

10.3 Revenue structure by level of government

Subnational governments are usually responsible for the direct provision of services to the population. However, the extent to which they can collect revenues depends on the distribution of fiscal responsibilities and powers between different levels of government. In countries where subnational governments face constraints on tax collecting, their primary revenue source is often transfers from the central government, typically earmarked in the central budget.

Countries in Latin America and the Caribbean (LAC) have traditionally been relatively highly centralised with subnational governments generating limited resources. As a result, state and local governments are largely dependent on transfers from the centre, constraining their autonomy over their finances. Although the optimal level of revenue allocation between government levels depends on the context and varies among countries, some evidence suggests more decentralised government could bring social and economic benefits (Kim and Dougherty, 2018).

On average, 71.8% of total general government revenues were collected at the central level across LAC countries in 2021, compared to 52.5% across OECD countries. All LAC countries are above the OECD average on this, but Chile stands out with 92.6% of revenues collected at the central level. However, in Chile, as well as Brazil and Colombia, social security funds are included in the central revenue figures. LAC countries collect 18.9% of revenues at state level on average, and 7.6% at local level. Conversely, Colombia stands out with 13.4% of government revenues collected at the local level (Figure 10.6), following decentralisation reforms over the past three decades (OECD, 2019). The comparatively low levels of subnational revenue collection in LAC countries reflect their limited tax jurisdiction, typically involving property taxes, motor-vehicle licences, taxes on specific services and municipal fees (OECD et al., 2023).

The pattern of changes in the distribution of revenue collection between 2019 and 2021 is mixed. On average, revenue at the central government level decreased by 0.8 percentage points (p.p.) during this period in LAC. This was largely driven by changes in Brazil, where the share of revenues at the central government level decreased by 1.7 p.p. However, in most LAC countries, the COVID-19 crisis impacted subnational revenue, leading to declines in subnational nominal tax revenues in 2020, which also highlights the limited sources of own revenues at this level of government (OECD et al., 2023). Central government's share of revenue grew particularly strongly in El Salvador (2.5 p.p.) and Ecuador (1.9 p.p.), with comparative revenue decreases in the share of social security funds (-3.5 p.p. in El Salvador and -1.3 p.p. in Ecuador). In Chile and Costa Rica, the shift in the relative weight of revenues shifted from the local level of government to the central level (Figure 10.7).

Methodology and definitions

Data are from the IMF Government Finance Statistics (IMF GFS) database, which applies the concepts set out in the Government Finance Statistics Manual (GFSM). The GFSM provides a comprehensive conceptual and accounting framework suitable for analysing and evaluating fiscal policy. It is harmonised with other macroeconomic statistical frameworks, such as the System of National Accounts (SNA). However, there are some differences between the GFS and the SNA frameworks in several instances, which led to the establishment, to a large extent, of correspondence criteria between the two statistical systems.

General government consists of central, state and local governments, and social security funds. State government applies to the federal states of Brazil and Mexico and the highly decentralised countries of Colombia, Paraguay and Peru. For detailed information on the components of revenues, see General government revenues. Data exclude transfers between levels of government in order to see the contribution of each sub-sector to general government total revenues, which are consolidated at this level. Data for the OECD average are derived from the OECD National Accounts Statistics database, which is based on the SNA framework.

Further reading

IADB (2022), *Outlook of Fiscal Relations among Government Levels in Latin America and the Caribbean*, Inter-American Development Bank, Washington, DC, <http://dx.doi.org/10.18235/0004708>.

Kim, J. and S. Dougherty (eds.) (2018), *Fiscal Decentralisation and Inclusive Growth*, OECD Fiscal Federalism Studies, OECD Publishing, Paris/KIPF, Seoul, <https://doi.org/10.1787/9789264302488-en>.

