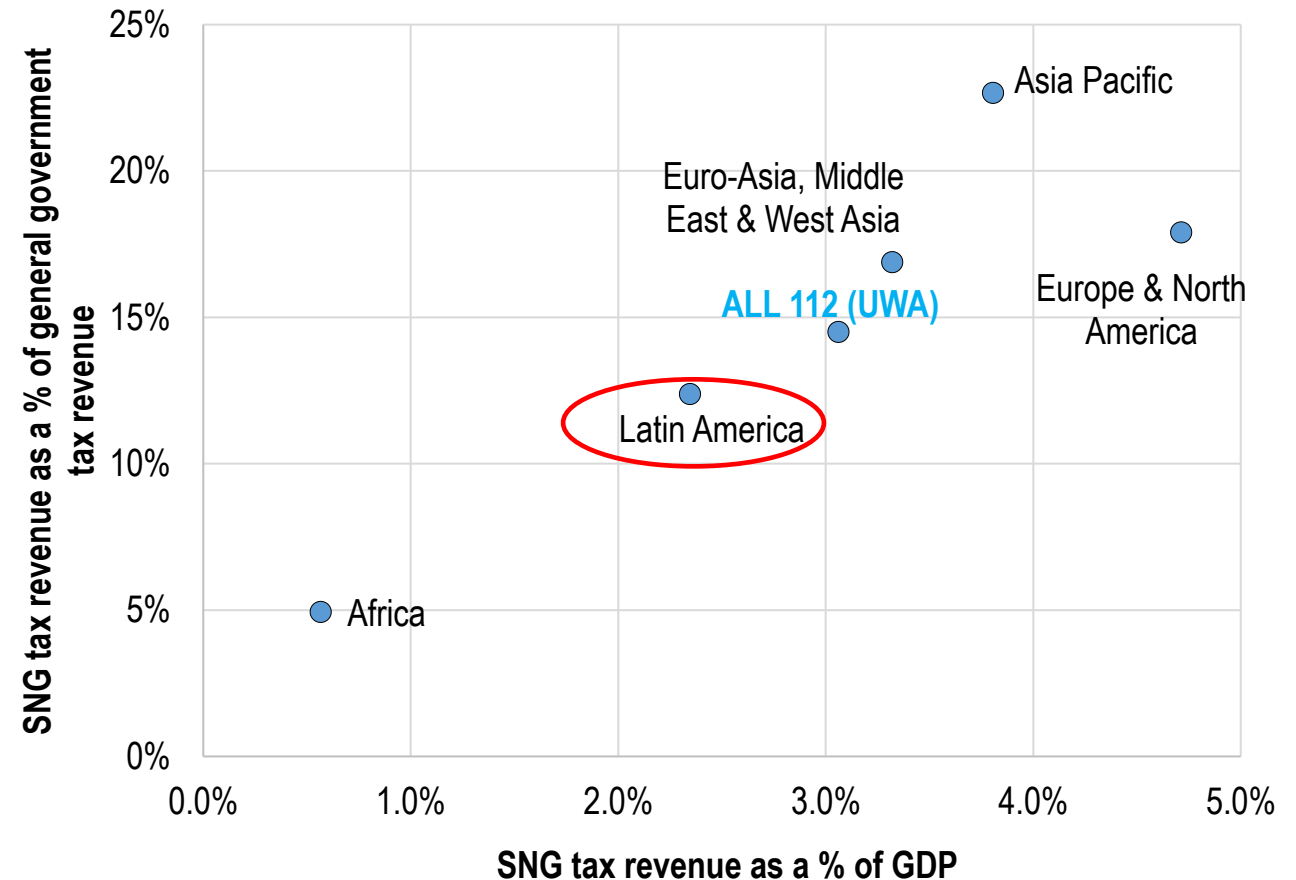
Source: OECD/UCLG SNG-WOFI (2022)
– All averages are unweighted

- **Intergovernmental transfers** represent over half of subnational revenue, although equalisation mechanisms are underdeveloped despite significant regional disparities
- The share of **tax revenues** (shared and own-source tax) in subnational revenue is low, similar to the global average but there are strong disparities across countries
 - Tax revenue account for >70% of SNG revenue in Argentina, against <5% in Peru
- **Tariffs (user charges) and fees** are slightly less developed than at the global level on average
- Importance of revenue from **land and natural resources** (Colombia, Peru, Argentina, Brazil)



Latin America's subnational tax revenue is lower than the global average

- Subnational tax revenue as a share of GDP and total tax revenue is particularly low in the LAC region on average, compared to other regions and the global average
 - **2.3% of GDP** and **12.4% of public tax revenue** in the LAC region versus 3% and 14.5% at the global level
- Tax ratios must be considered with caution as they are not an indication of *tax autonomy* (shared taxation is prevalent in the region vs own-source tax revenues)
 - Need to devolve more own-source taxes (e.g. property tax)



