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FINANCING URBAN SERVICES IN LATIN AMERICA: Spatial Distribution Issues

by

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DISCUSSION PAPER

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The main author is Gian Carlo Guarda, Principal Urban Planner, Infrastructure & Urban Development Department. Many of the report conclusions are based on observations and contributions of Bank colleagues and sector experts, principally K. Mera, W. Dillinger, D. Mahar, J. Linn, R. Bahl, R. Bird, J. Macon, F. Rezende, M. Casanegra, and many others who have covered much of the same ground previously. Several staff members (R. Buckley, W. Dillinger, J. Hicks, B. Renaud, and S. Whitehead), my division chief, P. Ljung, and my director, L. Pouliquen gave helpful suggestions on a rough, first version of the paper.

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DISCUSSION PAPER

INTRODUCTION

This paper discusses urban services finance in the Latin American context of rapid urbanization, severe fiscal constraints and democratization of administrative systems. Analyzing the situation in thirteen different countries, it draws several conclusions which task managers may find helpful in the design of new lending operations.

The report's main theme is that the World Bank's approach to the urban sector needs to be re-directed. The long held dilemma between efficient pricing and poverty alleviation has often precipitated in the inconsistent application of a "user-fee" rationale to isolated project loans provided to particular cities. These "windfall" urban loans establish an unsound basis for Bank-Borrower dialogue by calling for special appropriations of central government funds. They favor discriminatory treatment of particular localities, distorting the regular pattern of resource allocation. The position taken is that a broader fiscal perspective is necessary to develop a systemic approach to urban lending. In this regard, the ongoing improvement of the existing systems of revenue sharing and institutional borrowing practices is seen as a promising area for dialogue with LAC governments.

The structure of the report is as follows: first, it reviews the Rising Demand for Urban Services (Section 1) noting the positive correlations of rapid urban growth with national development, but also the corresponding, incremental fiscal pressures. The Macro-Economic Constraints to Urban Expenditures are summarized in Section 2, which mentions the adverse circumstances limiting new capital formation and service provision in Latin American cities. Section 3 poses the question: Are LAC Governments Truly Decentralizing? Compared to those prevailing in industrial market economies the expenditure and revenue autonomies of subnational governments appears meager in the countries of Latin America, which are also plagued with regional disparities. These disparities foster political debates and widespread initiatives of administrative decentralization at a time when the critical state of the economies would rather call for centralized fiscal management. The strategies currently used in the Region to relieve the Fiscal Gap of Subnational Governments are reviewed in Section 4, including changes in the existing systems of revenue sharing, reassignment of public service functions, pricing adjustments, deregulation or privatization of certain services, technical assistance, and re-structuring of institutional credit. Transfers of some type appear inevitable in most countries, but there is also a need to offset the present trend of increasing reliance on top-down grants. The report's Main Findings and Recommendations are organized in Section 5 according to three main groups of concerns: those more frequently voiced by our LAC Borrowers, (Country Concerns); those stemming from economic and fiscal principles (Theoretical Concerns); and those emerging from the Bank's lending activities (Operational Concerns). For easy reference of the reader, the contents of each section have been condensed in the concluding Summing-Up paragraphs.

The text is accompanied by three case studies, which illustrate achievements and shortcomings of experimental lending operations in Argentina, Brazil, and Mexico. Some discussions of a more general character (e.g., on decentralization, revenue sharing, etc.) reflect current thinking on fiscal problems and are condensed in form of inserts (boxes). To support some of the points made in the text, Betty Alvarado has carried out the necessary elaboration of the statistics available from the IMF data base, including comparisons between LAC countries and industrial market economies.

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FINANCING URBAN SERVICES IN LATIN AMERICA:
Spatial Distribution Issues

Summary of the Report

i. Urban Services are the Main Business of Subnational Governments.

Municipal or Regional governments would not exist if central authorities did not recognize that certain public services are better organized and provided at the local level. Most of these services are city-based, but they benefit also the rural dwellers of territorial jurisdictions. Because all members of the communities concerned are potential consumers of urban services and because their availability also involves broader concerns of national welfare, they are financed through a mixture of user charges, local taxes, revenue sharing, inter-governmental transfers and institutional borrowing.

The budgets managed by subnational governments are therefore composite and can be seen as those of "social enterprises" producing and distributing services for the resident clientele of certain geographical areas. They are responsible to provide these services not "a-la-carte", but in whole "packages" that must satisfy diverse needs, preferences and income groups.

These "enterprises" may be quite numerous within the same country, and will differ from one another not only in the range and type of functions they perform, but also in their capacities to deliver services and in the fiscal efforts they devote to recovering their costs. And, because customers move from one jurisdiction to another, subnational governments are engaged in some form of competition. This paper discusses how the regulatory frameworks of LAC governments and the lending practices of international donors do influence the patterns of this competition and the comparative performance of subnational authorities.

ii. Large and Constant Aggregate Numbers.

Government finance statistics of Latin American countries show that the activities of these regional and local "enterprises" account for about 20 percent of total government outlays, the equivalent of eight percent of GDP. Moreover, observing budgetary trends over time, one notices that the expenditures of subnational authorities did not contract measurably, in proportion to GDP, even during the 1980's crisis, when the overall volume of fiscal resources declined in almost all countries.

The declining revenues of local and regional authorities were buttressed by the central governments through incremental transfers, subsidies and deficit absorptions. Public credit also played a role, rising to an all time high level of 15 percent in 1984. In order to sustain the volume of subnational expenditures during the recession, the central governments had to shift resources from the productive to the social sectors, from "tradeables" to "non-tradeables". Ad-hoc allocations were introduced to supplement the mandatory systems of revenue sharing, opening contentious issues of inter-jurisdictional equity.

Nevertheless, most subnational governments of the Region are virtually bankrupt, contributing a major share (about a third) of the public sector deficits. This gap can be as large, if not larger, than that of all national public enterprises combined, reaching in some countries up to five percent of GDP.

iii. Fiscal Politics Explanations. Various factors can be quoted to explain the above.

First, strong budgetary pressures arise from the sustained pace of urbanization of the Latin American countries. In fact, the service needs and expectations of the cities' dwellers grow much faster than their revenues. In per capita terms, the revenues of the subnational governments continue to decline despite the large subsidies they receive. This is due to some extent to the poor fiscal effort of local administrators but also to the low taxable base of their cities and to the progressive erosion of personal incomes.

Second, Latin American countries are plagued with territorial development disparities, which foster claims for central government measures of interregional equalization.

Third, the fiscal politics of Latin American countries continue to be dominated by a tradition of governance which vests all powers and responsibilities in the central authorities and explains the prevalent "top-down" approach to the financing of urban services.

Fourth, the fiscal crisis occurred in most countries at the very incipient stages of a process of democratization, giving clout to the new voters' claims for financial assistance, especially in the larger metropolitan areas where greater muscle could be mustered.

iv. A Relative Perspective on Developing Countries.

The explanations offered above are rooted in the fiscal politics of the Latin American countries. However, a different perspective can be gained by comparing their structure with that of the industrial market economies.

While their per capita income is much lower, many LAC countries are nearly as populated, urbanized, and industrialized as the developed countries. But in most of them, the share of the economy that is controlled by the public sector is generally much smaller (by more than ten percent of GDP). Furthermore, the proportion of expenditures and revenues corresponding to their subnational governments is far below that prevailing in Part One countries.

Nor can LAC countries be said to be especially welfare minded, because the share of public resources they devote to social services is consistently lesser than that of the "capitalistic" industrialized economies, where the total amount of related subsidies and other transfers is also proportionally much larger.

The governments of LAC countries are also more involved in concessionary credit to subnational governments than are those of the developed world, where the lending function is performed according to commercial criteria by more buoyant financial markets.

Significantly, the subnational authorities of LAC countries devote to capital improvements a proportion of resources that is three times larger than that of the market economies.

v. Position.

This paper argues that the territorial distribution of intergovernmental transfers and the pattern of institutional credit should be more directly linked to the contributions different communities can make to meeting the social costs of urban services and infrastructure.

Presently, LAC governments are hard pressed to reduce long standing disparities in living conditions between regions, between urban and rural areas, between large and small cities. They try to do so with fiscal measures, rationalizing the existing systems of revenue sharing or reassigning the responsibility for specific services between different levels of government. They also try - with little success - to promote a different pattern of territorial development through costly programs of direct investment or "spatial" incentives.

The paper suggests that both the horizontal distribution of transfers and the vertical reassignment of responsibilities can be improved without promoting an unwanted expansion of central government outlays. This could be achieved by delegating to regional authorities the assignment of transfers to municipal governments, facilitating their access to credit and devolving to them some independent source of revenue.

It also suggests that granting to the subnational governments some borrowing autonomy and greater authority to set and collect charges could promote initiatives of resource mobilization and foster more responsible and self-reliant local administrations and that the consumers' willingness to pay for services received can only be developed through their direct participation in local expenditure decisions.

vi. The Quest of Horizontal Equalization.

The extent to which territorial equalization of living standards can be pursued in LAC countries is presently a matter of resource availability. However, the level of improvement that can be effectively achieved in different areas depends also on the approach adopted in the spatial distribution of the fiscal resources available.

The most current approach is one of "basic needs", which invariably leads to staggering estimates of capital requirements, no matter how modest a service standard is assumed. It also tends to scatter resources in areas of lesser development potential or to concentrate them in areas of poor fiscal performance.

In turn, a "fiscal capacity" approach would seem more appropriate to a situation of resource constraints in that it rations the available capital according to the individual capabilities of jurisdictions to contribute to the payment of their own services.

Neither approach, however, can achieve equalization of living standards between "rich" and "poor" areas. It must be recognized that the idea of uniform territorial development is not an attainable nor a desirable goal, and should not be confused with the stated purpose of public policy, which is to maximize welfare for the national population as a whole. In fact, the pursuit of spatial equalization may increase significantly the average unit cost of the services produced (thereby lessening overall output) because of regional cost differentials and scale diseconomies.

vii. Focusing on Fiscal Effort Rather Than Basic Needs.

As with the basic-needs approach, a straight fiscal capacity approach to revenue sharing would lead to favoring areas where presumably most people are poor, and could discourage fiscal effort in area of potentially greater buoyancy. For this reason, one should focus on the extent to which different communities effectively tap their own taxable base introducing some measure of reward for fiscal efforts.

Much of the current controversies over the revenue sharing systems used in LAC countries stems from the fact that their present design blurs together conflicting issues of distributional equity, allocative efficiency and fiscal neutrality. Therefore, the first step to improve the situation would be to clarify the objectives of intergovernment transfers.

If the main purpose of the government is to achieve a better distribution of personal income, it should be recognized that transfering more funds to "needy" jurisdiction is only a coarse approximation to this objective: not all residents are poor in the ill-serviced cities, nor are all rich in those which are comparatively better served. More direct measures would be needed to improve the earning power of the poor.

If the main purpose is simply to even out the burden of self-financing, achieving greater equity in the fiscal treatment of different jurisdictions, the territorial distribution of resources should also take into account the comparative ability of each community to raise resources and their performance in this respect. This implies acquiescence with the fact that richer communities may endow themselves with better services as long as they choose to pay for them, and that the revenue sharing system exists only to ensure that some socially acceptable level can be provided everywhere. One must recognize that, in the short run, area disparities within developing countries can be lessened only through the mobility of labor and that households, as well as firms have very good reasons to move to the larger cities.

viii. Questionable Investment Policies.

The governments of LAC countries try to correct regional disparities not only through generic transfers, but also through direct investments in local infrastructure and services. This might improve local living conditions (and possibly marginal income) for those who remain in the benefiting jurisdictions but is unlikely to curtail the inflow of migrants to the larger cities or to modify substantially the location behavior of firms and households.

Similarly, agglomeration economies and the comparative advantage of more attractive areas defeat the use of spatially determined credit or fiscal incentives and the introduction of regulatory constraints to divert productive enterprises towards areas of the country where profitability is less apparent.

These public policies are more likely to be wasteful than effective. Nevertheless, because of their concerns with the uneven territorial distribution of their population and economic activities, the governments of LAC countries frequently seek external assistance for special programs of capital improvement in cities, which are singled out according to size categories (large, medium or small) on the assumption that a different pattern of spatial development would result. More often than not, this approach leads to special treatment of individual urban centers, isolated from the context of fiscal, financial and economic flows that link them to neighboring cities or to their rural hinterland. Programs of this kind should be reassessed not merely in view of their urban development objectives but in the broader framework of national stabilization and economic recovery policies.

ix. The Additionality of Windfall Project Loans.

From an operational point of view, the report recommends revision of the traditional city-specific approach to urban projects in LAC countries. This approach tends to concentrate an occasional windfall of investment funds on particular jurisdictions distorting the regular patterns of domestic resource allocation and revenue sharing.

Given the scant resource generally available to the urban sector, these "spot-lending" operations warrant a concern with their equity, efficiency and replicability on a larger scale. They also raise the critical question whether or not the borrowed funds represent an increase in aggregate public sector debt and whether the central government would not be better off by directing credit merely to those local communities which can raise incremental resources to amortize at least the external component of an urban investment loan.

In practice, external support should not be directed to those jurisdictions which present the most acute needs, but rather to those which show greater creditworthiness, implementation capacity and willingness to undertake reforms. The needs of the weaker communities would be better addressed through appropriate targeting of the mandatory revenue sharing.

x. Can the Cost of Urban Services be Recovered Directly from their Users?

By and large the tendency has been to repeat for Latin American cities formulae which are fashionable in Part One countries: privatization wherever feasible, establishment of single purpose, semi-autonomous enterprises, and better recovery of costs through tariffs, betterment charges and reassessment of property values.

For these "get-the-prices-right" recipes to work out at the local level, one must assume that the distribution of personal income is fairly even, or that sophisticated systems of cross-subsidization can be introduced and that appropriate distributional trade-offs take place at the national level. One must assume also that both the traditional and the new consumers of urban services

are capable and willing to pay more than they do at present and that some stability is already achieved for the economy and the financial markets. In the present context of Latin American countries the feasibility of full cost recovery through direct charges sounds like a rhetorical question.

The conventional approaches to the pricing of transport, energy, water supply, sanitation and telecommunications are difficult to extend to the whole range of urban services. Many urban services involve externalities and complex issues of income distribution which justify some form of financial assistance by the central government to ensure a basic provision even to communities or social groups which cannot pay back. If one were to apply literally the fiscal principle of exclusion, few of these services would fall in the category of "private goods" and be conducive to the application of marginal pricing. In fact most of them are neither "private" nor "public" in a strict sense, but fall between the two categories.

Mentioning that user charges or property taxes are not sufficient to finance all urban services is not to suggest further growth of intergovernment transfers: this would quickly dissuade all local administrations from applying any form of direct imposition. The point made here is that merely focusing on isolated price adjustments does not address more systemic issues of local finance.

What really matters in LAC cities is not whether financial discipline takes the form of direct or indirect levies but that the local community be induced to support a proposed "package" of services through a fiscal effort of some kind. The real issue is that of targeting financial assistance to jurisdictions in an equitable manner, according to equitable and defined criteria, and of ensuring that transferred resources are used effectively at the local level.

In this respect it might be more expedient to set overall targets for the fiscal performance of local administrations as a condition for further transfers and to use credit or matching grants as mechanisms of reward for incremental efforts. This more comprehensive approach would leave a degree of freedom for the local administrations to decide which services to provide and how best to raise their revenues. It would also encourage the supply of those services which are most wanted by the local constituencies rather than promote expansion of those for which direct cost recovery is most feasible and earmarked funding available. One can argue also that the local authorities are more likely to raise payment for services they provide with the concurrence of consumers than for services decided upon at higher levels.

xi. Regionalizing the Assignment of Fiscal Transfers.

The report suggests that some gains could be achieved in both the cost effectiveness and the fiscal equity of transfers if the central governments were simply to allocate resources on a regional basis, leaving to intermediate authorities their further assignment to local jurisdictions. Breaking away from a tradition of centrally earmarked capital grants, such "regionalized" pattern of assistance has allocative and institutional implications. However, it would be consistent with the current claims of fiscal, rather than merely administrative decentralization.

Partisans of decentralization argue that only by reducing the present reliance on central government prescriptions one could achieve a more responsive pattern of service delivery. However, what is heralded as "decentralization", in many countries consists only in the proliferation of regional branches of sector ministries, or in the creation of new administrative jurisdictions, which produce only further budgetary fragmentation, higher current costs and little improvement in the effective delivery of urban services.

In most Latin American countries, the regional governments function as mere pass-through agents for centrally directed transfers, but there quite a few cases in which they complement these flows with revenue sharing schemes of their own. Financial assistance seems to operate on a better informed basis, when coordinated by regional authorities, because these authorities are politically more responsive to their own jurisdictions and possess a comparative knowledge of their development potentials and pockets of poverty.

The real question, then, is whether the regional authorities could become instrumental in gearing the allocation of grants to some combination of local needs and fiscal effort and in improving the local governments' access to institutional credit in a manner that helps containing the growth of budgetary deficits.

xii. An Intermediate Step towards Decentralization: Operational Implications.

The above considerations suggest a possible evolution of urban service finance in LAC countries, which would vest increasing planning and management responsibilities in the regional authorities.

This approach is particularly suited for the larger countries, which already have a federal or quasi-federal organization, but could be applied also in smaller countries, which have some form of regional administration. The State or Provincial Banks of many LAC countries combine the function of channeling the flow of intergovernment revenue sharing with that of making occasional loans to municipalities. In this respect, they can link the repayment of credit with the secular flow of top down grants, acting as financial intermediaries for subloans. The local administrations would have to pledge a portion of their entitlements to mandatory transfers as collateral for urban infrastructure loans (a practice already in use in many countries).

The crucial element in the suggested shift of responsibilities from central to subnational authorities is the agreement of the former on the criteria for the horizontal allocation of both the credit funds and the intergovernmental grants. This involves a commitment to revising inconsistent regulations and to substituting long term subnational borrowing for incremental revenue sharing. These are systemic issues which cannot be dealt with on a city-by-city basis and may require adjustment of national fiscal policies.

This approach requires also the definition of generalized, minimal criteria for the preparation and integration of local investment plans, because the responsibilities of project identification, design and implementation, conventionally carried out at the center, would be delegated to subnational authorities, which will need to receive appropriate training and technical assistance. Tailored programs to improve local capabilities for fiscal

management and capital improvement budgeting thus become essential components of the urban development programs.

The regional authorities should develop their own institutional capabilities for efficient financial intermediation and for the planning and supervision of programs involving numerous cities and projects at the same time. Since expenditure decisions would be brought closer to the beneficiaries, one would require also some tightening of budgetary and auditing controls at both the regional and the local levels.

xiii. A Gradualistic Strategy for Urban Lending.

The above considerations suggest adoption of a gradualistic strategy, based on the establishment of a line of credit for municipalities, in the form of a revolving fund managed by regional authorities.

Subloans would be assigned first to those communities which show greater potential for fiscal improvement and progressively extended to other jurisdictions which, although initially reluctant to assume the corresponding obligations, may be induced to do so by the demonstration effects of the use of borrowing in more enterprising communities. Over time, it would become possible to restrict grant funding to the truly needy jurisdictions, while borrowing is emphasized in those with a more buoyant economic base.

The proposed approach implies also a different perspective on city size. As long as population size reflects economic opportunities, the larger cities would receive more credit funds but less grants per capita not because their expenditure needs are less visible than those of medium size or smaller cities, but because their greater capacity should be better exploited to raise revenues for self-financing.

One positive feature of this approach is that it may support the formulation of an integrated policy of urban development: at the national level, in implementing a broad redistribution of fiscal resources among regions; at the regional level, in considering the comparative performance of different cities as parts of an interdependent regional system.

xiv. Conclusion.

Reviewing the World Bank experience of urban lending in LAC countries, one can see a progressive move from discrete project loans toward comprehensive operations, which combine a concern with the replicability of initiatives with increasing attention to the regular flows of intergovernmental transfers. This trend shows also a sharpening focus on the macro-economic issues involved in financing urban infrastructure and on the need to leverage the impact of Bank lending with some policy revisions on the use of domestic resources.

Particularly in the fast urbanizing LAC countries, the economic and fiscal contribution of cities are an important component of the adjustment process. Urban development lending should therefore be based on a review of those stabilization, allocation and distribution policies of the central governments which directly affect the performance of cities. The Bank needs to clarify its approach to this sector of investment, developing with LAC Borrowers

a common understanding of the relevant operational issues, of the impacts of the spatial distribution of intergovernmental transfers and of the effects of subsidies for infrastructure, housing and urban services.

This paper outlines how external lending could be linked to the national systems of revenue sharing. Improvement of the latter is seen as a fruitful and productive area for policy dialogue with LAC Borrowers upon which a new rationale for external assistance could be developed. The main objective should be to ensure that at least a minimum of urban services can be provided in all communities, while sustaining local motivations toward fiscal effort.

