Different levels of government share responsibility for providing public goods and services. Central and sub-central governments (state and local) also vary in terms of their ability to levy taxes and collect social contributions. These differences could be explained by historical, economic, institutional and political factors. Commonly, sub-central governments are responsible for the provision of services and could be considered better equipped than central governments to obtain information on local needs and better placed to tailor public services accordingly.

In 2014, LAC central governments collected on average 71.1% of total revenue, followed by state governments (18.1%) and local governments (12.2%), while the remainder was collected through social security funds. For the same year, on average 55.5% of general government expenditures in LAC were carried out by central government, while state governments, local governments and social security funds were responsible for 23.8%, 16.4% and 4.3% of expenditures respectively. A common trend in many LAC countries is that sub-central governments are highly dependent on transfers from the central government as their main source of revenue.

Several decentralisation efforts have occurred in LAC countries over the past years aimed at assigning expenditure responsibilities to sub-central governments, and to a lesser extent to increase revenue mobilisation. Between 2010 and 2014, the share of expenditures of local governments increased in Chile (2.1 p.p.), El Salvador (1.2 p.p.), Colombia (0.7 p.p.), Paraguay (0.5 p.p.), Costa Rica (0.2 p.p.) and Brazil (0.2. p.p.). Conversely, expenditures by the local level decreased in Mexico (0.8 p.p.) and Peru (0.9 p.p.). In the case of Mexico, several reforms to federalism have resulted in a strengthened role for the states that on average have seen their expenditures (1.4 p.p.) and revenues (1.2 p.p.) increase between 2010 and 2014.

According to 2014 figures, in LAC countries the central level of government collects on average 71.1% of total revenues and is responsible for 55.5% of total expenditures. These figures are higher than for OECD countries where the central level collects 52.4% of total revenues and is responsible for 40.8% of total expenditures. For both groups these figures remained fairly stable between 2010 and 2014. Social security funds in OECD countries are relatively more important, accounting for 20.6% of total expenditures, than in the LAC region where they represented 4.3% of total expenditures.

Methodology and definitions

Data are drawn 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 the other macroeconomic statistical frameworks, such as the System of National Accounts (SNA). However, some differences exist 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. The GFS and SNA frameworks have been recently revised and several statistical standards were implemented by the countries.

General government consists of central, state and local governments and social security funds. State government is applicable 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 and expenditures, see “Methodology and definitions” sections of “General government revenues” and “General government expenditures” respectively. Data across levels of government exclude transfers between levels of government in order to see the contribution of each sub-sector in general government total revenues/expenditures, which are at this level consolidated. For the OECD average and Mexico, data are derived from the OECD National Accounts Statistics database, which is based on the SNA framework.

Further reading

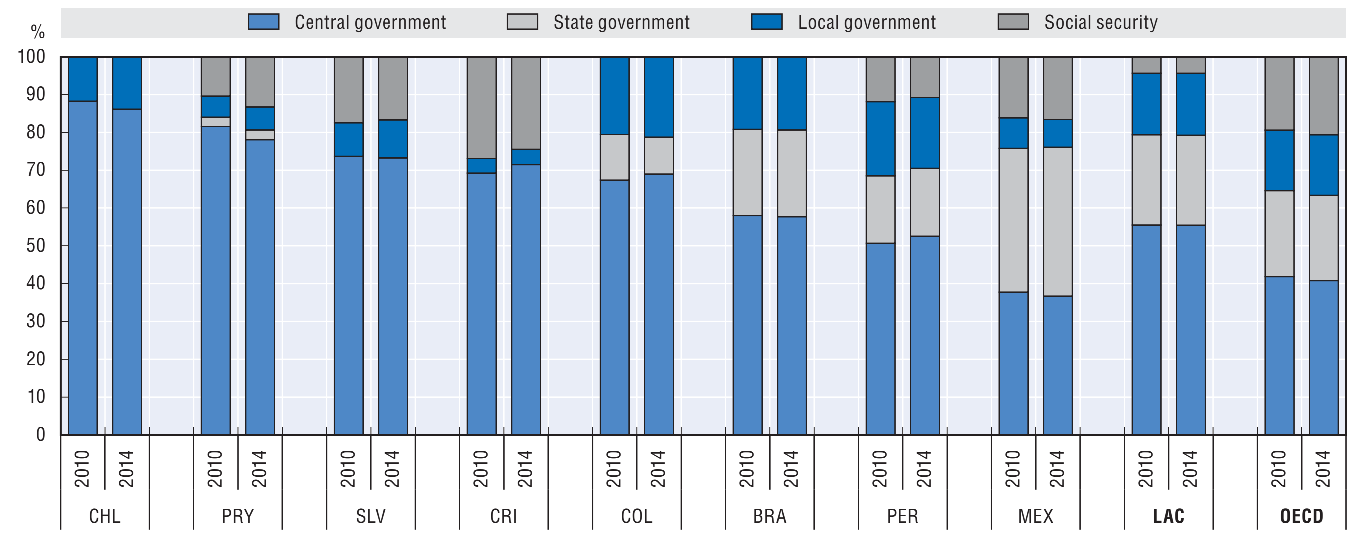
Fretes Cibils, V. and T. Ter-Minassian (2015), *Decentralizing Revenue in Latin America: Why and How*, Inter-American Development Bank, Washington, DC.