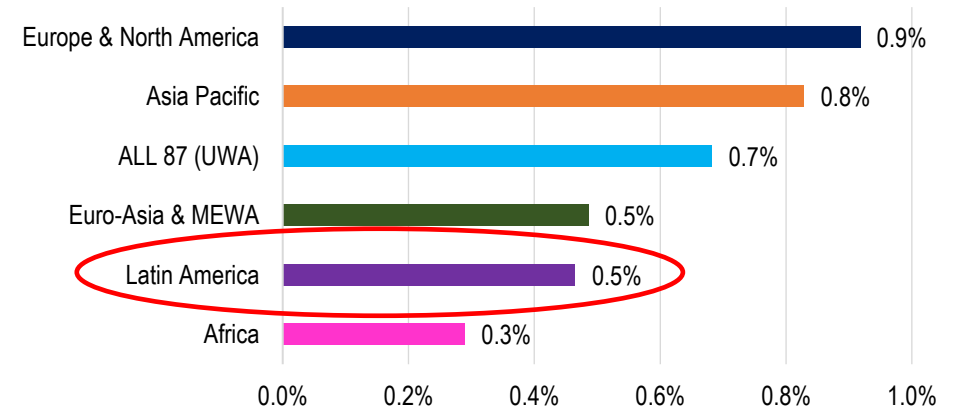
Source: OECD/UCLG SNG-WOFI (2022) – All averages are unweighted



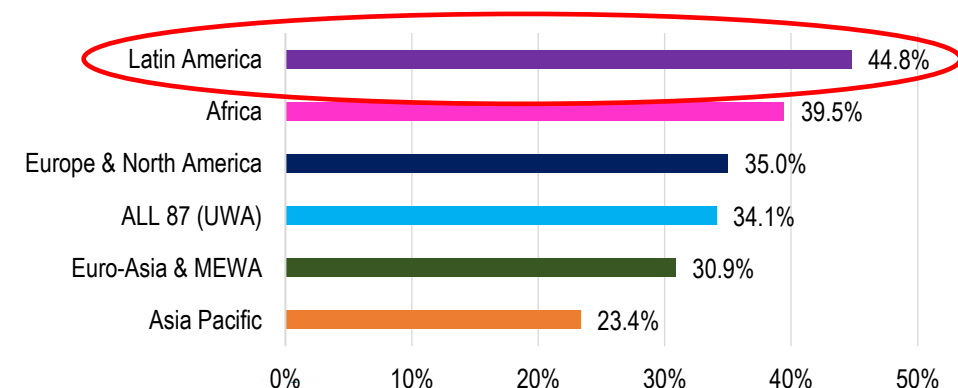
The recurrent property tax represents a high share of subnational tax revenue in Latin America, but it accounts for a low share of GDP

- Despite its significant revenue potential, the recurrent property tax remains **underutilised** in most countries across the world
 - At global level, property taxes account for 34.1% of subnational tax revenue, but only 0.7% of GDP on average in 2020
 - In the LAC region, property taxation is the main source of tax revenue, albeit accounting for only 0.5%
- Significant variations across countries in the LAC region:
 - > 60% of subnational tax revenue in Guatemala, Peru
 - < 20% in Brazil, Venezuela, Nicaragua, Bolivia

Revenue from subnational property tax as % of GDP (2020)



Revenue from subnational property tax as % of subnational tax revenue (2020)