Box 0-1: POLICY CONCERNS IN URBAN SECTOR LENDING

Country Concerns (Related to Fiscal Politics)	Theoretical Concerns (Related to Economic/Fiscal Theory)	Operational Concerns (Related to Lending)
Territorial Distribution of Population and Economic Activities	Factor Mobility (Labor, Capital, Technology) (Voting with the Feet, Mobility of Enterprises)	Impact of Bank Lending on Overall Urban System
Size of Very Large Cities	Economies/Diseconomies of Agglomeration	Large Cities Absorb Most Credit
Neglected Rural Areas and Towns	Internal Linkages of Settlement Systems	Creditworthiness Independent of City Size
Horizontal Equity (Needs)	Fiscal Equity (Effort/Capacity)	Selecting Borrowing Communities
Deterioration of Levels of Service	Cost-Effectiveness of Expenditures	Replicability of Lending Operations
Spatially "Uniform" Development?	Area Comparative Advantage	Strategic Use of Credit
Sectoral Coordination	Allocative Efficiency (Intersectoral)	Managing Multi-Sectoral Loans
Fiscal Assignment (Vertical Balance)	Externalities/Economies of Scale Development & Poverty Alleviation Functions	Shortage of Counterpart Funds
Growth of Subnational Fiscal Gap	Budgetary Predictability of Revenues/Expenditures/Subsidies	Linking Lending with Revenue Sharing
Short-term Liquidity Constraints	Growth of Domestic Deficit	Credit in Lieu of Incremental Grants
Solvency of Institutions	Impact on National Financial Markets	Suitable Financial Intermediaries
Willingness/Capacity to Pay	Resource Mobilization/Efficient Pricing	Cost Recovery (Direct/Indirect)
Limited Local Capabilities of Management/Planning/Implementation	Responsiveness to Local Needs/Preferences	Curbing Growth of Parastatals
Local Autonomy (Participatory Planning)	Accountability for Use of Resources	Decentralizing Project Development
Growth of the Informal Sector	Promotion of Private Sector Initiative	Revising the Regulatory Framework
Fragmentation of the Urban Sector	Urban Investment Policy/Tax Reform	Nature of Conditionality
Limited Factual Knowledge	Theoretical/Operational Questions	Sector Research Needs

FINANCING URBAN SERVICES IN LATIN AMERICA:

Spatial Distribution Issues

I. THE RISING DEMAND FOR URBAN SERVICES

1.01 The Region's Urbanization Process. The proportion of total population living in cities has been rising at a markedly faster pace in Latin America than it has in other regions of the world. In 1960, less than half of the Region's population (49 percent) was urbanized. By 1980, the proportion had reached about two thirds (65 percent) and UN projections suggest an overall urbanization ratio of 77 percent by the end of this century.[1/] In year 2025 the population of LAC cities would attain an average ratio of 83 percent, matching the values already achieved today in Venezuela and in the three countries of the Southern Cone (Argentina, Chile and Uruguay). In most other LAC countries, the overall structure of the population is young and the fertility rates quite high in both the cities and the countryside, resulting in sustained rates of demographic increase. Especially prominent are the positions of Brazil in Tropical South America and Mexico in Central America: the combined urban populations of these two countries alone (128 million) represent more than half the regional total (54 percent) and they are still growing at average rates of over 3.2 percent per annum.

1.02 Population Distribution. In LAC countries, the territorial distribution of the population is characterized by two main features: the polarization of demographic settlement on a number of large metropolitan areas (see Table 1.2) and, at the same time, the dispersion of population in tens of thousands of smaller cities and towns, scattered over vast territories. At the root of these settlement patterns are the inappropriate terms of trade between the urban and the rural sectors (an enduring legacy of the colonial past) and the corresponding, sharp income differentials which drove millions of poor immigrants to the cities. To these factors, one must add the persistence of adverse conditions in the countryside which is plagued with poor living standards, generalized unemployment, land tenure problems and recurrent natural disasters.[2/]

1/ United Nations Center for Human Settlements (HABITAT): Global Report on Human Settlements, Oxford University Press, New York, 1987.

2/ Severe droughts, floods, hurricanes, landslides, volcanic eruptions or earthquakes have hit Argentina and Brazil (1985), Chile (1939 and 1986), Colombia (1984 and 1986), the Dominican Republic (1979 and 1982), Ecuador (1987), El Salvador (1987), Haiti (1982), Guatemala (1976), Mexico and Nicaragua (1973) and Peru (1970 and 1983).

Table 1.2: DEGREE OF URBAN POLARIZATION IN LAC COUNTRIES (1985)

Countries	Percentage of Urban Population Over Total Population	In Cities Larger Than 500,000 People	In The Largest City	Cities With More Than 2 Million People	500,00 People
Larger Countries	73%	49%	26%	14	37
Colombia	67%	60%	23%	1	5
Argentina	85%	56%	42%	1	5
Brazil	73%	49%	16%	6	14
Mexico	70%	48%	31%	3	7
Peru	67%	48%	42%	1	2
Chile	84%	41%	41%	1	1
Venezuela	87%	37%	25%	1	3
Smaller Countries	45%	46%	39%	-	15
Dom. Republic	56%	71%	51%	-	2
Jamaica	54%	66%	66%	-	1
Paraguay	44%	66%	66%	-	1
Costa Rica	50%	57%	75%	-	1
Ecuador	52%	49%	20%	-	2
Uruguay	85%	47%	47%	-	1
Nicaragua	56%	42%	42%	-	1
Panama	52%	41%	41%	-	1
Honduras	40%	38%	38%	-	1
Guatemala	40%	38%	38%	-	1
Bolivia	48%	33%	33%	-	1
Haiti	27%	31%	31%	-	1
El Salvador	39%	24%	24%	-	1
19 LAC Countries	69%	49%	27%	14	52
19 Market Economies[a/]	75%	49%	18%	32	163

Source: UNITED NATIONS: "The Prospects of World Urbanization", New York 1987
UNCHS - HABITAT: "Global Report on Human Settlements 1986", Oxford United Press

a/ These include: Canada and United States; Austria, Belgium, Denmark, Finland, France, Germany (F), Ireland, Italy, Netherlands, Norway, Spain, Sweden, Switzerland, and United Kingdom; Japan; Australia and New Zealand.

1.03 Population Movements. While still a significant component, the rural-urban exodus is no longer the major factor of the continued growth of Latin American cities. By now, the main force driving their expansion is the natural increase of large numbers of residents and their mobility from one urban area to another. Cities continue to grow even in temperate South America, where the pace of natural increase has long subsided, because people keep moving from the metropolitan core areas to the peripheral communities, from the smaller to the larger cities and from the rural hamlets to the nearby towns. A trend towards more localized movements is gradually replacing the historical patterns of massive inter-regional migrations, as can be observed also in Brazil, Mexico and Colombia. Therefore, the incremental demand for urban services is likely to remain high in all countries over the next decades particularly at the fringes of metropolitan areas and in the medium size cities.

1.04 Urban Hierarchies. Forty percent of LAC urban dwellers live now in twenty five metropolitan areas with more than one million inhabitants; a fourth of them are found in "megacities" with ten million people or more (Mexico City, Sao Paulo, Rio de Janeiro and Buenos Aires), of which the first two will be the world-largest urban agglomerations by year 2000.[3/] While the prominence of these megacities is assured by the combination of their present size with relatively high growth rates, several other cities will graduate into the million rank. However, the share of total urban population accounted for by these 'secondary' metropolises seems relatively stable over time, fluctuating between 15 and 18 percent of the total urban population. Settlements below this size (intermediate cities and small towns) are far too numerous to be counted. As an indication, the number of Latin American centers that are important enough to be seats of local government is now in the order of 13,000. (See Table 1.4).

1.05 Urban Services Defined. This expression has been used throughout the report in a broad sense, to identify those services which have a discrete spatial incidence within an urbanized area (the benefit region) where they are provided to the general public. Within this area, urban services (such as sidewalks or street lighting) are virtually available to all members of the resident community and their consumption is neither rival, nor exclusive. For this reason, consumers need not reveal their individual preferences through price competition and tend to set out as free riders. Thus, the correct amount and appropriate kind of urban services to be produced in a given jurisdiction does not depend on horizontal aggregates of effective demand, as is the case for private consumption goods, but on budgetary decisions taken for the end users by their

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3/ UNCHS Projections: Mexico City: 25.8 million; Sao Paulo: 24 million; Rio de Janeiro: 13.3 million; Buenos Aires: 13.2 million. Cities over one million inhabitants will pass from the present number of 25 to 46.

Table 1.4: NUMBER OF SUBNATIONAL GOVERNMENTS IN LAC COUNTRIES (1987)

Countries	Regional		Local	
Larger Countries				
Argentina	22	Provinces, 1 National Territory	1617	Municipalities
Bolivia	9	Departments Prefectures	9	Capital Municipalities & Several Others
Brazil	24	States, 1 Federal District	4112	Municipalities
Chile		none	317	Municipalities
Colombia	23	Departments, 1 Capital District	967	Municipalities
Mexico	31	States, 1 Federal District	2376	Municipalities
Peru	25	Departments, 155 Provinces	1567	District Councils
Venezuela	20	States, 2 Federal Territories	188	Municipalities, 1 Federal District
Smaller Countries				
Bahamas		none		none
Barbados		none		none
Belize		none	7	Town Boards & Belize City Council
Cayman Islands		none		none
Costa Rica	4	District Councils	81	Municipalities
Dominica		none	2	Town Councils, 47 Village Councils
Dominican Republic		none	31	Municipal Districts, 95 Municipalities
Ecuador	19	Provincial Councils	136	Municipal Councils
El Salvador		none	262	Municipalities
Grenada		none		none
Guatemala		none	328	Municipalities
Guyana		none	6	Town Councils
Haiti		none	137	Communes
Honduras		none	281	Municipalities
Jamaica		none	13	Parish Councils
Netherlands Ant.	5	Islands Governments		none
Nicaragua		none	135	Municipalities
Panama		none	66	Municipalities
Paraguay		none	192	Municipalities, 1 Capital District
St. Lucia		none	1	City Council
St. Vincent		none	1	Town Board
Suriname		none		none
Trinidad & Tobago	7	County Councils	4	Municipalities
Uruguay	19	Departmental Governments	1	Superintendency (Montevideo)

Source: IMF, Government Finance Statistics Yearbook, 1987

political representatives, who may or may not be elected. This is why local and regional authorities are regarded as the natural agents of urban services supply and become directly involved in their production and distribution by constructing, purchasing and operating the necessary facilities, franchising these activities, releasing vouchers to consumers, or simply by regulating the performance of private enterprises.

1.06 Types of Urban Services. The types of services which come under the purview of subnational governments[4/] are no different in Latin America than elsewhere. They may be in the nature of general public services, such as the regional coordination of the investments of national sector agencies or the supervision of local government activities, the maintenance of law and order, the administration of justice, the regulation of the use of land and of private construction activities, the registration and assessment of real estate property and a variety of other administrative, fiscal, and support functions. More specifically, they usually include the provision and operation of social services, such as health care, education, and welfare; the control and regulation of urban traffic; the lighting of city streets; the collection and disposal of solid wastes; the implementation and maintenance of public works (construction and upkeep of certain roads, street pavements, sidewalks, storm-drainage, parks, playgrounds, and public buildings). They generally comprise also services that are not "public" in a strict sense, such as the local provision of and connection to utilities (water, sewerage, town gas, electric power, telephone); the establishment and operation of general facilities such as slaughterhouses, covered markets, garbage dumps, transportation terminals. Finally, subnational budgetary provisions may also involve the supply of merit goods, such as subsidized housing for the poor or meals and bottled milk for school children, which may be provided through government because specific official policies recognize this need. In general, the subnational governments perform a limited

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4/ Throughout this paper, Subnational Governments indicates Regional (State, Provincial or Departmental) Governments and Local (Municipal) Governments as distinct from National (Federal or Central) Governments.

role also in the promotion and regulation of economic activities like agriculture, mining, manufacturing, commerce which account for a minor share of local expenditures.[5/]

1.07 Assignment of Public Service Functions Among Levels of Government. Legal statutes generally assign the performance of specific service functions to different tiers of government. In general, the logic of these assignments is that functions with larger externalities or economies of scale should be performed by higher level authorities. However, the real situations are seldom clear cut because the definitions used are often too broad and because higher level authorities are frequently called upon to supply a given public good which the lower authorities are either financially or technically unable to provide. As a result, the provision of many public services is shared by different levels of government and the very proportion of this sharing may vary considerably for different services from place to place even within the same country. Since the analysis of statutory responsibilities is often of little help, a better grasp of the factual situation can be derived from examining the expenditures effectively made by each level of government for specific functions. Table 1.7 provides a fair illustration of such expenditure breakdown in the case of Brazil for fiscal year 1984. As can be seen, apart from expenditures on external affairs and defense, which are obvious concerns of the central government, general services remain an important expenditure item for the subnational governments, with the bulk of public outlays for the legislative and the judiciary being carried out at the regional (state) level, while both the regional and the local budgets are heavily burdened by the costs of public administration. Subnational governments, especially at the municipal level appears principally involved also in the provision of social services, mostly

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5/ In its publication of government finance statistics, the IMF follows COFOG (the United Nations Classification of the Functions of Government) which considers four basic categories: (a) General Government Services, including all activities indispensible to the existence of an organized state, which cannot be allocated to particular groups of beneficiaries; (b) Community and Social Services, including all services supplied to the community or the household directly; (c) Economic Services: including those associated with the efficient operation of business, and (d) Other Functions: including interest payments or underwriting of public debt as well as transfers to other levels of government, which disappear in the consolidation of accounts of the levels and bodies of government. Thus, Housing, Community Amenities, Water Supply, Sewerage, Garbage Collection, Street Lighting, and Recreational, Cultural and Religious Facilities are classified as social services, while Street Construction and Maintenance, Urban Transport, Town Gas, Electricity and Telephone Connections are classified as economic services.

Table 1.7: ASSIGNMENT OF PUBLIC SERVICE FUNCTIONS AMONG LEVELS OF GOVERNMENT AS EVIDENCED BY 1984 BUDGETS IN BRAZIL

Functions	General Government	Central Government	Regional Governments	Local Governments	Capital Municpits	Other Municpits
			VERTICAL ASSIGNMENT			
General Services	**100.0**	**41.8**	**47.0**	**11.2**	**4.5**	**6.6**
Legislature	100.0	20.8	26.8	52.3	6.4	45.8
Judiciary	100.0	22.6	75.3	2.1	1.5	6.2
External Affairs	100.0	100.0	-	-	-	-
Administration & Planning	100.0	36.6	51.4	12.1	5.2	5.8
Defense & Public Order	100.0	63.2	36.5	.3	.1	.2
Social Services	**100.0**	**38.2**	**45.5**	**16.3**	**9.5**	**6.8**
Education & Cultural Affairs	100.0	34.6	53.7	11.7	6.9	4.7
Health & Sanitation	100.0	24.6	58.8	16.6	10.7	5.8
Social Security & Welfare	100.0	55.8	36.2	7.9	4.8	3.1
Housing & Community Amenities	100.0	8.9	16.5	18.9	39.8	34.8
Economic Services	**100.0**	**60.4**	**28.0**	**3.8**	**2.2**	**1.6**
Regional Development	100.0	75.6	24.2	.2	.1	.1
Agriculture	100.0	67.3	31.5	1.2	.3	.9
Industry, Commerce & Services	100.0	47.1	44.4	8.4	5.1	3.2
Energy, Mineral Resources	100.0	83.8	16.0	.2	.1	.1
Transportation	100.0	53.8	37.7	8.5	5.0	3.5
Communications	100.0	71.9	26.1	2.0	.-	2.0
			INTERSECTORAL ASSIGNMENT			
TOTAL EXPENDITURES	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
General Services	**34.8**	**30.2**	**39.8**	**36.7**	**28.7**	**45.3**
Legislature	2.1	.9	1.4	10.5	2.5	19.1
Judiciary	1.7	.8	3.1	.3	.5	.2
External Affairs	.5	.9	-	-	-	-
Adminstration & Planning	22.6	17.1	28.2	25.6	25.6	25.7
Defense & Public Order	7.9	10.4	7.0	.2	.1	.3
Social Services	**33.1**	**26.3**	**36.6**	**50.8**	**57.2**	**43.9**
Education & Cultural Affairs	14.3	10.3	18.7	15.8	18.2	13.3
Health & Sanitation	4.9	2.5	7.0	7.7	9.6	5.6
Social Security & Welfare	11.2	13.0	9.8	8.3	9.8	6.7
Housing & Community Amenities	2.7	.5	1.1	19.0	19.6	18.3
Economic Services	**32.0**	**43.5**	**23.4**	**12.5**	**14.2**	**10.7**
Regional Development	9.4	14.7	5.5	.2	.2	.1
Agriculture	3.2	4.4	2.4	.4	.2	.6
Industry, Commerce & Services	1.2	1.2	1.3	1.0	1.2	.8
Energy & Mineral Resources	4.4	7.7	1.7	.1	.1	.1
Transportation	13.6	15.2	12.4	10.8	12.5	.1
Communications	.2	.3	.1	.-	.-	.-

Source: Elaboration of Data from: Secretaria de Economia e Financas: Financas do Brazil, Exercicio de 1984, Volume XXIX, Ministerio da Fazenda, Brazilia DF, 1986.

for education, health, sanitation, housing and other urban-based activities. Note in this respect the relative importance of these activities in state-capital municipalities (Table 1.7). The brunt of economic services is carried instead by the central government, but are also partially delegated to regional authorities, remaining only a secondary concern in the local budgets, except for road construction and maintenance. As we shall see in Section 4, this generalized picture of Brazil, is to some extent repeated in Argentina, Chile, Colombia, and Panama, for which less complete information is available on expenditures by function (See Table 4.17 a, and Annex Tables 4.17 b & c)

1.08 Diversity of Urban Service Demand. Demand for urban services is not homogeneous. It varies from country to country, among regions of the same country and across the urban hierarchy. A variety of urban conditions exists, as cities differ greatly in size and extension, from the large megalopolises like Mexico City, Sao Paulo, Rio and Buenos Aires, to the countless "urban" settlements with a few thousand people.[6/] The very territorial extension of the great agglomerations creates specific problems of travel time, congestion of central areas, environmental pollution, shortages of drinking water, electric power and even food supply: the lower the overall density of population, the larger the cost of maintaining and operating utility networks and service systems. Topography and Climate originate different costs and different needs: recurrent flooding and drainage problems (Buenos Aires), landslides (La Paz), earthquakes (Mexico City), air pollution (Sao Paulo), short or extended street lighting hours, variable heating or air conditioning requirements. As Population Characteristics change from city to city, so do the demand and cost of providing specialized services for particular social groups (the children, the elderly, the sick, the handicapped, the poor, the illiterate, the jobless, the unskilled, the homeless).

1.09 Increasing Service Standards. As national populations become increasingly urbanized, their service expectations rise. Public social expenditures tend to increase not only in absolute terms but also per capita. This is quite evident in the 1975-1980 trends of all LAC countries up to the sudden contraction of their economies in 1981-84 (see Table 1.9). Larger cities call for capital intensive and technically sophisticated investments, which may be provided only by the public sector. Furthermore, the country's more urbanized areas exert a demonstration effect on the less urbanized: the higher average

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6/ The lower threshold of 'urban' centers varies from country to country, according to the statistical definition adopted. Thus, in Argentina, Bolivia, Colombia, Mexico, Panama, and Venezuela this limit is set between 1500 and 2500 inhabitants. The most inclusive quantitative definition is that of Peru, where all settlements with 100 or more occupied dwellings are considered urban. In most other LAC countries the definition embraces all localities which are seats of local administrations and may include areas of suburban or rural character.

incomes of metropolitan areas command services of better quality and this, in turn, changes also the expectations of smaller urban centers, regarding the levels and types of services considered appropriate.

Table 1.9: GENERAL GOVERNMENT EXPENDITURES IN THE SOCIAL SECTORS a/
-In US Dollars-

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
LAC SAMPLE b/										
Millions	41970	43177	43999	49765	52006	54586	62046	54410	43188	40303
Variat.Index 1975=100	100	103	105	119	124	130	148	130	103	96
Dollars Per capita	180	181	180	198	202	205	228	195	151	138
Variat.Index 1975=100	100	100	100	110	112	114	126	108	84	77
MARKET ECONOMIES c/										
Millions	728097	787019	868617	1039564	1201856	1403882	1410800	1459511	1496096	1188182
Variat.Index 1975=100	100	108	119	143	165	193	194	200	205	163
Dollars Per capita	1645	1672	1722	1904	1964	2006	1811	1753	1731	1484
Variat.Index 175=100	100	102	105	116	119	122	110	107	105	90

a/ Social expenditures comprise education, health, social security and welfare, housing, recreation and other community services. Road construction and maintenance are not included.
b/ Argentina, Colombia and Panama include central and subnational governments expenditures while only central government expenditures are reported for the other countries.
c/ Australia, Austria, Denmark, Iceland, Luxembourg and Switzerland include central and subnational governments expenditures, while only central government expenditures are reported for Canada, France, FR Germany, UK and USA.

Source: IMF, Government Finance Statistics Yearbook, various years.