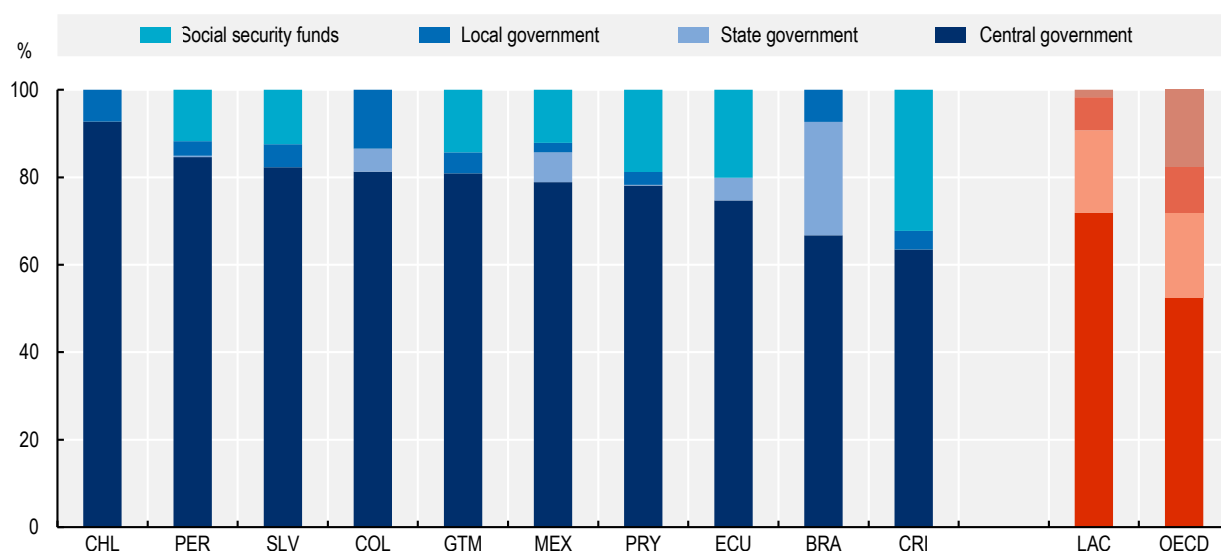
OECD et al. (2023), *Revenue Statistics in Latin America and the Caribbean 2023*, OECD Publishing, Paris, <https://doi.org/10.1787/a7640683-en>.

OECD (2019), *Asymmetric Decentralisation: Policy Implications in Colombia*, OECD Multi-Level Governance Studies, OECD, Paris, https://www.oecd.org/colombia/Asymmetric_decentralisation_Colombia.pdf.

Figure notes

Data for Mexico, Paraguay and Peru are recorded on a cash basis. Transfers between levels of government are excluded. Data for Costa Rica and Mexico are not included in the LAC average. Social security funds are included in central government for Brazil, Chile and Colombia.

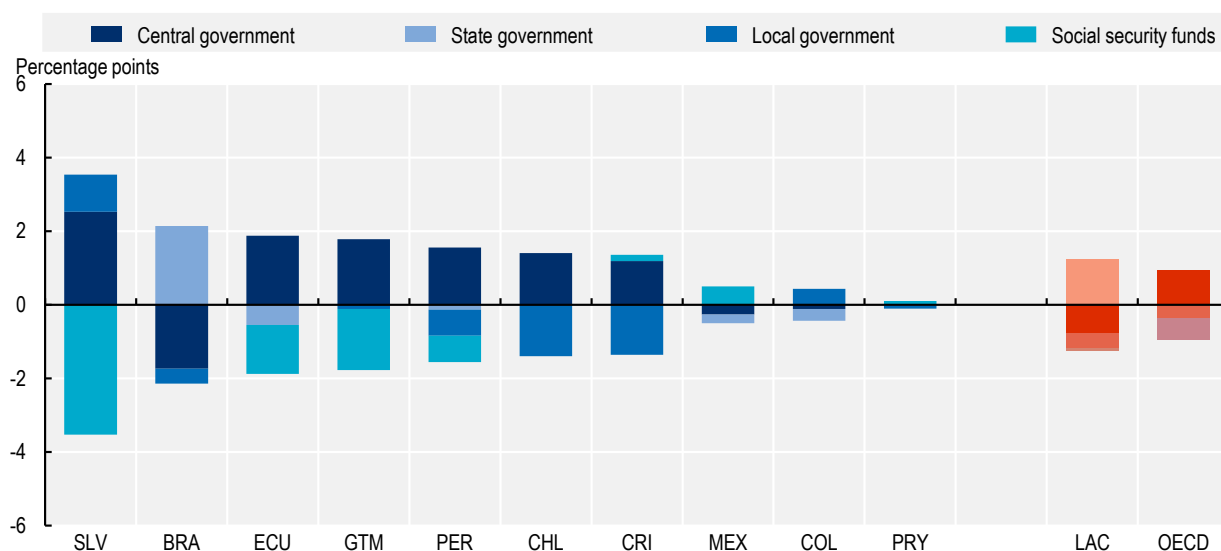
Figure 10.6. Distribution of general government revenues across levels of government, 2021



Source: Data for the LAC countries: IMF Government Finance Statistics (IMF GFS) database; data for the OECD average: OECD National Accounts Statistics database.

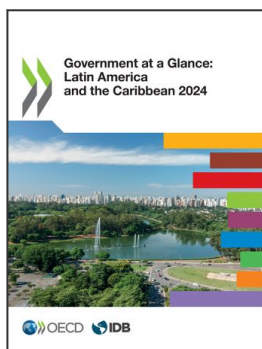
StatLink <https://stat.link/unxznmj>

Figure 10.7. Change in the distribution of general government revenues across levels of government, 2019 to 2021



Source: Data for the LAC countries: IMF Government Finance Statistics (IMF GFS) database; data for the OECD average: OECD National Accounts Statistics database.

StatLink <https://stat.link/d3wq59>



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