OECD (2013), *Fiscal Federalism 2014: Making Decentralisation Work*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264204577-en*.

Figure notes

2.17 and 2.18: Data for Peru and Paraguay are recorded on a cash basis. Transfers between levels of government are excluded. Data for Colombia, El Salvador and Mexico are for 2013 rather than 2014. Social security funds are included in central government for Brazil, Chile and Colombia.

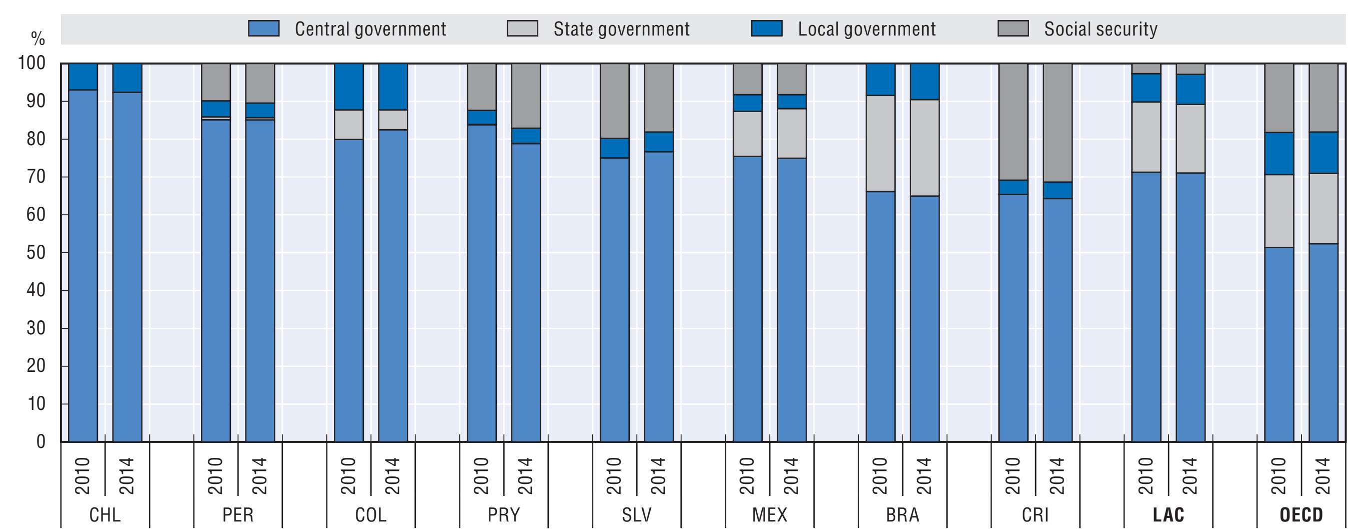
2.17. Distribution of general government expenditures across levels of government, 2010 and 2014



Source: IMF Government Finance Statistics (IMF GFS) database. Data for Mexico are based on the OECD National Accounts Statistics database.

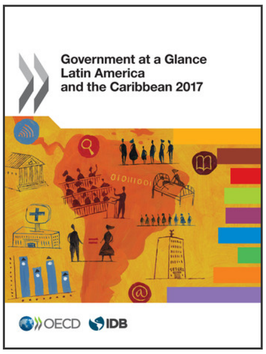
StatLink http://dx.doi.org/10.1787/888933431025

2.18. Distribution of general government revenues across levels of government (2010 and 2014)



Source: IMF Government Finance Statistics (IMF GFS) database. Data for Mexico are based on the OECD National Accounts Statistics database.

StatLink http://dx.doi.org/10.1787/888933431036



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