1.10 Variety of Institutional Responses. The performance of certain tasks (e.g., garbage collection or urban transport) may be shared differently by the public and the private sector, the formal or the informal sector of urban economies. In different places, the citizens expect fulfillment of different needs by the central or the local governments or may rely to a varying extent on independently organized action and individual initiative.[7/] Most urban

7/ In Lima, about 60 percent of urban services (including trade) are managed by the informal sector (de Soto), while this percentage may be as low as 10 percent in Buenos Aires.

services are typically labor-intensive: their ratio of recurrent to investment costs is high, causing high payroll costs for public administrations, especially where job-protection policies are in effect.[8/] Responsibilities for service provision can be budgetarily fragmented among a variety of public institutions, departmental companies and controlled enterprises: the activities of many different agenci s are not easy to coordinate and this makes it difficult to control their investment and operation costs and to utilize their manpower efficiently.[9/] In metropolitan areas, this picture may be further complicated by jurisdictional subdivision.[10/] These institutional differences are often rooted in historical, cultural, social and political factors, which are not easily removed. Therefore, the rising costs of urban services are not only determined by population growth or by the trends of the local and national economy; in fact, the evidence is that per capita expenditures of local governments tend to rise faster than population and GNP[11/] (see Table 1.10).

1.11 Reasons for Public Intervention. Residents of urban areas generally interact among themselves more than people living in rural settings. Their business and household activities engender greater cost and benefit spillovers

Table 1.10: PER CAPITA GNP AND SUBNATIONAL EXPENDITURES
-Variation Index, 1975=100 a/

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
LAC SAMPLE										
Per Capita Expenditure	100	102	110	128	142	158	156	174	168	143
GNP Per capita	100	108	117	132	154	177	197	171	141	139
Population	100	103	105	108	110	114	117	119	122	125

a/ The expenditure and GNP variation index for the individual countries is based on constant national currencies time-series while the variation index for the sample average is based on constrant US dollars.

Source: IMF, Government Finance Statistics Yearbook, various years.

8/ The Municipality of Buenos Aires employs some 85,000 people, that of Montevideo nearly 14,000 people.

9/ This point is elaborated in Para 3.4 (Parastatal Enterprises).

10/ The conurbated area of Mexico City overlaps territories comprised in 5 states, surrounding the Federal District. Greater Buenos Aires includes 50 percent of the urbanized population of Buenos Aires Province, adjoining the Federal Capital. Similar inter-jurisdictional problems (more frequently inter-municipal) occur in most large metropolitan areas.

11/ Again one must note in Table 1.09 and 1.10 the sudden reversal of trends caused by the 1981 debt crisis.

throughout (and without) the urban community in which they live. As the share of national population living in cities increases, so does the need of social adjustments for these externalities. Moreover, in an urban area the increasing density of consumers gives rise to congestion costs, as the available service capacities soon become surtaxed. The technical solutions which are required may be beyond the scope and capabilities of private initiative. These issues need to be addressed through some form of government intervention. Furthermore, since the consumption of social goods is technically open to all residents, consumers tend to behave as free-riders rather than as competitive bidders. And, because individual demand schedules tend to differ according to income and tastes, consumer preferences are not reconciled through price competition but through a political process which ultimately results in budgetary allocations. Further complications arise from the fact that end-users are not called upon to express their preference on the public decision to increase the supply of one particular service, but rather on that of a 'package' of different services. This makes it rather difficult for the non-initiated citizen to give an informed judgement on the quality and quantity of services he will receive as a consequence of his endorsement of the proposed budget.[12/] Public intervention may also be dictated by considerations of general welfare, to ensure that certain services (like education or health) which are considered relevant to national development are provided everywhere with the desirable quantity and quality.

12/ Normative theories of intergovernment finance have labored on these concepts for some time. The idea of horizontal equity would require that all equals be treated equally. In 1950, Buchanan suggested the concept of fiscal surplus, as the difference between the fiscal contribution of the residents of one jurisdiction and the value of the services they actually receive. Thiebout suggested that the selection people make of the place to reside (voting with the feet) represents a form of competition or revelation of preference for the public sector, which reflects the relative cost and quality of local services (assuming that different jurisdictions have an option as to the kind of services they provide). The concept of public externalities was formulated by Pigou: it recognized that the services provided to taxpayers in one region may be enjoyed by residents of another. This led to the theory of optimal regional spaces (Breton, Reyes and others) which tried to define the geographical reacn of different public services, including their externalities. Buchanan's theory of the clubs showed that, even with decreasing costs, the emergency of congestion determines an optimal scale for different public services, suggesting their subdivision into different jurisdictions. Finally Tullock argued that centralization of public services is not justified, because scale economies are relatively scarce. He also pointed out that in the public sector, which is managed by the political apparatus, consumers can only choose among packages of goods with few options.

1.12 Political Overtones. Government involvement in the provision of urban services may also be influenced by contingent political considerations, especially in metropolitan areas and provincial capitals which represent large and visible pools of voting power. Numerous countries of Latin America have recently introduced democratic institutions and their governments are increasingly dependent on the outcome of popular elections.[13/] But even governments which are apparently less conditioned by democratic consensus show a concern with the political restiveness of urban communities, with the organized claims of urban workers for minimum wage increase or larger fringe benefits, with the street riots engendered by proposed adjustments of bus fares or utility tariffs or from the mob protests stemming from the service deficiencies or uncertain tenure of large squatter settlements.[14/]

1.13 Fiscal Impact of Urban Services Provision. As the subnational provision of urban services acquired increasing weight in public budgets it also became the object of growing concern by fiscal economists. Examination of public finance statistics reveals that in some countries, like Argentina, Brazil and Colombia,[15/] about one third of all government spending is financed through subnational government budgets (see Table 1.13) and that this type of expenditures accounts for a share of aggregate government deficit which is as large, and often larger than that of all public enterprises combined (Table 3.1). In addition, a new perspective on the performance of urban economies has gained ground, recognizing that they play an essential role in national recovery and financial adjustment. This realization shed a new light on the status of intergovernmental fiscal relations. The main objectives of the reforms under consideration are to achieve (i) better control and predictability over the volume of annual transfers to subnational governments; (ii) greater accountability of local authorities for the use of the resources transferred; (iii) improved financial planning, budgeting, and programming activities of the regional and local governments; and (iv) promotion of fiscal effort and cost awareness among subnational authorities.

13/ Argentina, Bolivia, Brazil, Ecuador, Guatemala, Honduras, Peru, Uruguay have adopted democratic rule during the last decade.

14/ Hernando de Soto provides a vivid account of social struggles in Lima in his book: El Otro Sendero (Editorial El Barranco, Lima 1986).

15/ By contrast, the share of subnational expenditures is very small in all other countries examined, including Mexico and Venezuela which, despite their size remain highly centralized in this respect.

Table 1.13: EXPENDITURES BY LEVEL OF GOVERNMENT
-Variation Index, 1975=100 a/

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	Average
LAC SAMPLE AVERAGE b/											
Subnational Government	24.4	23.8	22.8	23.0	23.0	23.0	21.0	20.1	19.8	20.4	22.1
Central Government	73.6	76.2	77.2	77.0	77.0	77.0	79.0	79.9	80.2	79.6	77.9
MARKET ECONOMIES											
Subnational Government	26.5	26.5	25.4	25.5	25.1	25.4	24.7	24.7	23.8	24.0	25.2
Central Government	73.5	73.5	74.6	74.5	74.9	74.6	75.3	75.3	76.2	76.0	74.8

a/ Total expneditures comprise expenditures and lending minus repayment. Expenditures have been consolidated eliminating transfers (interest payments, subsidies, lending-repayment) among levels of government.

b/ Weighted averages. Comparability over time affected by the availability of data.

Source: IMF, Government Finance Statistics Yearbook, various years.

1.14 Urban Service Financing as a Policy Concern. As a result of political, fiscal and economic considerations, the financing of urban services has become a central issue in the social policy of most LAC governments. The economic recession and the stabilization measures required by the external debt crisis have imposed new constraints to urban spending but have also brought into sharper focus the need to complement adjustment policies with programs which may alleviate their impact on the masses of urban poor. These come at a time in which, almost everywhere, subnational government finances have fallen into severe deficitary conditions, after years of steady erosion in the real value of local revenues and unrelenting pressures for overspending. (See Section 2).

Table 1.14: SUBNATIONAL GOVERNMENTS DEFICITS
(as Percentage of General Government Deficit)

Years	74	75	76	77	78	79	80	81	82	83	84
World	28	15	13	1	11	12	14	11	12	na	na
Industrial Countries	22	12	15	3	12	14	15	11	14	5	1
Developing Countries	47	16	4	+	6	-	4	9	10	na	na
LAC Countries	48	35	28	20	26	29	14	16	8	35	na

Source: Staff elaboration of data derived from IMF Government Finance Statistics.
Note: See Table 4.2 for country data in percentage of GDP, Table 3.1 for relation with public enterprise sector.

1.15 Positive Features of Urbanization. On the positive side, the progressive concentration of population in urban areas, especially in the larger cities, has contributed to the development of national human resources. It has afforded economies of scale from large sunk investments (at least in the early stages). It has expanded domestic markets, with vast pools of demand stimulating the growth of new agricultural as well as non-agricultural activities. It has promoted specialization of labor and induced technological innovation. In fact, strong correlations can be drawn between urbanization and per capita income (.70). As can be seen in Table 1.15 the more urbanized countries in LAC tend to have higher per capita GNP. Moreover, per capita value added tends to be higher in the larger cities.

1.16 Resource Mobilization Potential. On the revenue side, it is also increasingly recognized that urban governments could make a greater contribution to domestic resource mobilization. True enough, the increase in overall taxable capacity associated with rising urbanization is not easily tapped by the central government, especially in Latin America, as the city dwellers tend to resist payment of new taxes for which they cannot readily identify local benefits. It must be recognized also that comparisons with the much higher returns from urban property and service taxes which are being reaped in some of the developed countries, could never be attained in LAC countries. This is due not only to their comparatively lower fiscal effort (which could be improved) but also to an objectively lower taxable capacity. These points will be developed in Section 4 of the report.

Table 1.15: PER CAPITA INCOME AND URBANIZATION TREND
-GNP in Current US Dollars-

	1976	1977	1978	1979	1980	1981	1982	1983	1984
LAC SAMPLE									
GNP Per Capita a/	1307	1406	1596	1862	2136	2373	2058	1699	1673
% Urban/Total Population	58.9	59.5	60.0	60.5	61.0	61.6	62.2	62.7	61.6
MARKET ECONOMIES									
GNP Per Capita a/	7229	7940	8811	10046	11350	12638	13153	13812	14962
% Urban/Total Population	76.9	77.0	77.1	77.2	77.3	77.4	77.6	77.7	77.8

a/ Weighted average.

Sources: United Nations National Accounts.
The World Bank, Bank of Economic and Social Data.

1.17 The New 'Growth Management' Approach. Traditionally, Latin American governments have opposed urban concentration. This attitude often found expression in explicit policies discouraging new settlers through 'slum eradication', police repression of 'spontaneous' service or trade activities or deliberate neglect in extending public provision to 'illegal' settlements. It also motivated several LAC governments to pursue rather ineffectual schemes to retain excess labor in rural areas. At different times, Argentina, Brazil, Mexico and Venezuela undertook massive investment programs with the stated objectives of re-directing migration away from their main cities towards 'alternative' growth poles. These policies have influenced even the outlook of smaller countries where some degree of urban concentration was instead economically desirable.[16/] The results were often mixed, while cities continued to expand. But, as the popular understanding of the root causes of urbanization got deeper, a new 'enabling' approach made its way in official policy statements of Latin American countries and in their professional literature. Countering or diverting immigration into the large cities is no longer advocated, while attention is focusing on more pragmatic approaches to the problems of their growth. Expressions like 'demand management', 'cost-effective investments' and 'participatory planning' have now become staple. Moreover, investments in the urban infrastructure of Latin American cities and in the development of their human resources are no longer viewed as purely distributive policies, but as critical intermediate inputs for the effective functioning of urban productive activities.

1.18 Summing Up. This first section of the report has analyzed the Rising Demand for Urban Services in LAC countries, focussing on the changing spatial distritution of their population and the higher service expectations associated with rapid urbanization. Urban growth management has become a major concern of national fiscal policies. This concern is reflected in the current attempts of LAC countries to restructure the existing systems of subnational government financing, to privatize the provision of some urban services and to support the initiative and contribution of a burgeoning informal sector. It is less apparent, however, in the persisting advocacy of central government policies trying to curtail or re-direct the inflow of migrants to the larger cities. The positive correlations of the urbanization process with national development have been noted, but also the fact that new fiscal pressures for incremental public expenditures arise from the spatial concentration of demand for infrastructure and services, especially in the metropolitan areas. In theory, the relative concentration of personal wealth and income in these larger cities should afford new opportunities for fiscal imposition. However, recovery of the social costs of urban services is proving increasingly difficult in LAC countries because of the steady erosion of household incomes. The declining ability to pay of the

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16/ It should be noted that his theme was prominent also in the European planning literature and practice of the 1950's and 1960's and was widely disseminated by technical assistance agencies during that period.

end-users tends to reaffirm the rationale for subsidized or free provision of urban services in order to alleviate the impacts of economic adjustment. Nevertheless, there is increasing awareness that this approach reduces even further the governments possibilities to bridge existing service gaps and that urban investments should be strategically directed to support the cities' productive contribution to the stabilization and recovery of national economies.

II. CURRENT CONSTRAINTS TO URBAN EXPENDITURES

2.01 The Debt Crisis. The late 1970's and the early 1980's were difficult years for Latin America. In virtually all countries, the level of national savings (shown in Tables 2.1a & b as the balance of their current accounts) declined precipitously, leaving little resources to finance public investments and intergovernmental transfers. Chronic budgetary deficits set in at both the national and the subnational levels, because current expenditures could be cut only gradually and some investments in capital formation had to be continued in order to sustain growth of the national economies, to contain unemployment within tolerable proportions and to support exports in view of a gaping balance of payments. After years of relative stagnation, the mere contraction of public expenditures proved no longer dependable as an instrument of adjustment and strong political pressures eventually built up to stimulate the economies. While financial systems were finding it difficult to attract private savings, several Central Banks lowered the cost of borrowing for both the subnational governments and the parastatal enterprises by subsidizing (if not waiving) interest payments. As public debt continued to swell, interest payments reached a proportion of up to five percent of GDP, crowding out public programs (Tables 2.1c & d).

2.02 Domestic Inflation, which acquired extraordinary momentum in many Latin American countries, (Table 2.2) worked only to a limited extent as a hidden form of debt repudiation, because the bulk of public debts were in short term maturities. This rendered debt obligations increasingly liquid and close money substitutes, making of them an attractive medium of investment for financial institutions (especially for the money market funds, the commercial banks, and the insurance companies). Investment capital had to bear all residual pressures on disrupted financial markets and could be gotten only short-term, at prohibitively high rates. Capital flight and 'refuge' investments became preferred avenues to protect household and corporate savings. Inflation also took a heavy toll on the bases of several important local revenues, such as the property tax, and the progressive erosion of real wages made it difficult to adjust public utility prices. The consequent, progressive decline in local revenues could only partially be offset by contingent increases in top-down transfers or, occasionally, by concessionary credit.

2.03 External and Domestic Borrowing. Under the circumstances described above, official financial assistance (from IBRD, IDB, and bilateral agencies)

Table 2.1a: CENTRAL GOVERNMENT SAVINGS AS PERCENTAGE OF GDP a/

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
ARGENTINA	-5.6	-0.5	4.8	0.0	1.4	0.7	-2.0	-2.2	-4.0	-0.4
BOLIVIA	1.8	1.3	1.1	0.1	-2.0	-4.7	-3.6	NA	-2.5	-28.4
BRAZIL	3.7	4.3	5.3	4.8	5.3	3.4	5.9	6.0	5.4	3.0
CHILE	4.5	3.6	1.4	2.4	5.9	6.7	3.7	-2.9	-2.2	-1.0
COLOMBIA	3.4	4.4	4.3	3.5	1.1	1.5	0.6	1.9	1.2	NA
COSTA R	1.6	0.6	0.9	-0.4	-2.1	-3.5	-0.8	-0.5	0.9	2.0
DOMINICAN REP	10.6	6.9	6.1	4.6	1.8	2.9	2.3	-0.1	0.9	1.8
GUATEMALA	1.8	2.1	3.6	3.2	2.0	2.0	0.9	0.9	NA	NA
MEXICO	0.9	0.7	1.0	2.0	2.9	3.9	0.9	-7.1	-2.6	-2.4
PANAMA	0.3	-2.8	0.2	-0.9	-3.8	0.4	-1.0	-4.6	-0.4	-2.6
PARAGUAY	2.1	2.4	3.6	4.4	4.3	3.4	2.2	1.8	1.3	1.1
URUGUAY	-3.7	-2.5	2.9	1.9	3.3	2.1	0.7	-6.2	-1.6	-2.8
VENEZUELA	19.2	14.4	11.6	8.7	8.3	8.7	13.0	8.5	6.2	9.4

a/ Savings equal current revenue minus current expenditures.
Total expenditures include expenditures and lending minus repayment.

Table 2.1b: SAVINGS INVESTMENT RATIO a/

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
ARGENTINA	-2.0	-0.1	1.3	0.0	0.5	0.3	-0.5	-0.8	-1.8	-0.3
BOLIVIA	1.1	0.7	0.6	0.1	-1.1	-5.6	-3.6	NA	-3.5	-61.0
BRAZIL	1.5	1.6	3.6	2.5	4.4	2.2	3.4	3.1	2.9	2.8
CHILE	0.7	0.8	0.4	0.6	1.7	2.5	1.4	-1.3	-1.0	-0.3
COLOMBIA	0.8	1.2	1.0	1.0	0.4	0.4	0.1	0.5	0.3	NA
COSTA RICA	0.4	0.1	0.2	-0.1	-0.4	-0.7	-0.2	-0.2	0.2	0.6
DOMINICAN REP	1.2	1.0	1.1	0.9	0.4	0.6	0.5	0.0	0.3	0.6
GUATEMALA	0.7	0.5	1.0	1.0	0.5	0.4	0.1	0.2	NA	NA
MEXICO	0.3	0.2	0.3	0.5	0.6	0.7	0.2	-1.1	-0.5	-0.5
PANAMA	0.0	-0.4	0.0	-0.2	-0.4	0.1	-0.2	-0.9	-0.1	-0.6
PARAGUAY	1.0	0.8	1.3	1.2	1.4	1.4	0.8	0.9	0.7	0.5
URUGUAY	-3.1	-1.1	1.2	0.8	1.3	1.2	0.4	-2.9	-0.9	-1.4
VENEZUELA	2.8	1.5	1.0	0.8	1.5	1.8	1.5	1.0	1.1	2.8

a/ (Current Revenues - Current Expenditures) / Capital Expenditure

Source: IMF, Government Finance Statistics Yearbook, various years.

Table 2.1c: CENTRAL GOVERNMENT INTEREST PAYMENT AS PERCENTAGE OF TOTAL EXPENDITURES a/

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
LAC SAMPLE b/	5.5	7.1	8.1	8.2	8.3	7.4	9.0	12.2	16.6	22.0

a/ Total expenditures include expenditures and lending minus repayment.

Table 2.1d: CENTRAL GOVERNMENT INTEREST PAYMENTS AS PERCENTAGE OF GDP a/

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
LAC SAMPLE b/	1.1	1.3	1.7	1.8	1.7	1.6	2.2	3.5	4.6	5.3

a/ Interest payments by subnational governments are generally negligible except for Brazil, where subnational government interest payments reached about 1% of GDP in 1983.
b/ Weighted average.

Source: IMF, Government Finance Statistics Yearbook, various years.

Table 2.2: DOMESTIC INFLATION IN LAC COUNTRIES
-Annual Percent Change of Consumer Price Index-

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
ARGENTINA	182.3	443.2	176.1	175.5	159.5	100.8	104.5	164.8	343.8	626.7	672.1
BOLIVIA	8.0	4.5	8.1	10.4	19.7	47.2	28.6	133.3	269.0	281.4	11749.6
BRAZIL	29.0	42.0	43.7	38.7	52.7	82.8	105.6	97.8	142.1	[illegible]	226.9
CHILE	374.7	211.8	91.9	40.1	33.4	35.1	19.7	9.9	27.3	19.9	30.7
COLOMBIA	22.9	20.2	33.1	17.8	24.7	26.5	27.5	24.5	19.8	16.1	24.0
COSTA RICA	17.4	3.5	4.2	6.0	9.2	18.1	37.1	90.1	32.6	12.0	15.1
DOMINICAN REP	14.5	7.8	12.8	3.5	9.2	16.8	7.5	7.6	4.8	27.0	37.5
GUATEMALA	13.2	10.7	12.3	8.3	11.3	10.8	11.4	0.3	4.5	3.4	18.7
MEXICO	15.2	15.8	29.0	17.5	18.2	26.4	27.9	58.9	101.8	65.5	57.7
PANAMA	5.5	4.0	4.5	4.2	7.9	13.8	7.3	4.3	2.1	1.6	1.0
PARAGUAY	6.8	4.6	9.3	10.6	28.3	22.4	14.0	6.8	13.4	20.3	25.2
URUGUAY	81.4	50.6	58.2	44.5	66.8	63.5	34.0	19.0	49.2	55.3	72.2
VENEZUELA	10.3	7.6	7.8	7.1	12.4	21.5	16.2	9.6	6.3	12.2	11.4

Source: IMF, International Finance Statistics, 1987.

became an attractive source to finance needed urban investments.[17] However, the overwhelming proportion of foreign loans was requested for central, rather than for local government agencies. In Latin American countries, national laws virtually exclude subnational governments from direct access to external borrowing. In fact, since foreign exchange must be rationed, both the national planning authorities and the foreign lenders prefer to direct external credit to public enterprises because their functions generally involve a foreign component and because they view the supervisory activities associated with external loans as a means to introduce better pricing and financial discipline. Therefore, little external borrowing was made available to subnational entities and it was mostly limited to capital expenditures. Domestic borrowing was also viewed as inappropriate for city governments because it could induce improvident local administrators to undertake expenditure decisions which would restrict flexibility in their future budgets and leave them vulnerable to the uncertainties of the market and exchange rates.