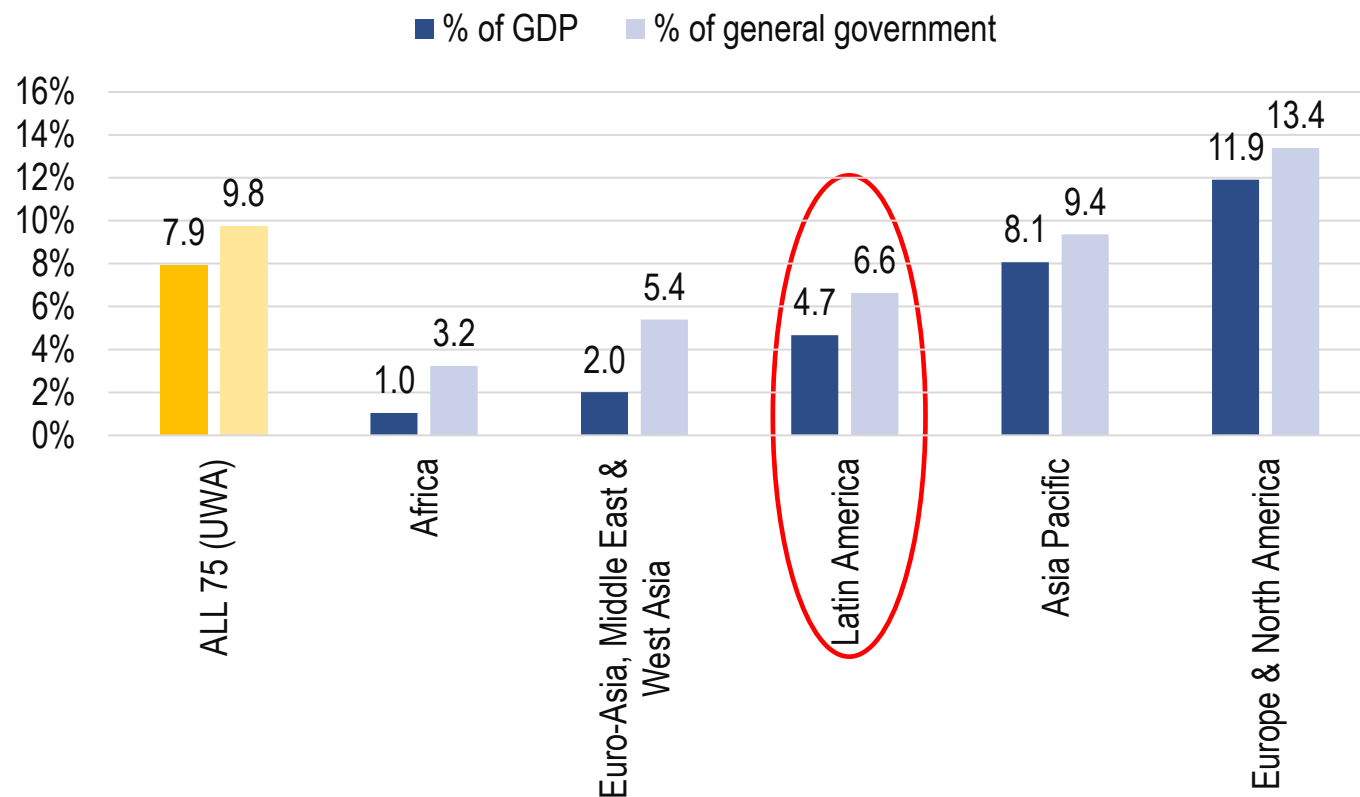




Subnational government debt in Latin America is below the OECD and world average

- Subnational government debt in Latin America is below the world average, but it varies across countries:
 - > 10% of total public debt in Brazil, Mexico, Colombia
 - <1% of total public debt and/or GDP in Peru, Guatemala, Paraguay
- Over the last 15 years, fiscal and debt rules have been reinforced across the region to promote subnational fiscal responsibility, transparency and broader fiscal stability
- To boost investment, it is necessary to find the right balance between providing enough fiscal space to subnational governments to invest while continuing to manage associated risks via sound fiscal discipline.

Subnational government debt as % of GDP and % of the total public debt (2020)

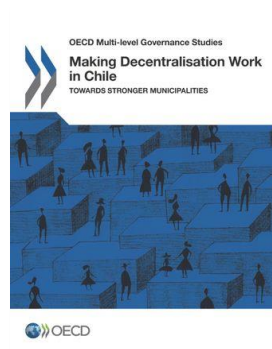
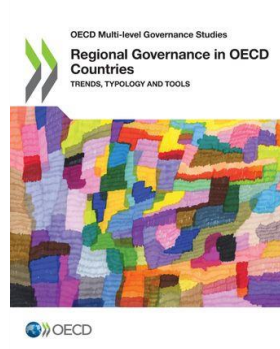
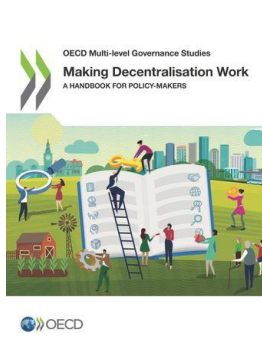


Source: OECD/UCLG SNG-WOFI (2022) – All averages are unweighted



Additional OECD references

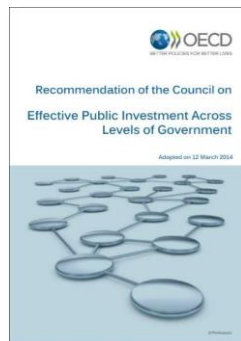
Multi-level governance / Decentralisation / regionalisation



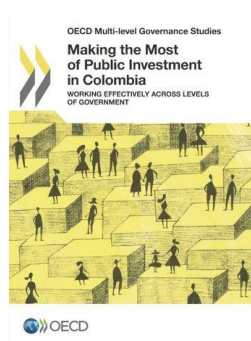
Subnational government finance



Public and infrastructure investment



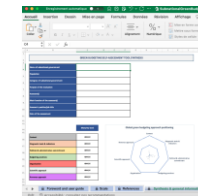
[OECD Recommendation on Effective Public Investment Across Levels of Government.](#)



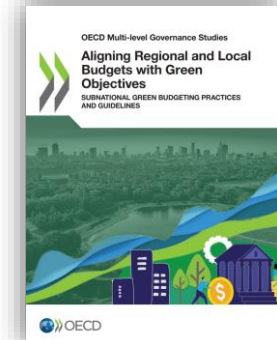
[G20-OECD Policy Toolkit to Mobilise Funding And Financing for Inclusive and Quality Infrastructure Investment in Regions and Cities:](#)

Subnational climate finance

Subnational Government Climate Finance Hub



[OECD Subnational Climate Finance Database](#)



[Subnational Green Budgeting](#)



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