2.04 Expenditure Effects of the Recession. Yet, the increasing demands of urbanization and the job protection policies in force in most Latin American countries allowed for no significant reduction in recurrent expenditures. The initial reluctance of many national governments to participate in financing the basic operating expenditures of local authorities was gradually overcome by the realization that this would disproportionately penalize the poorest areas of the countries. In Argentina or Brazil for instance, it soon became a necessity to avoid unwanted reductions of nationally valued activities like education and health services or social security payments. New capital formation, which was more easily deferrable, was restrained for an extended period, aggravating the already sizeable backlog of unmet demand for physical facilities. Moreover, the reduced volume of new investments was accompanied by a decline of maintenance expenditures of the existing capital stock, accelerating replacement needs.

17/ The progressive increase in World Bank Loans is shown below:

Table 2.3 World Bank Lending in Social Sectors to LAC countries

	1978-82*	1983	1986	1985	1986	1987	1988
Urban Development	177.6	46.2	191.2	86.9	369.5	325.0	764.0
Water Supply and Sewerage	204.5	424.2	28.6	163.9	175.0	64.0	252.3
Education	62.6	59.8	68.0	195.8	10.0	84.9	88.3
Population, Health & Nutrition	7.6	33.5	57.5	-	96.0	10.0	109.0
	452.3	563.7	345.3	446.5	650.5	483.9	1.213.6

* Annual Average

Source: The World Bank Annual Report, 1988.

2.05 Progressive Budgetary Displacement. Incremental urban investments are now urgently needed in LAC countries. However, a sudden escalation in the volume of subnational investment would remain neutral to the objectives of macro-economic adjustment only if financed out of marginal local revenues, lest it become an additional source of inflation. Our analysis shows that LAC rapid urbanization had a substantial impact on the structure of expenditures by governments. This effect of progressive budgetary displacement is visible in national accounts (Tables 2.5a & b). It shows in the proportional increase of expenditures by subnational authorities (Table 1.13) in response to growing pressures by their constituencies, and in the corresponding increase of central government outlays, both in terms of transfers (Table 4.12a) and of direct investments (Table 3.10b). Ultimately, it shows in the progressive swelling of the subnational deficit (Table 4.2).

2.06 Revenue Effects of the Recession. In practice, the aspiration to preserve existing standard of service in LAC cities, confronted all levels of government with severe financial problems. This was mainly due to the slow growth of their economies in recent years, and to the steady erosion of the local revenue bases under the combined effects of inflation and declining incomes.[18/] At the same time, the volume and predictability of resource transfers to subnational governments was challenged by the contraction of the central government revenues, which are even more directly related to the cyclical fluctuations of economic activity. Nevertheless, intergovernmental flows (generally the largest item in local revenues) did not decline in real terms as drastically as one would expect (Table 4.12b), even when the sources of institutional credit were gradually dried up by financial constraints or official restrictions (See Section 4.13 on Borrowing).

2.07 Centralized Economic Policy and Political Democratization. In a number of LAC countries, the contraction of public revenues at all levels of government came at a time of explosive urban growth and often in coincidence with the claims of greater subnational autonomy engendered by the re-establishment of elective governments. Yet, the national situation called for reductions in transfer payments, tightened credit controls and adjustments in public service rates. Crisis management also required central direction of all instruments of fiscal policy, including the authority to tax or not to tax certain activities,

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18/ To this one could add the diminishing tax compliance by city dwellers in the expectation of tax amnesties (blanqueos) or simply of the inflation-induced depreciation of arrear payments. For instance, in Argentina, delinquent tax obligations were totally or partially forgiven by new governments on repeated occasions.

Table 2.5a: PROGRESSIVE DISPLACEMENT IN BUDGETARY STRUCTURE OF LAC COUNTRIES
-In Percentage-

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	AVERAGE
ARGENTINA											
CENTRAL GOVERNMENT	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
GOVERNMENT SERVICES	14.3	17.4	19.5	17.4	20.0	20.4	20.0	19.0	16.0	13.7	17.8
SOCIAL SERVICES	39.3	34.7	37.3	45.2	47.0	47.3	43.2	37.0	39.0	50.3	42.0
ECONOMIC SERVICES	21.4	29.9	26.9	19.0	20.0	18.5	17.6	17.7	20.4	20.3	21.2
OTHER SERVICES	3.6	18.1	16.3	19.0	12.0	11.1	19.2	23.0	24.5	13.6	16.0
SUBNATIONAL GOVERNMENTS	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
GENERAL PUBLIC SERVICES	NA	NA	NA	NA	NA	NA	NA	NA	20.3	24.8	4.5
SOCIAL SERVICES	50.0	37.9	32.5	43.2	38.5	44.8	50.0	46.8	47.8	55.3	44.7
CHILE											
CENTRAL GOVERNMENT	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
GOVERNMENT SERVICES	25.7	26.2	24.6	24.1	23.1	23.5	23.7	22.3	23.5	22.7	24.0
SOCIAL SERVICES	49.2	50.9	53.3	53.8	57.6	59.8	63.3	67.2	66.3	65.2	58.6
ECONOMIC SERVICES	14.9	14.6	12.6	16.8	15.5	13.8	11.6	9.0	6.3	7.5	12.3
OTHER SERVICES	10.2	8.3	9.5	5.3	3.8	2.9	1.4	1.6	3.9	4.6	5.1
SUBNATIONAL GOVERNMENTS	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
GENERAL PUBLIC SERVICES	NA	NA	NA	NA	NA	NA	79.2	63.7	56.6	59.7	64.8
SOCIAL SERVICES	NA	NA	NA	NA	NA	NA	20.8	36.3	43.4	40.3	35.2
COLOMBIA											
CENTRAL GOVERNMENT	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
GOVERNMENT SERVICES	NA	NA	NA	NA	NA	NA	NA	26.1	26.7	26.8	26.5
SOCIAL SERVICES	NA	NA	NA	NA	NA	NA	NA	47.3	49.0	48.2	48.2
ECONOMIC SERVICES	NA	NA	NA	NA	NA	NA	NA	28.8	27.1	19.3	25.1
OTHER SERVICES	NA	NA	NA	NA	NA	NA	NA	5.7	5.3	5.7	5.6
SUBNATIONAL GOVERNMENTS	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
GENERAL PUBLIC SERVICES	17.3	18.1	17.9	15.6	18.2	17.6	15.2	18.3	19.1	20.6	19.4
SOCIAL SERVICES	70.0	66.7	68.8	70.5	69.0	69.0	65.3	64.7	65.0	65.8	67.5
ECONOMIC SERVICES	12.8	15.2	13.3	13.8	12.8	13.3	19.5	16.9	15.9	13.6	14.7
OTHER SERVICES	0.4	1.1	2.2	3.5	2.6	1.4	2.0	2.6	2.3	3.0	2.1
PANAMA											
CENTRAL GOVERNMENT	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
GOVERNMENT SERVICES a/	18.8	20.8	19.9	22.4	19.7	18.3	20.7	29.0	22.1	23.1	21.5
SOCIAL SERVICES	43.8	43.7	46.7	43.9	40.6	40.4	39.7	37.1	45.6	46.0	42.7
ECONOMIC SERVICES	28.5	26.2	22.0	21.4	26.9	21.9	18.4	13.5	12.4	12.0	20.3
OTHER SERVICES	8.9	9.3	11.4	12.3	12.9	19.4	21.2	20.5	19.8	18.9	15.5
SUBNATIONAL GOVERNMENTS	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
GENERAL PUBLIC SERVICES	57.3	63.6	68.7	73.1	74.1	75.9	69.6	66.4	66.6	63.9	67.9
SOCIAL SERVICES	35.1	28.8	24.1	22.5	22.2	22.4	29.3	32.5	32.1	27.9	27.7
ECONOMIC SERVICES	3.2	5.1	6.2	3.8	2.7	1.3	0.8	0.7	1.0	5.6	3.0
OTHER SERVICES	4.3	2.5	1.0	0.5	1.1	0.4	0.4	0.3	0.3	2.6	1.4

a/ Government Services at the central government level include expenditures in defense except in Panama.

Source: IMF, Government Finance Statistics Yearbook, various years.

Table 2.5b: TRENDS IN BUDGETARY STRUCTURE OF LAC COUNTRIES
-Variation Index, 1976=100- a/

	1976	1977	1978	1979	1980	1981	1982	1983	1984
ARGENTINA									
CENTRAL GOVERNMENT	100	88	96	88	95	107	99	121	89
GOVERNMENT SERVICES	100	99	96	101	111	123	108	111	70
SOCIAL SERVICES	100	94	125	119	129	133	105	136	129
ECONOMIC SERVICES	100	79	61	59	59	63	59	83	60
OTHER SERVICES	100	79	101	58	58	114	125	164	67
SUBNATIONAL GOVERNMENTS	100	125	113	114	126	119	100	139	141
GOVERNMENT SERVICES	100	109	107	72	108	106	80	323	384
SOCIAL SERVICES	100	107	129	115	149	157	123	175	205
CHILE									
CENTRAL GOVERNMENT	100	124	149	159	160	167	171	158	164
GOVERNMENT SERVICES	100	116	137	141	144	151	145	142	142
SOCIAL SERVICES	100	130	157	181	189	207	226	206	210
ECONOMIC SERVICES	100	107	171	169	151	133	105	68	85
OTHER SERVICES	100	142	94	72	55	28	32	75	90
SUBNATIONAL GOVERNMENTS	100	78	104	108	130	254	364	284	280
COLOMBIA									
SUBNATIONAL GOVERNMENTS	100	98	118	132	162	158	152	160	184
GENERAL PUBLIC SERVICES	100	97	102	133	158	133	154	169	210
SOCIAL SERVICES	100	101	125	137	168	155	148	156	182
ECONOMIC SERVICES	100	86	108	112	142	203	170	168	165
OTHER SERVICES	100	188	364	305	199	279	355	319	489
PANAMA									
CENTRAL GOVERNMENT	100	99	108	145	139	147	172	158	170
GOVERNMENT SERVICES b/	100	95	117	137	122	146	240	168	189
SOCIAL SERVICES	100	106	108	134	128	133	146	165	179
ECONOMIC SERVICES	100	83	88	148	116	103	88	75	78
OTHER SERVICES	100	122	143	201	290	336	379	338	347
SUBNATIONAL GOVERNMENTS	100	94	84	79	88	92	99	100	99
GENERAL PUBLIC SERVICES	100	102	97	92	104	101	104	104	100
SOCIAL SERVICES	100	79	66	61	68	94	112	111	96
ECONOMIC SERVICES	100	167	200	117	83	50	33	33	50
OTHER SERVICES	100	63	25	13	25	13	13	13	13

a/ The variation index is based on constant national currencies time series.
b/ Central government expenditures do not include expenditures on defense.

Source: IMF, Government Finance Statistics Yearbook, various years.

irrespective of the impact such measures would have at the local level.[19] Similarly, the principal decisions on public investment in cities and in key sectors such as transport, energy, housing, and public sanitation became the responsibility of the national agencies in charge of managing the corresponding sources of funds.

2.08 Growing Fiscal Dependence of Subnational Authorities. The progressive weakening of the financial position of regional and local governments resulted in a gradual loss of decisional autonomy. Subnational authorities were caught in a cycle of fiscal dependence with respect to the central government which went through several stages: (i) initially, the subnational governments provided their traditional services mostly with locally raised resources; (ii) in the course of time, the growth of their obligations outstripped that of own revenues; (iii) a widening financial gap led subnational authorities to depend on central government support to straighten out their accounts; and, lastly, (iv) the cycle of financial dependency closed and became chronic, as the local authorities began to rely on bilateral negotiations not only for the realization of investment programs or to even out their debts, but also to meet the monthly costs of direct administration.

2.09 Planning by Negotiations. The ultimate result of this trend was that the expenditure pattern of subnational authorities came to depend on a process of negotiations. They must struggle for resources, funds and programs defined by central authorities. They must keep informed on the funding sources available for specific investment programs and projects, go through the bureaucratic routine of application, produce suitable information on local development problems and potentials, and submit to the supervisory discipline of the monitoring and evaluation procedures set out in corresponding guidelines. At all phases of this process, the final outcome of the transactions remains uncertain.[20]

19/ A typical instance was the Brazilian decision to exempt many export-based activities from payment of the value added tax (ICM) which is the main revenue source for the State and Municipal governments.

20/ In the case of Brazil, "the present system revolves around negotiations of federal funds - negotiations in which the states, because of their precarious financial situation, find themselves in inferior bargaining positions. The amount of investment funds to be available therefore, has become difficult to predict, and specific sectors or projects to benefit from these funds are more apt to reflect national priorities than those of the states." (D.J. Mahar and W.R. Dillinger: Financing State and Local Governments in Brazil, World Bank Staff Working Paper No. 612, page 24).

2.10 Political Use of Negotiated Transfers. Statutory intergovernment transfers are usually ruled by set formulae, but the fiscal treatment of particular areas has been modified in most LAC countries by a parallel, extensive system of discretionary transfers allocated without established explicit criteria.[21/] As a result, the actual distribution of negotiated transfers does not always bear a relation to the social and economic variables that dictate spending needs. The trends of subnational finances during election years often reveal the influence of political patronage.

2.11 Erosion of Political Responsibility. The public accountability of subnational authorities was progressively eroded as they found themselves dependent on upper level decision even to cover the salaries of public employees. The diminished importance of locally raised receipts weakened the critical social mechanism through which taxpayers can control the decisions of their administrators and protect their interests. The lack of transparency of public accounts made it virtually impossible to understand the real scope of expenditure options and locally motivated leaders became less and less attracted to public office jobs. Institutional credit became a virtual lifesaver thrown by the central government to local leaders for their political survival, reproducing at the level of subnational finance the uncontrollable growth of public debt, which characterized national accounts. Although in theory the law set limits to subnational liabilities in most LAC countries, in practice different types of bilaterally negotiated public debt escaped effective monitoring and controls, and no one knew exactly how many times the same securities had been put up for different borrowing agreements.

2.12 Summing Up. Section 2 has shown how the adverse economic circumstances of most LAC countries impose macro-economic constraints on urban expenditures. The recent trends towards democratization of the systems of governance run counter the centralization of major policy decisions which would be required by external developments such as the declining world market prices of export commodities and the rising interest payments on foreign debt. To these factors one must add the slow pace of growth of the economies, the burden of domestic debt, the disruption of the financial systems, the severe inflationary pressures and the budgetary displacements caused by the operating costs of a burgeoning public sector, in presence of job protection policies. The combination of these problems allows little room for transfers supporting new capital formation and maintenance of the present levels of service in urban areas. Nevertheless,

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21/ In Argentina, the growth of discretionary transfers to the Provinces (Aportes del Tesoro Nacional) increased drastically as a proportion of total transfers:

1977	1978	1979	1980	1981	1982	1983	1984
10.9%	11.4%	7.7%	7.6%	35.0%	25.4%	69.7%	65.0%

Similar trends occurred in Mexico and Brazil (see Box 2).

economic adjustment through contraction of this kind of expenditures meets obvious political resistance, as evidenced by the growth of discretionary transfers and the central absorption of subnational debt in several countries (Argentina, Brazil, Mexico). This gives rise to a pattern of increasing dependence on the outcome of ad-hoc negotiations which reduces even further the fiscal accountability of lower level authorities.

III. ARE LAC GOVERNMENTS TRULY DECENTRALIZING?

3.01 Role and Structure of the Public Sector. The range of activities encompassed by public budget measures in LAC countries is fairly wide, as total expenditures and revenues by government range between 30 and 40 percent of GDP. Besides the general administration, the justice system and the legislature, the public sector comprises an array of other functions which are performed at different levels by government-controlled, non-financial entities (decentralized sector agencies and non-market public corporations) or by financial institutions (development banks, trust funds insurance companies, social security funds). The scope and budgetary autonomy of this parastatal sector varies from country to country, making it difficult to draw accurate comparisons of its relative importance.[22/] (See Table 3.1). Because the size and composition of the public sector have an impact on the efficiency with which revenues are raised and distributed, as well as on the purposes for which resources are transferred and used, it may significantly affect the achievement of social objectives and ultimately determine the patterns of national development and economic growth. And, because the very structure of the public sector does influence its policies, it may also influence the pattern of urbanization.

3.02 Politics of Intergovernmental Relations. The distribution of financial and administrative authority among different layers of government is the result of public choices made in the past and reflects the countries' concerns, their political systems and their basic values. Therefore, it is also constantly evolving over time. This historical and cultural dimension is essential to understand the nature of intergovernmental financial flows as they take place at present, the assignment of functional responsibilities to different tiers and sectors of government and the degree of decisional autonomy left at each level for determining which services to provide, to what extent to cover costs and which revenue bases should be tapped. These issues have become increasingly political in Latin America because the progressive reduction in the real volume f local revenues has strained the relations between the lower and the upper level governments, sharpening disputes over the extent to which current fiscal laws allow for local discretion on the scope and volume of urban revenues and expenditures.

3.03 Devolutive rather than Aggregative Governance. In general, LAC countries were created through the progressive disaggregation of centrally controlled colonial domains. Their legal and fiscal statutes still reflect today an original conception of the national government as the principal unit of social organization, so that any decentralization of authority below this level calls for a special decision. While the evident need to provide at least some services at decentralized level led to the creation of subnational governments, all their

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22/ See Methodological Annex for details.

Table 3.1: COMPARATIVE FINANCIAL STRUCTURE OF THE PUBLIC SECTOR a/
-Public Sector=100%-

	CURRENT INCOME		CURRENT EXPENDITURE		INVESTMENT		SURPLUS/(DEFICIT)	
	Administ.	Enterprise	Administ.	Enterprise	Administ.	Enterprise	Administ.	Enterprise
ARGENTINA (1983)	58.9	41.1	72.7	27.3	56.5	43.5	(88.4)	(11.6)
Central Level	35.3	36.1	45.9	24.2	21.3	36.2	(45.3)	(9.8)
Regional Level	20.5	5.0	22.9	3.2	30.3	7.4	(26.1)	(1.8)
Local Level	3.1	NA	3.8	NA	4.8	NA	(4.6)	NA
BRAZIL (1983)	38.5	61.5	61.9	38.1	28.4	71.6	(63.3)	163.3
Central Level	28.4	58.3	42.7	35.0	16.8	64.4	(28.6)	164.7
Regional Level	8.7	3.1	14.1	3.1	7.4	7.2	(17.0)	(1.4)
Local Level	1.4	NA	5.1	NA	4.2	NA	(20.0)	NA
COLOMBIA (1981)	49.2	50.8	63.5	36.5	42.5	57.5	(128.8)	28.8
Central Level	38.0	49.3	39.9	29.1	32.4	56.4	5.3	86.9
Regional Level	7.9	1.4	18.7	7.4	4.8	1.1	(98.6)	(58.1)
Local Level	3.3	NA	4.7	NA	5.3	NA	(30.1)	NA
MEXICO (1980)	58.5	41.5	66.0	34.0	57.0	43.0	(105.0)	5.0
Central Level	46.0	41.5	55.4	34.0	43.9	43.0	(93.4)	5.0
Regional Level	11.1	NA	8.8	NA	12.0	NA	1.5	NA
Local Level	1.4	NA	1.8	NA	1.1	NA	(2.9)	NA

a/ Public sector includes government administration and decentralized financial and non-financial public enterprises at all levels of government.

Sources: For government administration.- IMF, Government Finance Statistics Yearbook, 1987.
For decentralized public enterprises.- Various public documents from national sources.

administrative and fiscal authority emanated from the top. This essentially devolutive (unitary) model differs fundamentally from the aggregative (pluralistic) model of countries that were formed through the federation of several autonomous governments and the voluntary transfer of some local prerogatives to the new composite entity.[23/] Therefore, the mindset and behavior of Latin American countries starts with the presumption that all public sector activities within their political boundaries will be performed by the central government apparatus and that specific activities will be turned over to lower administrative units only when required by some sort of technical efficiency rationale.

3.04 Parastatal Sector. The process described above may explain the proliferation of special purpose agencies in LAC countries. These agencies are essentially branches of larger central government counterparts which perform specific, delegated functions (such as road construction, water and sewerage provision, power distribution, transportation, telecommunications, rural development, public housing) which could be carried out autonomously by the lower levels of government, if not by the private sector. This gives rise to an expensive bureaucratic apparatus and an intricate pattern of financial flows. Since resources are mostly channeled through this apparatus, subnational administrations are not in the position to respond promptly to locally perceived needs, nor to make plans and to function effectively, because they have no real authority to direct the activities of national agencies. On the other hand, the recurrent attempts to contain the growth of parastatals, to reduce their inefficiency or to limit the drain they cause on the national budgets usually meet with considerable resistance. In fact, by funnelling funds through its regional branches, the central governments can retain more effective control over new investment decisions than it would by passing funds directly to the budgets of subnational administrations.

3.05 Management of Public Enterprises. National planning authorities apparently prefer to operate through specialized sector agencies or public enterprises, because these institutions could raise resources through user charges without encroaching upon the revenue bases of the central government. They also like to believe that the tariffs of public enterprises can be used as price signals to allocate and mobilize funds for investment or to influence short-term inflationary expectations. However, the overdevelopment and budgetary fragmentation of public enterprises has reduced their accountability and responsiveness to these objectives. In some LAC countries public enterprises initially conceived as instruments of sound financial management became mere

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23/ The only LAC country which approximates this pattern is Argentina, where a federal system was adopted by the provinces of the interior, which retained many of their own constitutional powers but pooled others, in order to counterbalance the influence of Buenos Aires.

vehicles to borrow abroad in support of the questionable exchange rate policies of the central government.[24/] Eventually, as the debt crisis set in, the National Treasuries had to assume repayment of the external debts of the enterprises, soon after having re-financed their domestic obligations at subsidized rates.

3.06 Government Structures. Four countries in Latin America have a Federal form of government: these are Argentina, Brazil, Mexico and Venezuela, which have explicit constitutional arrangements providing for intermediate level governments (States and Provinces). But the vast majority of countries has a Unitary organization, with local governments (Municipalities) as statutory entities directly linked to the central government, which can create or abolish them at its discretion. Yet other countries (Bolivia, Colombia, Costa Rica, Ecuador and Peru) present an intermediate structure, with regional bodies (Departments or Districts) which are granted some expenditure and supervisory responsibilities over the local units of particular areas, and mainly function as agents of the central governments. In relatively large countries, this device reduces the central governments' difficulties in dealing with large numbers of local units, which have different needs, fiscal bases and service capacities. Thus, the local governments become dependent upon these regional administrations for the provision of certain services and for the pass-through of national grants as they would be in a Federal country. Both in unitary and in federal countries, however, the largest cities (especially the capitals) tend to enjoy special status and are directly linked to the center.[25/]

24/ Here one must note that the concern of international lending agencies with the technical, financial and administrative viability of the utility sector in particular has often resulted in the establishment of new enterprises. This was generally based on the assumption that their managerial and professional staff would be more competent and motivated than the cadres of local governments insofar as they would be: (a) better paid; (b) less politically influenceable; (c) more securely tenured; and (c) more technically motivated (Bird, Bahl and Linn, Macon).

25/ Bogota, Brazilia, Buenos Aires, Caracas, Mexico City, Santo Domingo are all examples of Capital Districts. In Colombia also the Cities of Cali and Medellin enjoy special districts status.

3.07 LAC Countries vs. Industrial Market Economies. If one compares the group of LAC countries with the twenty industrial market economies of the WDR,[26/] one notes first the cleavage that tells LAC countries apart in terms of GNP per capita (Venezuela, which is the richest is about four times poorer than the average of the second group and the poorest, Bolivia, is twenty five times below that level) (Table 3.7). Moreover, their income distribution is such that only about 20 percent of the combined income of households accrues to those in the bottom six deciles, against 37 percent in the more affluent countries. The largest part of these poor households is rural, and their low income can be explained by the comparatively lower remuneration of agricultural labor in most LAC countries and by the fact that cropland per head of farm population is only 1.7 ha. in Latin America compared to 2.2 in the developed countries.[27/] Yet, one cannot say that Latin America is comparatively overpopulated, since its average territorial density is of 18 people per km^2, i.e., 25 percent below the 24 people per km^2 average of the developed countries, although the LAC value is strongly influenced by the vast uninhabited regions of Brazil and Argentina.

3.08 Relative Urbanization and Industrialization. In fact, LAC countries are relatively urbanized, with Argentina, Chile, Uruguay and Venezuela showing a higher proportion of urban to total population than the average developed country. Their urban population is also concentrated in cities of sufficient size to yield considerable economies of agglomeration. Ten countries (Argentina, Brazil, Colombia, Costa Rica, the Dominican Republic, Ecuador, Jamaica, Mexico, Paraguay and Peru) have nearly half their urban population living in cities with more than 500,000 inhabitants, if that is taken as the average measure of the

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26/ Obviously, substantial country differences exist within the generalized scenarios traced here. These differences can best be gleaned from the attached Table 3.7, which shows the characteristics taken into consideration for a sample of LAC countries for which the central/local government breakdown is available from the IMF. The sample includes eight countries of South America and five in Central America and the Caribbean, giving a fairly wide representation of general conditions. It includes all major countries of Latin America (Argentina, Brazil, Colombia, Chile, Mexico and Venezuela) and a few smaller economies (Bolivia, Costa Rica, Dominican Republic, Guatemala, Panama, Paraguay and Uruguay). Together they account for 84.0 percent of Latin America population, 88 percent of its land area, 91 percent of its GDP, 88 percent of its urban population and 92 percent of the population in cities over 500,000 inhabitants. The Industrial Market Economies considered are listed on Table 1.2.

27/ Only Argentina, Uruguay and Chile, with 7.6, 3.1 and 2.8 ha per farmer respectively supercede the average ratio of the developed countries. The reported averages refer to 19 Industrial market economies and to 13 LAC countries. If all Latin America is considered the corresponding average would be of 1.41 ha/farmhead.

Table 3.7: INDICATORS OF INCOME, URBANIZATION AND INDUSTRIALIZATION IN LAC COUNTRIES

Countries	Income		Urbanization		Industrialization	
	GNP p.c. 1985 US $ a)	Share of Six Lowest Deciles b)	1980 Urban Population c)	In Cities 500,000 d)	Share of 1980 Labor Force e)	Share of 1985 GNP f)
Venezuela	2550	23	85	31	28	42
Argentina	2130	28	84	47	34	42
Panama	2100	18	50	21	18	18
Mexico	2080	22	69	31	29	35
Uruguay	1650	NA	85	41	29	33
Brazil	1640	16	73	33	27	33
Chile	1430	NA	83	34	25	40
Colombia	1320	NA	67	24	24	30
Costa Rica	1300	25	45	28	23	29
Guatemala	1250	NA	41	15	17	NA
Paraguay	860	NA	41	26	21	25
Dom. Republic	790	NA	56	35	15	31
Bolivia	470	NA	44	14	20	25
13 LAC Countries	**1677**	**NA**	**68**	**32**	**24**	**32**
9 IND MRKT. ECON.	**11,810**	**37**	**75**	**35**	**35**	**36**

Sources: Values in columns a), b), c) e) and b) derived from World Development Report 1987, World Bank no. ISBN 0-19-520563-4. Values in columns d calculated from UNCHS data Global Report 1986 Habitat. Values in column b) apply to different years.

urban polarization in developed countries (See Table 1.2). Finally, LAC countries are also fairly industrialized: the contribution of their industrial sector to GNP formation exceeds the average 36 percent value recorded for the developed countries in Argentina, Chile, Peru and Venezuela and is already close to this value also in Brazil, Mexico and Uruguay (see Table 3.7). Thus, conventional indicators of development such as industrialization and urbanization do not by themselves explain the wide discrepancy of urban service levels between LAC countries and the developed market economies.

3.09 Public Sector Dominance? The importance of the public sector, both in terms of revenues and expenditures, is no greater in LAC countries than it is in the so called market economies, which are in fact "mixed" economies. In the average, the expenditures of a Latin American government account for 31 percent of GDP, against 41 percent in the more developed countries (see Table 3.9a). In this respects, one could argue that the role of government is less significant in LAC countries than it is in the industrial market economies. But, if one were to measure fiscal effort as the proportion to which GDP is taxed by the general government, LAC countries' proportion falls below 25 percent

Table 3.9a: GENERAL GOVERNMENT EXPENDITURES AS PERCENTAGE OF GDP a/

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	Average
LAC SAMPLE b/	26.2	25.5	26.3	27.3	25.9	27.1	30.0	33.7	32.4	31.0	28.5
MARKET ECONOMIES b/	39.2	38.7	38.3	38.9	39.1	40.9	41.3	42.8	42.8	41.0	40.3

a/ Total expenditures include expenditures and lending minus repayment. General Government comprises central, regional and local governments. This is different from 'Total Public Sector' which includes decentralize public enterprises.
b/ Weighted averages. Comparability over time affected by availability of data.

Table 3.9b: GENERAL GOVERNMENT REVENUES AS PERCENTAGE OF GDP a/

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	Average
LAC SAMPLE b/	22.3	21.9	24.1	24.7	24.4	24.4	24.5	26.3	25.8	24.6	24.3
MARKET ECONOMIES b/	36.3	36.3	36.8	36.5	36.7	37.9	38.7	39.4	38.9	39.0	37.7

a/ Total Revenues include revenues and grants.
b/ Weighted averages. Comparability over time affected by the availability of data.

Source: IMF, Government Finance Statistics, various years.

overall against the average 39 percent value recorded in industrial market economies (see Table 3.9b). This can be explained by the generally lower taxable base of LAC countries and the more developed fiscal systems of industrial market economies, but remains a determining factor of the lower standard of social welfare so far achieved in Latin America.

3.10 Are LAC Countries Centralized? Given the picture outlined above one would not conclude that LAC economies are more government-controlled than the more developed countries. However, another characteristic can be examined: the share of general government expenditures and revenues which is directly handled by their central governments. In LAC countries, central authorities collect in the average 80 percent of total tax revenues (against only 73 percent in industrial market economies) (See Table 3.10a) and implement 80 percent of their

Table 3.10a: REVENUES BY LEVEL OF GOVERNMENT a/
-In Percentage, General Govt=100%-

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	Average
LAC SAMPLE AVERAGE b/											
Subnational Government	20.1	20.4	20.6	20.0	19.8	21.5	19.8	19.8	18.6	20.5	20.1
Central Government	79.9	79.6	79.4	80.0	80.2	78.5	80.2	80.2	81.4	79.5	79.9
MARKET ECONOMIES											
Subnational Government	28.8	28.3	27.7	27.2	26.3	26.6	26.4	26.3	26.6	27.0	27.1
Central Government	71.2	71.7	72.3	72.8	73.7	73.4	73.6	73.7	73.4	73.0	72.9

a/ Total expenditures include expenditures and lending minus repayment.
b/ Weighted averages. Comparability over time affected by the availability of data.

Table 3.10b: CAPITAL EXPENDITURES AS PERCENTAGE OF TOTAL EXPENDITURES BY LEVEL OF GOVERNMENT

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	Average
LAC SAMPLE AVERAGE a/											
Subnational Government	25.7	28.3	23.5	23.6	22.7	24.5	21.3	17.8	15.4	19.0	22.2
Central Government	19.0	23.0	18.5	19.0	17.0	17.9	19.2	16.9	14.[illegible]	11.7	17.6
MARKET ECONOMIES											
Subnational Government	25.0	23.7	21.9	22.9	22.2	18.7	17.1	16.3	15.2	14.8	19.8
Central Government	8.8	8.5	9.8	8.5	7.8	8.3	9.2	9.4	8.8	8.0	8.7

a/ Weighted averages. Comparability over time affected by the availability of data.

Source: IMF, Government Finance Statistics, various years.

public expenditures (against 75 percent) (see Table 1.12). These proportions reveal the lesser degree of autonomy of LAC subnational governments. The average per capita revenue of subnational government (including transfers) is in fact twenty times lower than it is in industrial market economies (about US$100 against over US$2000, see Table 4.3a) while their average personal income is only seven times smaller (about US$1700 against US$12,000, see Table 3.7) One contradictory feature must also be noted: in the developed countries, the central government direct involvement in capital expenditures accounted for only 8.7 percent of their total expenditures during the 1975-1984 period while the corresponding share in LAC was two times as high (16.6 percent) (See Table 3.10b and Annex Tables 3.10c and 3.10d).

3.11 Are LAC Governments Welfare Minded? The budgets of central governments in developed countries show clearly that they are far more redistributive than those of LAC countries. In fact, as a proportion of GDP, transfers from the central to the other levels of government are three times higher in Part One countries (see Table 3.11a). During 1978-84, this type of outlays accounted

Table 3.11a: INTERGOVERNMENTAL TRANSFERS AS PERCENTAGE OF GDP

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
LAC SAMPLE a/	1.36	1.19	1.08	1.08	0.98	0.90	1.23	1.41	1.41	1.11
MARKET ECONOMIES a/	3.51	3.59	3.55	3.51	3.48	3.45	3.41	3.36	3.28	3.12

a/ Weighted averages.

Source: IMF, Government Finance Statistics Yearbook, various years.

about 13 percent of total expenditure in market economies (declining to 11 percent over the period) but averaged only 8 percent in LAC countries, fluctuating sharply in the last few years (Table 3.11b). The percentage of total expenditures devoted to subsidies and other transfers by the central governments amounted during the same period to about 56 percent in the average market economy and only 33 percent in LAC countries. Table 3.11c shows that expenditures in the social sectors (Social Security, Welfare, Education, Health, Housing and Community Amenities) accounted for about 56 percent in the central

Table 3.11b: TRANSFERS, SUBSIDIES AND LENDING IN DIFFERENT COUNTRY GROUPINGS
(as Percent of Central Government Expenditures and Lending Minus Repayment

Years	1978	1979	1980	1981	1982	1983	1984
Transfers to Other Govt. Levels							
Industrial Market Economies	14.48	14.17	13.35	12.60	11.63	11.44	11.42
Developing Countries	10.28	10.72	10.15	10.38	10.76	10.84	n.a.
LAC Countries	8.16	8.66	7.53	8.26	8.57	9.11	7.95
Subsidies & Other Curr. Transfers							
Industrial Market Economies	56.28	56.41	55.94	55.71	55.83	56.26	55.60
Developing Countries	26.46	27.66	28.69	26.34	28.08	26.90	27.54
LAC Countries	33.02	33.47	36.16	32.04	35.98	33.51	33.40
Lending Minus Repayment							
Industrial Market Economies	6.40	6.20	5.90	5.20	5.20	4.70	4.50
Developing Countries	n.a.	n.a.	10.37	n.a.	n.a.	n.a.	n.a.
LAC Countries	12.60	13.10	12.60	15.40	13.60	16.60	14.90
TOTAL TRANSFERS							
Industrial Market Economies	62.68	62.61	61.84	60.91	61.03	60.96	60.10
Developing Countries	n.a.	n.a.	39.06	n.a.	n.a.	n.a.	n.a.
LAC Countries	45.62	46.57	48.76	47.44	49.58	50.11	48.30

Source: IMF: (a) 18 Countries, (b) Scattered Sample, (c) Includes Argentina, Bolivia, Brazil, Chile, Colombia, Mexico, Uruguay, & Venezuela

Table 3.11c: SOCIAL SECTORS EXPENDITURES BY COUNTRY GROUPINGS
(as Percent of Total Expenditures of Central Governments)

	1978	1979	1980	1981	1982	1983	1984
Industrial Market Economies (a)	**56.35**	**56.11**	**56.06**	**56.00**	**55.76**	**55.65**	**54.61**
Education	5.12	4.96	4.73	4.56	4.30	4.13	3.97
Health	11.18	11.46	11.52	11.50	11.41	11.30	11.53
Social Security	37.66	37.35	37.41	37.65	37.77	38.03	36.76
Housing & Community	2.39	2.34	2.40	2.29	2.28	2.19	2.35
LAC Countries (c)	**45.05**	**45.84**	**43.33**	**43.15**	**39.97**	**40.85**	**41.42**
Education	12.17	11.99	11.29	10.87	9.70	9.51	9.88
Health	5.51	5.47	4.93	4.84	4.80	4.67	4.92
Social Security	25.85	27.37	25.52	25.59	24.05	24.83	24.66
Housing & Community	1.51	1.01	1.59	1.85	1.42	1.84	1.96
Developing Countries (b)	**33.09**	**33.57**	**32.73**	**32.79**	**31.19**	**31.92**	**32.22**
Education	10.76	10.76	10.55	10.03	9.48	9.60	9.80
Health	4.36	4.34	4.14	4.02	4.05	4.07	4.22
Social Security	16.06	16.65	15.91	16.31	15.77	16.21	16.07
Housing & Community	1.91	1.82	2.13	2.43	1.89	2.04	2.13

Source IMF: (a) 18 Countries, (b) Scatterd Sample, (c) Includes Argentina, Bolivi., Brazil, Chile, Colombia, Mexico, Uruguay, and Venezuela

government outlays in Part One Countries against 43 percent in those of Latin America (respectively 14 percent and 9 percent of GDP). On the other hand, the central governments of the industrialized countries spend far less in institutional credit (5.5 percent of their total expenditures), which indicates that this function is mostly performed by their financial markets, while it absorbs some 14 percent of public resources in LAC countries. (See Table 4.14).

3.12 Inter-Regional Disparities. At the root of the current debate over the pattern of intergovernment relations in LAC countries are the pronounced spatial differences in per capita incomes, employment opportunities and levels of services which exist between different regions, between the rural and the urban areas, between the large and the small cities. The larger the countries, the more these differences are brought to the fore, often aggravated by other factors of cultural discrepancy such as ethnic, linguistic and political allegiances.[28/] Certain areas differ not only in their absolute level of economic activity but also in their rate of economic growth and in their relative capacity to internalize the benefits of national development. The characteristics of the workforce (age, education, skills) are not necessarily constant across regions and this has an impact on the occupational status and incomes of their inhabitants.[29/]

3.13 Intra-Regional Disparities. References to average income per capita in different regions often mask strong disparities in interpersonal income distribution, since not all people are poor in the 'poor' regions nor are they all rich in the 'rich' regions. Moreover, even within regions, certain areas may be industrialized, while others remain eminently rural and both per capita incomes and access to public services may be closely correlated to the relative extent of urbanization. There are also significant correlations between the fiscal capacities of different territorial units and their relative degree of urbanization, with marked differences between rural and urban areas, between non-industrialized and industrialized communities. The ever present concern in LAC countries is that large cities are somehow receiving too large a share of total central government transfers. But also the fiscal contribution of large cities is far greater because of their higher incomes, more productive labor force and the concentration of taxable enterprises attracted by the scale economies of sizeable sunk investments. Furthermore, the larger their population size, the greater is also the latitude these cities have in raising taxes and user charges, in expanding their tax base and, occasionally, even in borrowing money.

28/ Regional concentrations of ethnic minorities are found in Bolivia, Brazil, Colombia, Ecuador, Guatemala, Mexico, Panama, and Peru.

29/ Research on Colombia shows that: a) educational attainment and rural-urban condition are more significant explanatory variables of personal income level than regional factors and b) that greater income inequality (over 80 percent) exists within rather than between regions. (See G.T. Fields and T.P. Schultz "Regional Inequality and Other Sources of Income Variation in Colombia" in "Economic Development and Cultural Change").

3.14 Regional Equalization Policies. At different times, several Latin American governments have adopted explicit policies aiming to reduce regional disparities. A number of approaches have been experimented with: (i) deliberately locating new public enterprises in less developed regions, often based on the assumption that a self-sustaining process of growth could be triggered by the establishment of capital good industries (steel, petrochemicals); (ii) intensifying central government expenditures in poor regions, either for basic infrastructure, (transportation, energy), for social services (e.g., housing, education, health) or for both; (iii) launching ambitious agricultural support programs in typically rural regions; (iv) charging different prices or levying different taxes in different regions; (v) adopting macro-economic or sector measures (tax incentives, subsidies, credit policies) so as to favor the less privileged areas. Usually a combination of sectoral investments and fiscal policies was used. Although such measures have occasionally shown some visible result, they were mostly taken in isolation and lacked sufficient continuity over time to offset the deeper systemic causes of the backwardness of the target regions. Private sector participation was slow to come and costly to induce, and it remains doubtful whether the market distortions and the marginal public costs of such programs were actually compensated by the benefits obtained.

3.15 Spatially Uniform Development? The fundamental ambivalence of Latin American spatial equalization policies lies in the overlap between economic development objectives (which call for optimizing the allocation of resources among regions) with redistributive objectives (which call for assuring at least a minimum level of welfare to all citizens of a nation, wherever they live). In large and diversified countries as those of Latin America, interregional differences are bound to persist, because different areas have different degrees and qualities of resources, both natural and man-made. One must confront the fact that certain areas may achieve the desirable level of welfare only over the long term, on condition that investment and institutional development be supported there, but also that demographic pressure be relieved, by encouraging excess labor to migrate to regions where it can find productive employment. The application of scarce resources with the short-term objective of achieving better standards of living in overpopulated and resource-poor regions is likely to result in greater marginal costs per unit of output with little visible impact on general welfare standards. Consequently, this objective is not easily reconciled with that of maximizing national growth and development. Pursuing spatially uniform policies in all areas of a country would be tantamount to reducing the rate of development for the country as a whole, and there are few countries in the world that have adopted this explicit objective and even less that have achieved it even among developed countries.

3.16 Top-down Transfers. Statutory transfers from the central government to lower levels of government play an important role in the fiscal systems of LAC countries. Taking five larger countries into consideration (Argentina, Brazil, Colombia, Mexico and Venezuela, see Table 3.16) one can infer some generalizations which are to some extent applicable to most of the others. The five countries considered are large, structured in three layers of government and have a diversified and complex system of decentralized parastatal agencies. In all of them, the central government has a dominant role, both as a collector of tax revenues and as a supplier of funds to subnational authorities or

decentralized sector agencies in form of transfers, subsidies and concessionary credit. Focusing on transfers, these accounted for 22 percent of central government expenditures in Colombia, over 13 percent in Venezuela, possibly the same in Mexico, over 8 percent in Brazil and 5 percent in Argentina. Subsidies and other current transfers averaged respectively 46 percent in Brazil, 39 percent in Colombia, 36 percent in Argentina, 24 percent in Mexico and 20 percent in Venezuela. Credit by governments (net of repayments) was 24 percent in Brazil, 12 percent in Argentina, 10 percent in Venezuela. Adding up the three items one realizes the full scale of this effort: 70 percent of central government expenditures for Brazil, 48 percent for Argentina, 42 percent for Colombia, 31 percent for Venezuela and 29 percent for Mexico.

3.17 The New Federalism. The existence of regional and intra-regional disparities, the pressures of urbanization and the widening fiscal gap of the subnational governments give much steam to the current debate over the reassignment of fiscal functions among different levels of government. This debate must be seen in the broader context of a political evolution, which in several LAC countries has been called 'new federalism' and revives traditional claims for greater municipal and state autonomies. This new philosophy of locally-based solidarity, supported by the growing voting power of urban communities, reflects a major change in the philosophy of fiscal relations between central and local authorities, suggesting major swaps of responsibilities, consolidation of categorical grants and revision of revenue sharing systems. One line of arguments, obviously resisted by central planning authorities, leans to unconditional transfers based on considerations of regional balance. The opposing line, presuming superior wisdom of the central planners, emphasizes that only tied grants can ensure that local authorities provide certain public services in the right amounts.

3.18 Rhetorics of Decentralization. The main character of this debate is political, because fiscal reassignment would result in a larger or lesser public budget and therefore in greater or lesser powers of political influence. Therefore it is often difficult to tell when decentralization is intended in a political or merely in an administrative sense. In the case of administrative decentralization, decisions would be made on the basis of delegated authority, but would remain revocable; while, in the case of political decentralization, the initiatives of the local governments would not be revocable by the central authorities. In the case of fiscal decentralization, some additional tax base would be actually surrendered to lower levels of government or else greater discretion would be left as to the way transferred funds are spent. Furthermore, some countries are mostly concerned with achieving demographic or economic decentralization (Mexico and Brazil for instance) which they try to promote by channeling government investment through regional branches of central government Ministries or Enterprises. But few countries in LAC are seriously considering a radical redistribution of taxing authority between their different layers of government. More often than not in Latin America, the central government's commitment to decentralization amounts to political rhetoric, since the proposed reforms do not necessarily envisage a more prominent role of the subnational governments in either the financing or the delivering of services.

Table 3.16: CENTRAL GOVERNMENT TRANSFERS, SUBSIDIES AND DOMESTIC CREDIT IN ARGENTINA, BRAZIL, COLOMBIA, MEXICO, AND VENEZUELA (as Percent of Total Expenditures and Lending Minus Repayment)

Countries/Groupings	1978	1979	1980	1981	1982	1983	1984	1978-84
ARGENTINA	**40.58**	**45.12**	**48.04**	**43.06**	**41.16**	**62.25**	**56.73**	**48.13**
(Transfers)	(4.59)	(3.72)	(4.22)	(5.58)	(5.10)	(8.45)	(5.61)	(5.33)
Subsidies & Transfers	32.90	36.57	39.47	32.93	31.42	39.22	41.11	36.23
Net Lending	7.68	8.55	8.57	10.13	9.74	23.03	15.62	11.90
BRAZIL	**68.94**	**70.72**	**72.12**	**72.66**	**69.22**	**72.22**	**66.56**	**70.35**
(Transfers)	8.94	9.64	(8.42)	(8.60)	(8.44)	(7.55)	(7.93)	(8.50)
Subsidies & Transfers	48.94	48.86	53.02	47.41	44.34	40.59	37.92	45.87
Net Lending	20.00	21.86	19.10	25.25	24.88	31.63	28.64	24.48
COLOMBIA	**N.A.**	**42.39**	**39.19**	**41.39**	**40.98**	**44.26**	**N.A.**	**41.64**
(Transfers)	N.A.	(22.87)	(19.06)	(21.16)	(22.23)	(25.17)	N.A.	(22.10)
Subsidies	N.A.	39.43	36.35	36.97	41.07	44.40	N.A.	39.64
Net Lending	-2.08	2.96	2.84	4.42	-.09	-.14	N.A.	2.00
MEXICO	**28.64**	**27.60**	**30.67**	**25.50**	**40.77**	**25.25**	**23.59**	**28.86**
(Transfers (est.)	(11.06)	(11.76)	(14.34)	(14.05)	(8.12)	(12.79)	(13.43)	(12.22)
Subsidies & Transfers	23.87	20.98	23.41	17.35	35.91	22.71	21.82	23.72
Net Lending	4.77	6.62	7.26	8.15	4.86	2.54	1.77	5.14
VENEZUELA	**19.18**	**22.49**	**34.52**	**36.87**	**31.84**	**29.73**	**36.45**	**31.15**
(Transfers)	(12.19)	(16.38)	(12.44)	(12.08)	(13.00)	(15.16)	(12.16)	(13.34)
Subsidies	12.24	17.53	18.22	19.92	19.23	23.29	28.93	19.91
Net Lending	6.94	4.96	16.30	16.95	12.61	6.44	7.52	10.24
LAC COUNTRIES	**45.62**	**46.57**	**48.76**	**47.44**	**49.58**	**50.11**	**48.30**	**48.05**
(Transfers)	(8.16)	(8.66)	(7.53)	(8.26)	(8.57)	(9.11)	(7.95)	(8.32)
Subsidies	33.02	33.47	36.16	32.04	35.98	33.51	33.40	33.94
Net Lending	12.60	13.10	12.60	15.40	13.60	16.60	14.90	14.11
IND. MRKT. ECONOMIES	**62.68**	**62.61**	**61.84**	**60.91**	**61.03**	**60.96**	**60.10**	**60.87**
(Transfers)	(14.48)	(14.17)	(13.35)	(12.60)	(11.63)	(11.44)	(11.42)	(12.73)
Subsidies & Transfers	56.28	56.41	55.94	55.71	55.83	52.26	55.60	55.43
Net Lending	6.40	6.20	5.90	5.20	5.20	4.70	4.50	5.44

Source: IMF Government Finance Statistics Yearbook, 1986 and own elaboration.

3.19 Ambiguities of Decentralization. In reality, central governments of LAC countries are trying to retain as much power at the center as is feasible. This is not only because decentralization tends to dilute the political influence of the national authority, but also because it may become difficult to cope with a hard pressed economy when expenditure decisions and priorities are independently set by subnational authorities. Therefore it is not always clear whether the broad declarations by many a LAC government reflect a real determination to let people reflect their preferences in local government budgets (which suggests more decentralization) or are merely promoting a more articulated structure for their civil service (which would remain centrally directed). Nor is it clear, in other cases, whether the main objective is to balance off through transfers the uneven fiscal capacity of different areas or rather to reserve to the central government the flexibility required to engage in resource mobilization and stabilization efforts (both of which suggests a central pattern of decisions). Real decentralization would consists in the autonomous right of different geographical jurisdictions to provide different types of services and in different amounts, as may be warranted by cultural and historical reasons, but also by other no less important factors, related to differences in climate, city size, geographical extension, agricultural practices, land tenure, topography etc.

3.20 Fiscal Reform Initiatives. As illustrated by the previous discussion, there seem to be as many arguments against fiscal decentralizations as there are in favor of it (See Box 1). In nearly all LAC countries[30/] the current state of intergovernmental fiscal relations is being questioned by financial authorities, political parties, provincial and local governments and business communities, all of which have different agendas, priorities and interests. In fact the subject itself is multi-dimensional and tends to cut across geographical groupings as well as capital and labor divisions. Changing attitudes, evolving social structures and political alignments result in insistent claims for a rising share of transfers and for new, distribution oriented programs. Nearly all countries have formed a commission on intergovernmental finance relations which is at work. In general, it remains difficult to pass judgement on these efforts in terms of principles, without considering the particular constraints that reform initiatives intend to remove (i.e. their particular objectives) or the detailed features of the proposals (i.e. their specific design) (See Box 2).

30/ Argentina, Brazil, Colombia, Mexico and Peru being the more glamorous examples.

Box 1: - ARGUMENTS ON DECENTRALIZATION

In Favor

STABILIZATION: The devolution of some fiscal authority to the local level may provide incentives for independent fiscal initiatives: local governments can select their more buoyant tax bases better than the central government and people are more willing to pay back locally for receiving tangible services. In particular, local governments could more effectively charge for the marginal costs of urbanization in rapidly growing cities. Expanded access to credit could complement grants to support local investments.

ALLOCATION: Local budgetary outcomes reflect directly voters preferences. Bringing closer to the people the power of deciding over expenditures and some authority to determine the level of taxation would permit visible improvements in local services and restore confidence in government performance. Greater confidence and satisfaction with local government may also have some indirect effects on the flows of labor and capital.

SPATIAL DISTRIBUTION: Subnational governments have more detailed and accurate information on the nature and magnitude of demand for local services; they can better adjust their own budgets in accordance to local needs and implement a more efficient and responsive spatial distribution of services. Disparities are great across regions but also within regions and within cities. A spatial distribution policy ought to be detailed at local level to better approximate existing discrepancies. Presently, most of the shared revenues and investments accrue to large cities and more industrialized areas, and little resources trickle down to the small towns and rural communities where social services are most needed.

ACCOUNTABILITY: Feed-backs with the local communities would be more effectively maintained, if local officials were made responsible for raising funds to share the costs of new investments. Local initiatives and responsible participation could be promoted, particularly of local interests and bus ness, resulting better decisions. Strengthening local democratic institutions would help achievement of national goals by educating voters to want what might be done for them anyhow: people tend to identify more easily with decisions in which they participate than with those taken by higher level authorities. Although local voting outcomes may be less than perfect, periodic re-elections provide for corrections.

ADMINISTRATIVE EFFICIENCY: Decentralized administration would encourage public awareness of costs and benefits of urban expenditures and concern over the design of new expenditures. One must start this process by delegating responsibility. With time, technical assistance and adequate remuneration, officials anywhere in the country can become competent to make rational decisions. The activities of centrally controlled bureaucrats are not necessarily more efficient or responsible, but simply less subject to scrutiny.

Against

STABILIZATION: The central government must retain sufficient flexibility and control on fiscal policy: greater local fiscal autonomy could stifle national initiatives of tax relief. Also, the use of public investment resources for incremental local expenditures may have undesirable inflationary effects. Increasing the real volume of transfers or concessionary credit would aggravate the already critical position of Treasuries. Borrowing by subnational authorities, as well as the rollover of their debts, must comply with central restrictions.

ALLOCATION: Promotion of new investment must remain under central control because capital is short and ought to be used to maximize economic growth and support production of tradeables. More local autonomy is likely to result in greater claims for local benefit expenditures. Local goods and services would absorb public resources which should be steered to the production of goods with short-term national benefits.

SPATIAL DISTRIBUTION: Although more knowledgeable on local technical and managerial matters, subnational authorities tend to be partisan and narrow-focussed, whereas a wider perspective is needed. They cannot make sound decisions on the efficient distribution of resources among regions because of the existence of externalities and the mobility of factors of production. Only the central government can make regional policy decisions which maximize national welfare because of its better knowledge of the country as a whole and greater capacity to plan over the long term. Increasing local tax powers would mostly benefit larger cities or industrialized areas, leaving virtually untouched the poorer rural communities.

ACCOUNTABILITY: To emphasize the redistributive element of revenue-sharing schemes may be undesirable in times of economic recession: it may demotivate fiscal effort both in the areas that contribute more taxes and in those which receive larger transfers. Public expenditures would tend to increase in the latter simply because more money is made available: unit output costs are likely to increase. It may be better to resume emphasis on spatial redistribution when the economy is more buoyant. The political system is less selective at the local than at the national level and less likely to produce the kind of leadership that is required.

ADMINISTRATIVE EFFICIENCY: In the short term, administration of taxes and delivery of services are better done by the central government which disposes of skilled professionals for these tasks. Experienced planners, analysts, fiscal managers, assessors and tax inspectors are too few to be diluted among different tiers of government, especially in the less developed countries. Some degree of administrative decentralization can be achieved by opening regional branches of central government ministries.

Box 2: BRAZIL: A RECENT CASE OF FISCAL DECENTRALIZATION

Background. The new Constitution promulgated on September 20, 1988, bears significant fiscal consequences for Brazil. The whole tax system is being restructured and the revenue position of both the State and Municipal governments is expected to improve substantially due to increasing transfers and the devolution of considerable fiscal authority from the federal to the subnational levels. This is especially interesting because Brazil, by Latin American standards, did not present an extreme case of centralization.

Main Features. The federal level is now restricted to seven taxes: Income (IR), Industrial Production (IPI), Rural Property (ITR), Imports (II), Exports (IE), Financial Operations (IOF), and Large Patrimonies (IGF). The yield of the first two sources is earmarked for revenue sharing with the subnational governments. The State level gains from the inclusion of fuel, energy, transport and communications in the base of Value Added Tax (ICMTC) and acquires the faculty of piggy-backing the federal Income Tax (IR) with a 5 percent surcharge. The Municipal level increases its share of the ICMTC from 20 to 25 percent and has the authority to charge real estate transactions (ITIVBI), to introduce a fuel tax (IVVC) and to levy betterment charges in connection with capital improvements.

The new fiscal system is expected to produce an overall increase in tax revenues on the order of 3.2 percent (about half point of GDP) by FY 1993, but the federal government's disposable income (after revenue sharing and social security contributions) will contract by 15.6 percent, the equivalent of 1.05 percent of GDP. In turn, the States revenues will increase by 12.9 percent (.73 percent of GDP) and those of the Municipalit es by 29.5 percent (.81 percent of GDP). The displacement of 1 1/2 points of GDP in the general government budget represents a rather drastic reversal of the historical trend from 1957 onwards which saw the federal government increase its participation in general tax revenues from 50 to 62 percent while the States and Municipal shares had declined from 44 to 34 percent and from 7 to 4 percent respectively. The new proportions will be 36.5, 40.7 and 22.8 percent for the Federal, the State and the Municipal levels.

Spatial Impact. Simulations of the 1993 distribution of transfer resources, coupled with the expected increases in local revenues indicate measurable gains for the Northern and Northeastern States which will receive consistently higher increases than the 12.6 percent average State of Brazil, although also the State of Rio (+23.7 percent) and the Federal District (+17.8 percent) will fair exceptionally well. The average Municipality of Brazil will record a +32.2 percent increase in revenues, based on additional federal and state transfers (+33.1) and on new independent tax sources (+23.9). Per capita tax income in sample Municipalities would rise between 25 and 50 percent (especially in small and medium size cities). There is, however, a danger that much of the new resources be used to foster growth of current expenditures.

Impact on National Accounts. The heavy requirements of revenue sharing and the loss of some tax bases will limit the budgetary flexibility of the central government. Additional budgetary pressures will arise from the new Constitution:

On the expenditure side, incremental public outlays will be required by the following:
(a) universal social security coverage;
(b) more fringe benefits granted to workers and civil servants as well as to non active personnel;
(c) higher tax shares earmarked for education, health and family/children assistance;
(d) administrative costs related to new, state-level functions, and to the establishment of four new States;
(e) expenditure growth associated with the 1988 and 1990 elections.

On the revenue side, shortfalls may be produced by:
(a) tax exemptions, rebates and deferred payment allowances;
(b) reduced control by the central fiscal authorities;
(c) credit subsidies to the productive sectors (a 3 percent share of the main federal taxes (IR and IPI);
(d) failure to incorporate many services in the State collected ICMTS; and
(e) doubtful effectiveness of the federal tax on large patrimonies (IGF).

Possible Fiscal Adjustments. The loss of resources of the Federal government could be offset by the following:
(a) expanding the IR and IPI coverage so as to compensate for the loss of other subnational contributions;
(b) reducing current exemptions from these taxes (especially on agricultural income and capital gains);
(c) conditioning transfers to States and Municipalities to the payment of the corresponding credit obligations;
(d) eliminating "negotiated" or "discretionary" transfers;
(e) tying social security contributions to the gross profit of enterprises;
(f) staging the social benefits expansion over several years.

Conclusions. Many questions remain, which need to be settled through the elaboration of a new regulatory framework. While no fixed calendar has been established for this second stage (except for the revenue sharing system), the following still await definition:
(a) norms for the imposition of the income tax (IR)
(b) rationing criteria for the territorial distribution of the participation funds;
(c) establishment of a new Tax Code;
(d) rules and procedures for the decentralization of public service functions;
(e) redefinition of the budgetary categories in public accounts;
(f) establishment of a Public Finance Code, especially for the control of debt of States and Municipalities.

1/ Abstract of IPEA paper No. 121 by F. Rezende and J.R.R. Afonso, November 1987. IPEA produced the initial design upon which the wide ranging constitutional debate was subsequently based.

3.21 *Summing Up*. *This Section has raised the question whether LAC governments are truly decentralizing. Several Latin American countries, especially the larger ones, are nearly as populated, urbanized and industrialized as the so called industrial market countries. However, not only is the absolute size of their economies considerably smaller in terms of GNP (which explains the low per capita incomes) but also the share of the economy that is controlled by their public sector is lower. LAC governments also spend a relative smaller portion of GDP in the social sectors. The most striking difference, however, is the comparatively low proportion of revenue and expenditure authority delegated to their subnational governments. During the 1980's the national economies have been contracting, while LAC cities have continued to grow at a sustained pace. The resources available to provide urban services at regional and local levels have declined dramatically in per capita terms and have not significantly increased even as a proportion of GDP. Therefore the proliferation of jurisdictional units and of special purpose urban service agencies should not be misinterpreted as a sign of growing local autonomy or more effective delivery of urban services. In most cases, it has only produced further budgetary fragmentation and a confusing pattern of fiscal flows between government levels and parastatal institutions. The corresponding growth of the public sector's current expenditures can also be traced to the politics of inter-governmental relations prevailing in LAC countries which are rooted in a devolutive (top-down) rather than pluralistic (bottom-up) tradition of public administration.*

3.22 In addition, most LAC countries present sharper inter-regional disparities, due to the marked contrasts in factor endowment within their territories. These disparities bring about a public concern with inter-area equalization which frequently blurs the objective of inter-personal income distribution. The above contradiction feeds rhetorical debates on the reassignment of powers and functions among different levels of government in the name of a new 'Federalism' or 'Municipalism' into which disparate political, administrative, economic and fiscal issues only apparently converge. They also engender official redistribution schemes aiming to satisfy basic needs in the poorest areas of the countries or to compensate particular jurisdictions for their lower fiscal capacity. A brief review has been made of the arguments in favor and against decentralization and revenue sharing policies.

3.23 Looking from some distance at the current initiatives of fiscal reform of several LAC governments, one is inclined to question them on efficiency grounds. One reason for this is the critical state of the national economies, which would rather call for centralized fiscal management. Another reason is the yet immature state of the democratic institutions through which local officials are expected to make budgetary decisions more responsive to the expressed needs of their constituencies. Sound fiscal policy would require that incremental public services expenditures be made only to meet *effective* *demand (on the assumption that the taxpayers' personal income actually grows and with it also the willingness and ability to pay for services). It also implies that local governments dispose of sufficient installed capacities to expand services so as to meet total demand by end-users and that they possess a degree of efficiency in capturing a share of the increased income of the community. An obvious corollary of this position is that fiscal autonomy cannot start with small towns and rural jurisdictions, where one is unlikely to meet the conditions*

described above, but with the larger cities and the areas of greater fiscal capacity. Nevertheless, one cannot ignore that urban growth, industrialization and political evolution have altered the broad correspondence between the revenue authority and the functional responsibilities of the lower tiers of the government which had been envisaged in the original constitutional design of LAC countries. Some adjustments of the present fiscal structure is unquestionably needed. These adjustments are bound to be gradual, because of the contentious nature of fiscal politics, which makes radical reforms the least likely to be accepted and the most difficult to implement.

IV. THE FISCAL GAP OF LAC SUBNATIONAL GOVERNMENTS

4.01 Reasons for Fiscal Imbalance. Ideally, the current revenues of each level of government should be sufficient to cover its current expenditures as well as the debt service on outstanding loans, leaving adequate margin for capital investment or incremental borrowing. In fact, this is not the situation for most regional and local governments in Latin America. The reasons for their current financial gap are many, as it will be pointed out below, and are often related to circumstances beyond the control of their budgetary authorities. Furthermore, the individual subnational units of each country present striking contrasts of fiscal capacity and fiscal effort and their expenditure decisions may reflect different degrees of wisdom and different priorities. Yet, some generalizations may be drawn across countries which are to a varying extent applicable to all their subnational communities.

4.02 Deficitary Trends. Observing the trends of revenues and expenditures over time, one can see that the subnational governments in LAC have run chronic deficits since 1974 and that these have been only aggravated by the 81-84 recession, reaching the level of several points of GDP in some countries (see Argentina, Mexico, Chile in Table 4.2). The explanation of this ten-year trend is to be found in both the revenue and the expenditure structure of the lower tiers of government and in the obvious mismatch between the resources available to them and the service responsibilities they have to confront.

A. Revenue Side Factors (See Tables 4.3a and b)

4.03 General. First of all, a good portion of the tax bases assigned to regional and local governments are basically of a direct nature and are both politically and administratively costly to administer and collect. Second, the subnational revenue structure is not sufficiently buoyant, that is, not very well suited to afford a prompt response to the cyclical fluctuations of the economy. Third, those subnational taxes which are directly related to production, sales and income remain also quite vulnerable to the impact of centrally decided stabilization measures. Fourth, any stagnation of the economy affects different subnational communities to the extent to which they depend on revenue sources of this type: the sales and turnover taxes in particular tend to favor the jurisdictions where goods and services are purchased rather than those where they are produced. Fifth, subnational communities are allowed little latitude to adjust the rates of existing taxes, which are usually subject to central control, as are the corresponding procedures of imposition and collection. Sixth, the central governments maintain the same rate schedules and assessment procedures over extended periods, with the consequence that some taxes (e.g., the property taxes in particular) are capable of very low yields at current rates. Seventh, locally elected authorities show little commitment to adjusting taxes or user charges to the pace of inflation, which are obviously unpopular activities during

Table 4.2: OVERALL SURPLUS/DEFICIT BY LEVEL OF GOVERNMENT AS % OF GDP
(Government Levels: G = General; C = Central; S = Subnational)

		74	75	76	77	78	79	80	81	82	83	84
World	G	-2.05	-4.96	-4.62	-3.28	-3.75	-3.29	-3.85	-4.45	-5.25	N.A.	N.A.
	C	-1.47	-4.21	-4.00	-3.26	-3.33	-2.89	-3.33	-3.97	-4.63	-5.51	-4.81
	S	- .58	- .75	- .62	- .02	- .42	- .40	- .52	- .48	- .62	N.A.	N.A.
Industrial Countries	G	-1.88	-5.24	-4.85	-3.40	-3.84	-3.51	-4.06	-4.41	-5.04	-5.96	-5.06
	C	-1.47	-4.51	-4.13	-3.30	-3.36	-3.03	-3.46	-3.91	-4.36	-5.67	-4.99
	S	-. 41	- .73	- .72	- .10	- .48	- .48	- .60	-. 50	-. 68	-. 29	- .07
Developing Countries	G	-2.72	-3.87	-3.71	-2.83	-3.42	-2.43	-3.06	-4.62	-6.06	N.A.	N.A.
	C	-1.45	-3.26	-3.58	-3.15	-3.22	-2.43	-2.92	-4.19	-5.48	-4.99	-4.24
	S	-1.27	- .61	- .13	+ .32	-. 20	.00	- .14	- .43	- .58	N.A.	N.A.
LAC Countries	G	-3.39	-5.20	-4.11	-2.61	-3.03	-2.03	-2.67	-5.25	-7.41	-9.13	N.A.
	C	-1.77	-3.39	-2.94	-2.08	2.24	-1.45	-2.31	-4.43	-6.79	-5.97	-4.51
	S	-1.62	-1.81	-1.17	- .53	- .79	- .58	- .36	- .82	- .62	-3.16	N.A.
Argentina	G	-10.25	-15.84	-9.88	-3.68	-4.51	-3.44	-4.86	-10.91	-8.37	-16.29	N.A.
	C	- 6.15	-10.33	-7.11	-2.77	-3.21	-2.60	-3.57	- 8.15	-7.10	-11.84	N.A.
	S	-4.10	-5.51	-2.77	- .91	-1.30	- .84	-1.29	-2.76	-1.27	-4.45	N.A.
Brazil	G	.71	-1.68	-1.54	-1.41	-2.68	-1.17	-2.83	-3.30	-3.9[illegible]	-4.65	-5.01
	C	+1.27	- .50	- .18	- .84	-1.67	- .55	-2.32	-2.34	-2.[illegible]	-3.44	-4.12
	S	- .56	-1.10	-1.36	- .55	-1.01	- .62	- .51	- .96	-1.[illegible]9	-1.21	- .89
Colombia	G	-1.57	- .21	+ .98	+ .65	+ .75	- .74	-1.91	-2.70	-1.32	- .23	N.A.
	C	-1.26	- .23	+1.00	+ .63	+ .68	-1.04	-1.85	-2.96	-1.64	- .79	N.A.
	S	- .31	+ .02	- .02	+ .02	+ .07	+ .30	- .06	+ .26	+ .32	+ .56	N.A.
Mexico	G	-5.87	-5.73	-5.11	-3.68	-3.20	-4.17	-3.52	-7.71	-17.09	N.A.	N.A.
	C	-3.81	-4.87	-4.67	-3.30	-2.68	-3.32	-3.12	-6.68	-15.44	-7.95	-7.28
	S	-2.06	- .85	- .44	- .38	- .52	- .85	- .40	- .03	-1.65	N.A.	N.A.
Chile	G	-5.33	+ .17	+1.41	-1.07	- .15	+4.87	+5.53	+2.38	-2.27	-2.61	-2.94
	C	-5.33	+ .14	+1.37	-1.11	- .11	+4.82	+5.41	+2.59	- .98	-2.63	-2.97
	S	- .00	.03	.04	.05	- .04	+ .05	+ .12	- .21	-1.29	+ .02	+ .03

Source: IMF Government Finance Statistics Yearbook, Vol. X, 1986
Note: Subnational Government values obtained by difference.

Table 4.3a: PER CAPITA REVENUES OF SUBNATIONAL GOVERNMENTS a/
-In constant 1980 US dollars-

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
LAC SAMPLE b/	94	95	99	101	104	109	103	89	69	74
MARKET ECONOMIES b/	2064	2190	2265	2383	2417	2327	2097	2009	2030	2046

a/ Revenues include own revenues and grants.
b/ Weighted Averages. Comparability over time affected by the availability of data.

Table 4.3b: PER CAPITA REVENUES OF SUBNATIONAL GOVERNMENTS
-Variation Index, 1975=100- a/

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
LAC SAMPLE	100	100	105	107	110	115	109	94	73	78
MARKET ECONOMIES	100	106	110	116	117	113	102	97	98	99

a/ The variation index for the individual countries is based on constant national currencies time series while the variation index for the sample average is based on constant US dollars.

Source: IMF, Government Finance Statistics Yearbook, various years.

a period of steady erosion of personal incomes and wage control. Eighth, a large informal sector is growing in the metropolitan areas of LAC countries, which remains outside the reach of fiscal authorities. Finally, the less urbanized areas are negatively affected by the loss of active population and enterprises to other regions.

4.04 Main Revenue Sources. For simplicity, the revenue sources of LAC regional and local governments will be reviewed in four conventional categories: (a) Tax Revenues; (b) Non-Tax Revenues; (c) Intergovernment Transfers; and (d) Borrowing. The first two categories, which group the only truly independent sources of subnational revenues, are significant in those regional and local jurisdictions which are more urbanized, but have little weight in local rural communities. Transfers become the most important category of revenues in predominantly rural areas. Borrowing has never been a significant source of revenues for local authorities as we shall see below. Table 4.4a shows the main structure of revenues of regional and local governments in Argentina, Brazil, Colombia and Mexico. The variation over time of the yield from different sources in constant national currencies is shown in Tables 4.4 b, c, d, & e in Annex). It is interesting to note the instability of the grant elements over the years

(striking in the case of Argentina) and the sustained efforts by the governments of Brazil, Colombia and Mexico to maintain a substantial volume of transfers even during the recession.

Table 4.4a: REVENUE STRUCTURE OF SUBNATIONAL GOVERNMENTS
-In Percentage-

	ARGENTINA 1975-84	BRAZIL 1975-84	COLOMBIA 1975-83	MEXICO 1975-84
TOTAL REVENUE & GRANTS	100.0	100.0	100.0	100.0
I. TOTAL REVENUE	74.6	70.6	49.3	40.1
1. CURRENT REVENUE	74.1	70.6	49	40.1
1.1 TAX REVENUE	62.4	60.2	39.8	21.4
TX ON INC.,PROFITS & K GAINS	21.5	2.1	2.2	3.4
TAXES ON PROPERTY	12.5	3.9	5.3	6.2
DOMESTIC TAXES ON GDS+SERVS	24.4	52.1	23.9	9
1.2 NONTAX REVENUE	13.4	10.9	9.2	18.7
ADM.FEES + CHGS NONIND SALES	NA	1.9	0.4	18.7
OPERATING SURPLUS OF ENTERPRS	NA	2.9	NA	NA
2. CAPITAL REVENUE	0.6	0.2	0.4	NA
II. TRANSFERS	25.4	29.4	50.7	59.9
1. TX COLLECTED BY CENTRAL GOVT	NA	NA	NA	52.3
2. GRANTS	NA	29.4	50.7	7.6
GRANTS FROM OTHER NATNL GOVT	25.4	29.4	47.9	5.8

Source: IMF, Government Finance Statistics Yearbook, various years.

4.05 Taxes on Goods and Services. These may be levied by regional and local governments within their jurisdictions and include general sales, turnover or value added taxes; excises on goods, vehicles and passengers entering or leaving the jurisdictions; profits on fiscal monopolies (such as tobacco or alcoholic beverages); taxes imposed on the use or the permission to use specific goods (such as motor vehicles) or to perform business and professional activities; also in this broad category fall the taxes on entertainment, gambling or catering activities. In general, this group of taxes represents the main source of independent income for subnational governments in Latin America. In Brazil, for instance, the value added tax (ICM) accounts for 68 percent of the States revenues after sharing one fifth of its yield with the municipalities. In Colombia, taxes on goods and services (especially coffee, alcoholic beverages, tobacco and gasoline) constitute 55 percent of the Departments' income. The

Argentine Provinces derive some 26 percent of their total receipts from taxes of similar nature. In Mexico, where they are collected by the Federal Government, they represent the mainstake (63 percent) of State budgets after revenue sharing.

4.06 The main advantage of this category of taxes is that they are indirect and, remaining implicit in the purchase price of the goods and services, they are the least conducive to grassroots resistance. However, because their basic incidence is on general consumption, they tend to be regressive, which leads many LAC governments to exempt staple food items from this form of taxation. Where the tax has been converted into a value added tax (as in Brazil), most of the revenue tends to accrue to the jurisdictions which produce the goods and services and are the most industrialized and urbanized. Otherwise, they tend to shift the fiscal burden to the place of purchase rather than to that of consumption. A buoyant sub-category of these taxes are those on vehicle ownership, circulation and motor fuels, which are of special significance to urbanized areas, where automobile usage is more intensive, especially among social groups with higher incomes. However, problems of registration arise for these as for all taxes on goods and service, which are difficult to apply in small municipalities, where an adequate census of local activities is lacking, and in metropolitan areas, because of the existence of a large informal sector, which does not appear in the fiscal records.

4.07 Taxes on Property. A second group of taxes is considered suitable for subnational use in practically all LAC countries, because they raise no issue of horizontal double-imposition.[31/] These are the taxes on the property of land or real estate, on individual or corporate wealth and on capital transactions, inheritance or bequest. In theory, they would permit partial recovery of the public costs of urbanization, and could represent a buoyant source of revenue for rapidly growing cities without discouraging private development. In practice, a variety of structural reasons impede effective use of these instruments: first, LAC countries have little tradition of direct imposition and the very local and direct nature of the property taxes makes public officials the immediate targets of complaints from a large number of contributors; second, the fact that they are mostly levied on residential property makes them appear as levies on housing consumption, suggesting a regressive distribution of the fiscal burden; third, use of property taxation implies the hurdles of establishing a cadastre of the properties, (which means sorting out the peculiarities of tenure), keeping records up to date, establishing an assessment system and collecting the corresponding levies, all of which entails considerable

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31/ Double imposition, i.e., the possibility that different fiscal authorities may tap the same tax base (either vertically or horizontally) is a traditional subject of debate among Latin American experts who have constantly argued for a rigid separation of sources. Jorge Macon offers a more balanced view in his essay: Federalismo y Decentralizacion Fiscal en Latinoamerica, CIEDIA, Buenos Aires, 1987.

administrative efforts and costs; fourth (a peculiar Latin American problem), coping with yearly assessments becomes an intricate operation during periods of galloping inflation and rapid urban expansion and engenders interminable appeals by taxpayers and reluctance, if not active opposition, by local politicians.

4.08 As a result, the effective yield of property taxes in LAC countries remains minor, compared to that of alternative sources (see Table 4.8a). In Mexico overall receipts from property taxes are 3 percent at the local level and less than 4 percent at the State level. In Brazil these taxes account for 1.3 percent of State and for 7.3 percent of municipal receipts. The only significant

Table 4.8a: PROPERTY TAX YIELD AS PERCENTAGE OF TOTAL REVENUES IN LAC COUNTRIES a/
-Subnational Governments-

	1977	1978	1979	1980	1981	1982	1983	1984	Average
ARGENTINA									
Regional Government	NA	25.0	12.5	12.7	13.0	13.7	16.3	16.1	15.6
BOLIVIA									
Local Government	NA	NA	NA	13.3	11.1	11.5	6.2	3.9	11.8
BRAZIL									
Local Government	11.3	10.8	13.4	13.3	11.7	11.4	8.4	7.3	11.0
Regional Government	1.6	1.4	1.5	1.4	1.4	1.7	1.7	1.3	1.5
COLOMBIA									
Local Government	24.7	22.3	18.7	19.5	20.7	22.4	20.9	NA	21.3
COSTA RICA									
Local Government	31.5	33.4	32.7	23.9	27.1	25.4	18.5	19.9	26.5
MEXICO									
Local Government	3.2	3.5	3.2	3.0	1.7	1.4	1.5	6.0	2.9
Regional Government	10.0	9.2	8.3	5.4	3.1	3.2	2.6	NS	6.0

a/ Total revenues include own revenues and grants.

Source: IMF, Government Finance Statistics Yearbook 1987.

Table 4.8b: PROPERTY TAX AS PERCENTAGE OF TOTAL REVENUE IN MARKET ECONOMIES a/
-Subnational Governments-

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	AVERAGE
HIGH TAXATION COUNTRIES											
AUSTRALIA											
Local Government	53.17	52.87	55.95	52.83	52.69	52.47	50.00	50.44	44.86	42.92	50.82
Regional Government	8.06	8.01	8.22	7.54	7.35	7.60	7.38	6.83	5.78	6.29	7.31
NEW ZEALAND											
Local Government	NA	NA	NA	36.52	37.55	38.47	38.25	NA	NA	NA	37.70
CANADA											
Local Government	NA	NA	NA	33.62	34.79	35.99	35.92	35.20	34.95	35.94	35.20
Regional Government	NA	NA	NA	1.22	0.24	0.21	0.21	0.21	1.31	1.30	0.67
UNITED STATES											
Local Government	NA	NA	NA	NA	NA	28.75	28.40	29.09	29.67	29.91	29.16
Regional Government	NA	NA	NA	NA	NA	2.35	2.16	2.07	2.05	2.03	2.13
UNITED KINGDOM											
Local Government	26.54	25.49	28.03	28.04	28.65	29.62	31.03	32.04	30.78	30.59	29.08
LOW TAXATION COUNTRIES											
IRELAND											
Local Government	17.54	18.43	15.17	9.68	8.79	7.89	6.61	5.24	5.10	5.54	10.00
SWITZERLAND											
Local Government	7.75	7.37	7.72	7.61	7.43	7.32	7.24	7.10	6.75	6.50	7.28
Regional Government	7.99	7.84	8.14	8.44	8.52	8.51	8.54	8.65	8.71	8.59	8.39
AUSTRIA											
Local Government	5.90	5.85	5.57	5.69	5.65	5.60	5.38	5.27	5.50	5.60	5.60
Regional Government	0.44	0.43	0.44	0.42	0.40	0.40	0.41	0.42	0.81	0.79	0.50
GERMANY, FR											
Local Government	5.03	5.46	5.31	5.19	5.12	4.78	4.83	4.89	4.90	4.83	5.03
Regional Government	3.98	4.51	4.66	4.16	3.96	3.94	3.95	4.04	4.47	4.55	4.22
DENMARK											
Local Government	5.22	4.68	4.24	4.45	4.37	3.98	3.81	NA	NA	2.68	4.18
LUXEMBOURG											
Local Government	3.60	4.67	4.33	3.94	3.48	3.51	3.22	3.01	3.16	3.15	3.61
SPAIN											
Local Government	NA	NA	7.48	8.98	7.08	1.63	1.76	1.40	0.92	0.85	3.23
NORWAY											
Local Government	2.32	2.08	2.06	NA	NA	2.45	2.45	2.51	2.78	3.05	2.65

a/ Total Revenue comprises own revenues and grants.

Source: IMF Government Finance Statistics Yearbook, various years.

exceptions are those of Argentina, where property taxes account for 16.1 percent of provincial revenues and Colombia where Municipalities derive 21 percent of their receipts from this source.[32/]

4.09 Other Taxes. Besides the taxes on goods and services and those on property, a variety of other taxes is applied by LAC subnational governments. These may include employers' taxes on payroll or manpower, taxes on construction activities or public utility enterprises, customs and export duties, profits on money exchange, licenses, poll taxes, stamp taxes. Many levies in this category are actually difficult and costly to collect relative to their yield. However, when taken together, these sources of revenues may be more important and more successfully collected in LAC than the property taxes. In Mexico, for instance, they represent 37 percent of local and 6.3 percent of State revenues. In Colombia they reach 22 percent of Municipal receipts and in Argentina 7 percent of provincial receipts. In a few LAC countries the subnational governments are also allowed to apply levies on personal and corporate income, profits and capital gains. While this latter types raise issues of double imposition with the central governments, they may be of some significance, as in Argentina (19 percent of provincial receipts) and Mexico (about 2 percent of both State and Municipal receipts). Finally in some countries (e.g., Brazil, Colombia) subnational governments may administer contributions to decentralized social security funds and workers' pension funds.

4.10 Non Tax Revenues. This broad category of receipts ranges from the operating surpluses of departmental enterprises, income from public properties or establishments, to other fees and charges on departmental sales, fines, forfeits and a variety of other levies. For reasons of simplicity one can include in this category also the capital revenues (generally small) which may derive from sales of public land or transfers of fixed assets and stocks. This group of sundry revenues accounts for considerable income in the Municipalities (38 percent) and States (15.5 percent) of Mexico, but are far less important in Colombia and Brazil, for instance. In nearly all countries, inflation has severely eroded the contributions of departmental enterprises, whose operating

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32/ In spite of the copious literature advocating intensified use of property taxes in rapidly urbanizing developing countries, it must be noted that the above statistics are not out of line with the actual yields of this type of imposition in market economies. (See Table 4.8b) Apart the cases of Australia, Canada, New Zealand, the U.K., and the U.S., where property taxes represent the backbone of local receipts (43,36,38,31 and 30 percent respectively), the contribution of property taxes to the municipal budgets is quite limited in countries like Austria (5.6 percent), Denmark (4.0 percent), Ireland (5.5 percent), Germany (4.8 percent), Luxemburg (3.2 percent), Norway (2.6 percent), Switzerland (6.5 percent). These figures are no better than those encountered in Latin American countries. (See Table 4.8b).

surplus has vanished with the rapid devaluation of user charges on public utilities such as water, sewerage, electricity, and telephone services. The IMF records show that, except for few exceptional cases (they still allow for some 3 percent of total revenues in Brazilian states and municipalities), this item has virtually disappeared from Latin America subnational finance statistics. A more buoyant form of non-tax revenues and one directly related to urban development are betterment charges, or lump-sum payments through which beneficiary landlords must compensate the public authorities for the social costs of infrastructure improvements. The relative importance of these receipts and the extent to which they meet investment costs is difficult to determine since betterment charges basically accrue to the departmental enterprises involved and do not appear explicitly in government statistics. Although most Latin American cities are entitled to make use of betterment charges, which are reportedly applied with some success at the local level in Colombia, Argentina, Brazil and elsewhere, their administration is not always simple and experience with this instrument remains rather mixed.

4.11 Intergovernment Transfers and Revenue Sharing. Besides their own independent sources of tax and non tax revenues, briefly reviewed above, transfers from the higher levels of government constitute the most relevant item in the budgets of regional and local authorities in Latin America. These may take place in form of outright grants or in form of revenue-sharing. In practice, the central (or regional) government reserves the right to collect specific taxes on the local base and to remit a set proportion of their yield to the originating jurisdictions.[33/] As most of these resources are derived from the more affluent urban areas or from industrialized regions, redistributive criteria may be incorporated in such schemes. The amounts granted to particular jurisdictions may be: (i) directly proportional to their contributions (origin based schemes); (ii) independently decided by superior authorities on the basis of perceived needs (discretionary schemes); (iii) attributed on the basis of pre-determined criteria (formula-driven schemes); or (iv) simply refunding local expenditures on programs previously approved by superior authorities (reimbursement schemes). In all cases, intergovernmental transfers imply a

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33/ In Venezuela, as in Colombia, revenue sharing takes the form of a tax allowance (Situado Constitucional and Situado Fiscal respectively reverting to the States or the Departments). These Tax allowances represent a fixed percentage of all ordinary tax revenues of the central government, with certain exceptions.

degree of fiscal dependency of the local communities from an upper layer of government which may be central or intermediate when a regional authority is charged with the internal re-distribution of the funds.[34/]

4.12 Dependence on Transfers. Table 4.12a shows how central government transfers have maintained their importance as a source of income for subnational budgets, particularly at local level, in spite of the cyclical fluctuations of the economies. Expressed in constant domestic currencies, the national trends show a variable pattern with a progressive contraction in Chile, Panama, Paraguay and Uruguay, but significant upward movements in Argentina, Brazil, Colombia, Costa Rica and the Dominican Republic (Table 4.12b). However, the influence of rapid demographic growth largely offsets gains in per capita terms also in the latter countries (Table 4.12c). A detailed case study for Brazil (see Box 3) shows the differential impact of transfers on state budgets and on municipalities of various categories.

Table 4.12a: INTERGOVERNMENTAL TRANSFERS AS PERCENTAGE OF TOTAL REVENUES

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
LAC SAMPLE c/	39.5	38.0	38.2	33.5	38.5	40.0	41.6	42.8	37.8	37.6
MARKET ECONOMIES c/	35.1	35.4	34.8	35.05	35.1	34.8	34.2	33.2	32.5	31.3

a/ Total Revenues = Own Revenues + Grants.
b/ Comprises Grants and Revenue Sharing.
c/ Weighted averages. Comparability over time affected by the availability of data.

Source: IMF, Government Finance Statistics, various years.

34/ Some alternative ways to classify intergovernmental transfers can be the degree to which the transfers are requited (i.e., involve total or partial repayment as in the case of loans or the contribution of a concurrent, "matching share" by the recipient in form of a quantifiable benefit, product or service to the payer in return for the payment). A second criterion of classification can be the extent to which the transfer funds must be put to a specified use, and monitored by the giving authorities ("earmarked" or "categorical" transfers vs. "unmarked" or "block" transfers). A third criterion can be the extent to which the pool of resources available for transfer in a given year is "open-ended" or "limited", i.e., whether or not there is a set maximum amount that must be rationed among all eligible parties according to an established "formula" or whether "reimbursement" funds will be made available to cover all technically eligible expenditures.

Box 3: CASE STUDY: SUBNATIONAL FINANCES IN THE NORTHEAST REGION OF BRAZIL

The following indicators were used by Rezende to analyze the financial situation of 9 States and 90 Municipalities of the Northeastern Region of Brazil over the period 1979-1984:

RC: Resource Commitment: Current Expenditures + Interest Payments + Amortization/Total Receipts - Borrowing
ROR: Reliance on Own Revenues: Own Revenues/Total Receipts - Borrowing
IER: Investment/Expenditure Ratio: Investments/Total Expenditures
PCI: Per Capita Investment: Investment/Total Resident Population
SIR: Savings/Investment Ratio: Total Receipts - Borrowing - Current Expenditures - Interest - Amortization/Investment
DTT: Dependence on Total Transfers: Total Transfers/Total Receipts - Borrowing
DET: Dependence on Earmarked Transfers: Earmarked Transfers/Total Receipts - Borrowing
DUT: Dependence on Untied Transfers: Untied Transfers/Total Receipts - Borrowing
DNT: Dependence on Negotiated Transfers: Negotiated Transfers/Total Receipts - Borrowing
DST: Dependence on State Transfers: State Transfers/Total Receipts - Borrowing (Municipalities Only)

In 1983 the situation of the 9 States was as shown below:

States	RC	ROR	IER	PCI	SIR	DTT	DET	DUT	DNT	DST
Piaui	0.56	0.29	0.22	24,769	1.82	0.71	0.05	0.27	0.38	.28
Maranhao	0.46	0.30	0.22	13,171	2.67	0.64	0.08	0.39	0.17	.32
Sergipe	0.38	0.47	0.24	43,510	2.86	0.53	0.03	0.25	0.26	.32
R.G. Norte	0.57	0.49	0.13	15,157	3.12	0.51	0.06	0.28	0.17	.41
Paraiba	0.69	0.52	0.11	13,394	2.23	0.48	0.03	0.29	0.15	.50
Ceara	0.76	0.62	0.01	11,201	15.65	0.38	0.02	0.28	0.08	.57
Pernambuco	0.48	0.68	0.13	16,083	4.23	0.32	0.04	0.15	0.13	.64
Alagoas	0.56	0.70	0.03	5,113	12,08	0.30	0.03	0.22	0.05	.66
Bahia	0.48	0.73	0.08	14,897	5.11	0.27	0.05	0.14	0.08	.63

Observations:

(a) only Bahia, Alagoas, and Pernambuco can meet their resource commitments with internally generated revenues, as shown by the difference RC-ROR.

(b) some States are very dependent upon transfers, with negotiated (discretionary) transfers representing a very high proportion of the total, followed by mandatory transfers. Earmarked transfers represent only a minor contribution everywhere.

(c) States receiving more transfers invest the most in per capita terms, irrespective of their poor coverage of recurrent expenditures through internally generated revenues.

(d) tax receipts are highest in the more developed States (Bahia, Pernambuco, Alagoas) because of the greater yields from the value added tax (ICM). Non-tax receipts supply little income, except in Sergipe and Rio Grande do Norte.

Box 3: CASE STUDY: SUBNATIONAL FINANCES IN THE NORTHEAST REGION OF BRAZIL (CONT.)

Also in 1983, the situation in the 90 Municipalities, classified by type,[a/] was as follows:

Municipalities	RC	ROR	IER	PCI	SIR	DTT	DET	DPT	DNT	DST	GPCI
Metropolitan	0.70	.27	0.21	23,675	0.90	0.73	0.01	0.22	0.06	0.38	(30.0)
Industrialized	0.63	.25	0.24	47,850	0.35	0.75	0.01	0.13	0.02	0.46	(20.1)
State Capitals	0.75	.41	0.16	16,498	1.11	0.59	0.02	0.15	0.07	0.36	(40.6)
Residential	0.73	.17	0.24	6,678	1.24	0.83	0.02	0.39	0.10	0.33	(51.6)
Agglomerations	0.70	.25	0.26	10,003	1.12	0.75	0.01	0.35	0.05	0.34	(36.6)
Industrialized	0.72	.26	0.28	13,405	0.98	0.84	0.01	0.32	0.03	0.48	(24.8)
State Capitals	0.86	.33	0.12	8,251	1.04	0.67	0.02	0.27	0.11	0.27	(61.3)
Residential	0.52	.27	0.39	8,354	1.34	0.73	0.01	0.45	0.60	0.28	1.8
Isolated Centers	0.76	.18	0.19	6,688	.65	0.82	0.01	0.40	0.12	0.28	(18.0)
>100,000 inhabit.	0.75	.23	0.22	8,914	1.31	0.77	0.01	0.36	0.16	0.25	(9.6)
<100,000 inhabit.	0.78	.14	0.16	4,462	1.91	0.86	0.01	0.44	0.08	0.32	(30.9)

Observations:

(a) independent revenues generally cover less than half of the Municipal resource commitments.
(b) per capita investment is quite high in metropolitan areas and secondary urban agglomerations, where their proportion is nearly four times as much as in the isolated centers.
(c) per capita investment is highest in industrialized communities and administrative capitals. The less urbanized the municipalities, the lowest their average investment.
(d) local revenue generation is more significant in the administrative centers of both metropolitan areas and urban agglomeration and lowest in non industralized communities.
(e) categorical and negotiated transfers do not represent an important share total transfers except in the administrative centers.
(f) Federal transfers (tied) are relatively more important in small centers and residential communities.
(g) State transfers are specially significant in the industrialized communities which receive important shares of the value added tax.

a/ The sample analyzed included 90 Municipalities with more than 30,000 inhabitants in 1980 out of a universe of 1,390 Municipalities. The sample was organized as follows: (a) 22 Municipalities belong to 3 Metropolitan Regions; (b) 35 Municipalities belong to 9 Urban Agglomerations; 33 Municipalities represent isolated centers of which 6 had populations greater than 100,000 inhabitants, 10 had populations between 50,000 and 100,000 inhabitants and 17 had 30,000 to 50,000 inhabitants six Municipalities were considered relatively industralized, six predominantly residential and nine were state administrative capitals. (Source: Brazil: Urban Development in the Northeastern Region, Special Sector Report, IBRD NO. 6585a-BR, May 6, 1986).

Table 4.12b: TRENDS OF INTERGOVERNMENTAL TRANSFERS
- Variation Index, 1975 = 100 -

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
LAC SAMPLE	100	99	108	118	128	152	134	154	128	133
MARKET ECONOMIES	100	105	110	116	118	118	109	106	106	106

Source: IMF, Government Finance Statistics Yearbook, various years.

4.13 Borrowing. Direct external borrowing is usually not allowed to subnational governments, which makes good sense in exchange short countries, but "onlending" arrangements are often adopted between the central government and subnational entities, especially regarding officially approved projects or programs bearing international financing. Since the exchange risk is usually carried by the central authorities and the same repayment of the subloans not infrequently forgiven, such concessionary lending can be considered as just another form of intergovernment transfer. Presently, the access of LAC subnational authorities to domestic capital markets is merely nominal. This is not only due to the fact that the money available is little, short-term and very costly, but also to the existence of regulatory constraints which were designed to prevent local authorities from incurring debt and possibly making unwise investment decisions. This restraints usually involve lenghty procedures of loan review and approval, unwieldy ratios of debt-service to revenues, matching funds contributions, short maturities and cumbersome disbursement procedures. The current financial and regulatory environment also discourages the so called "autonomous" intermediaries from tapping private savings on behalf of municipalities by issuing bonds or debentures, which are rarely used to finance local investment. In practice, the central banks or the financial authorities set annual ceilings to domestic credit for the whole public sector with very low priority to subnational governments among competing official borrowers.

4.14 In most countries, different forms of institutional credit are being used to substitute for the scant development of commercial borrowing. In this fashion, substantial public resources are channeled to departmental enterprises and to regional and local governments (Table 4.14), mainly on a concessionary basis. Subnational authorities are often allowed to cover budget deficits with overdrafts or to undertake short term loans and other stop-gap arrangements with local banks (a feature which in a disrupted situation as that of Brazil led many State Banks to catastrophic results). Official credit 'windows' and/or Municipal Development Funds (MDF's) have been established nearly everywhere, capitalized through loans or deposits by the central banks or by publicly controlled pension and insurance schemes. External funding has also been used occasionally to

establish lines of credit or MDF's specially when subloans were to be used for capital improvements. However, the largest share of resources were usually provided through appropriations from the government budgets or direct allocations of a fixed percentage from the revenue of particular taxes. Because the initial capital is usually unrequited and the mix, origin and actual cost of subsequent contributions frequently unpredictable, "spreads" remain somewhat arbitrarily determined and are usually insufficient to assure significant internal generation of resources over time. Past experience with MDF's in Latin American countries (Bolivia, Brazil, Colombia, Costa Rica, Dominican Republic, Guatemala, Honduras, Mexico, and Venezuela) show that they generally failed to become self-supporting or to achieve a significant scale of operation. The three case studies reviewed

Table 4.14: CENTRAL GOVERNMENT LENDING MINUS REPAYMENT AS PERCENTAGE OF TOTAL EXPENDITURE a/

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	Average
LAC SAMPLE b/	12.8	11.6	14.1	12.6	13.1	12.6	15.4	13.6	16.6	14.9	13.7
MARKET ECONOMIES	5.6	4.4	6.8	6.4	6.2	5.9	5.2	5.2	4.7	4.5	5.[illegible]

a/ Total expenditures include expenditures and lending minus repayment.
b/ Weighted averages. Comparability over time affected by the availability of data.

Source: IMF, Government Finance Statistics, various years.

in Box 4 are rather typical of the use of institutional credit in LAC countries. Most subnational governments (especially the smaller municipalities) are yet unaccustomed to servicing debt and are reluctant to adopt borrowing as an instrument of budgetary policy. The overwhelming dominance of traditional patterns of revenue sharing systems has in fact discouraged them from doing so and has fostered their chronic dependence on decisions taken in the upper levels of government. Nevertheless, the acute shortage of fiscal resources to increase grants to the desired level over the 1980's has revived interest in the MDF's as an alternative means to finance urban investments. The international lending agencies (especially IBRD and IDB) have partly encouraged this trend because it affords a wholesale solution to the problem of supporting a spatially diffused pattern of small investments, which could not be funded through conventional project lending. Consequently, external financial assistance tends to associate

Box 4: INSTITUTIONAL CREDIT IN BRAZIL, COLOMBIA, AND MEXICO

In Brazil, subnational borrowing is linked to tax revenues, which allows the wealthier jurisdictions to achieve considerably higher levels of borrowing. The domestic indebtedness of States and Municipalities is ruled by Federal Senate Resolution 62 of October, 1975, which states that:

(i) Total debt outstanding cannot exceed 70% of the revenues of the previous fiscal year (adjusted for inflation).
(ii) Incremental debt contracted in any year cannot exceed 25% of total revenues.
(iii) Debt service (interest and amortization) cannot exceed 15% of the revenue in the previous fiscal year.

However, a subsequent Resolution No. 93 freed many credit operations (Urban Development, Social Development and the National Housing Bank Loans) from the preset limits upon approval by SEPLAN, the National Monetary Council and the Federal Senate.

The growth of indebtedness allowed by these exceptions (extra-limit credit reaching about 61% of the total debt of subnational institutions in 1983) was not spread evenly either in terms of type of debt or of category of jurisdictions. In general the smaller municipalities were less favored by the criteria used for extra-limit credit approval and were less accustomed to borrowing. The use of the statutory indicators of debt capacity would show that the legal limits have not been reached in the majority of cases.

Nevertheless, a more rigorous analysis could show a different picture as small municipalities tend to stretch their spending beyond their available resources by turning to direct suppliers credit, by postponing due payments, by drawing advances on next year's receivables, by not collecting contributions from public employes. Although such short-term devices are also used by the larger municipalities and by the states themselves (which makes the actual records of their financial position less than transparent) it would seem possible in many instances to finance urban improvement programs through credit, especially if the planned investments are likely to increase local revenues, so as to meet future demands of debt amortization.[a/]

According to the Central Bank statistics, in 1983 the external debt of States and Municipality of Brazil accounted for 33% of their total obligations and the internal debt for 70%. Between 1980 and 1984 subnational debt grew only 3% per year (.3% in per capita terms) at a slower pace than subnational revenues.

In Colombia, because of the generally low level of the municipal budgets, only the largest centers are able to allocate a substantial proportion of their resources to capital investment. According to Bank staff estimates, many of the intermediate-size municipalities have virtually exhausted their existing borrowing capacity. Widespread concern over the status of local finances and the underdevelopment of local economies prompted the National Congress to pass new laws (no. 14 of 1983 and No. 12 of 1986) increasing substantially the fiscal autonomy and revenue generating capabilities of the municipal governments. The debt servicing potential of smaller communities has been increased by earmarking an additional share of the value added tax allowance for decentralized investment but this requires an expanded role of public agencies both to assist these local units in the mobilization and management of resources and in actual lending to them.[b/]

a/ See IBRD report No. 6585a-BR: Brazil: Urban Development in the Northeast Region, May 1986.

b/ See IBRD report No. 6631-CO: Colombia: A Review of Recent Fiscal Decentralization Measures; January 1987.

Box 4: INSTITUTIONAL CREDIT (CONT)

Municipalities can borrow for priority capital projects from the Territorial Credit Institute (ICT) and the National Urban Development Fund (FFDU). The first is a large public institution concentrating on the financing of low income housing and urban infrastructure. ICT derives its resources through mandatory credit from the financial system (commercial banks, insurance companies and savings and loans associations), some annual support from the national budget and periodic transfers from the Treasury to replenish its capital. Continuing decapitalization of ICT is caused by its use of highly concessionary interest rates (presently lower than inflation), high operating costs and occasional resort to more costly sources of financing in order to fulfill government mandated targets of investment. Portfolio revenues are plagued by arrears and insufficient even to remunerate the financial system for its forced investments in ICT programs.

FFDU is instead a trust fund of the Central Mortgage Bank (supported by an IDB loan), which is providing credit to small municipalities for priority capital improvements along with some technical assistance in financial and institutional analysis, project preparation, appraisal and implementation. Municipalities can also expand their borrowing capacity through the purchase of government guaranteed bonds, which allow them to triplicate available investment resources. Bank staff projections indicate that FFDU will need substantial re-capitalization to assume a larger role of intermediation in providing local investment credit. Legislation has been drafted to restructure FFDU as an independent financial institution for urban and regional development.

In Mexico, credit is supplied to States and Municipalities by the National Bank of Public Works and Services (BANOBRAS), which operates a number of trust funds through a network of regional offices (one in each State), using resources drawn from foreign loans (37%), savings and demand deposits (47%), allocations from the national budget and repayments from the existing portfolio (16%).c/

The main trust funds are FIFAPA (Water Supply and Sewerage Investment Fund) which lends primarily to medium size cities and is supported by a US$265 million World Bank loan: PACDU (Concerted Action Program for Urban Development) lending for infrastructure works to four Gulf States (World Bank loan of US$164 million); FONHAPO (National Low-Income Housing Fund) lending to States, Municipalities and Building Associations (World Bank loan of US$150 million), FOMUN (Municipal Promotion Fund) primarily supporting community facilities and infrastructure provision in small municipalities (IDB loan of US$80 million), and FORTAMUN (Municipal Strengthening Program: World Bank loan of US$40 million); focused on municipal technical assistance and basic infrastructure investments.

In general credit terms and conditions are highly concessionary and the Central Government must offset the rapid decapitalization of BANOBRAS through yearly budgetary support or by forgiving due repayment. BANOBRAS uses different maturities and interest rates in its loans depending on the type of investment, the relative need and size of the Municipalities and their classification according to nationally defined development priorities. Despite the high rates of subsidy involved, BANOBRAS credits are not being rapidly absorbed by States or Municipalities. This is due primarily to their lack of experience in borrowing, their difficulties in projecting debt service capacity in times of recession and macro-inflation and the alternative expectation of discretionary grants. Subnational authorities usually resist the prospects of indexation formulae or loan covenants imposing tariff-upgrading. They also bulk at the procurement conditions and the bureaucratic procedures and delays involved in the approval and pass-through of the funds.

c/ See IBRD report No. 7157-ME: Mexico: Financing States and Municipalities: Trends, Issues and Recommendations, World Bank, March 1988.

reforms of the local revenue sharing systems with the restructuring and establishment of Municipal Development Funds and aims to mobilize additional resources, to improve their utilization through technical appraisal of local investment proposals and to adjust the pricing of capital as well as that of urban services.[35/]

B. Expenditure Side Factors

4.15 General. Different considerations apply to the growth of expenditures, which increase much faster than revenues. First of all, most subnational expenditures are made in labor-intensive sectors and therefore result in high recurrent costs, while offering low levels of recovery. This is the case of education, health and welfare services, but also of police and fire protection, general administration and a variety of other urban functions which are not directly chargeable to end-users. In rapidly urbanizing areas, the demand for these services grows faster than the taxable population. Local leaders are subject to constant social claims to increase payroll expenditures or social services and their short terms of office make them not always accountable for the consequences. Moreover, subnational authorities receiving capital improvement grants or loans from the central government, are subsequently saddled with the problem of staffing, operating and maintaining the new facilities under job-protection and minimum wage policies which are externally determined. Capital expenditures present a different set of problems. Certain urban investments (water supply, sanitation, power, drainage, transport facilities) are lumpy and require large sunk investments to achieve economies of scale. A conventional response to resource constraints is to neglect maintenance of the existing capital stock and to defer to better times their needed upgrading. Over time this results in a backlog of obsolescent housing and infrastructure, deteriorated environmental conditions, water rationing and intermittent power failures. Finally, categorical grants or project loans made to encourage new capital formation tends to concentrate counterpart funds on those subsectors for which external loans are more readily available.

4.16 Subnational Participation in Public Expenditures. Unfortunately, the allocation pattern of subnational expenditure by economic type or function is difficult to trace for the LAC countries as a group, because this information is only available for few individual countries. IMF data on expenditures by function are generally limited to central government operations and the distinction between recurrent and investment expenditures is not always available at the subnational levels. There are also problems in separating the expenditures made directly by the subnational governments and those made by decentralized sector agencies of the central government within their territorial jurisdictions. With these qualifications, one can still infer from IMF statistics, some broad comparisons of the subnational expenditure patterns prevailing in different groups of countries. A first observation is that LAC

35/ See the recent review by K. Davey: Municipal Development Funds and Intermediaries, PPR Working Papers, World Bank, 1988.

subnational government participate in general public expenditures in about the same proportion of GDP as that applicable to all developing countries (about 5 percent in Table 4.16a) but this percentage is considerably lower than the 10 percent value recorded for the industrial market economies, even when expenditures supported by borrowing are included (Table 4.16b). Expressed in percentage of general government expenditures, the split of responsibilities between central and subnational authorities is definitely unfavorable to the latter, which control directly only some twenty percent of total public outlays. (Table 4.16c) This picture gets even worse if one considers separately subnational expenditures in social services (Table 4.16a). During the year examined (1982), expenditures by lower tier governments for education, health, social security, housing and community facilities were much lower in Latin American countries (3.5 percent of GDP) than they were in the industrial market economies (6.[illegible] percent of GDP).

4.17 The Composition of Subnational Expenditures. Some indications in this respect can be derived from the time series available for Argentina, Chile, Colombia, and Panama. In Table 4.17a (Annex) one can note that social services generally account for the largest share of the subnational budgets, fluctuating between 28 percent (Panama) and 68 percent (Colombia). Also significant is the fact that this kind of expenditure has kept growing over the 1980's in constant terms, at an even if not faster pace than the resources of the subnational government (See the variation Tables 4.18a to 4.18d in Annex). Expenditures for education command in general the first place and can be as high as 42 percent of total in the case of Colombia where they grew rapidly, as they did in Argentina, and hovered about 20 percent in other countries (except for Panama, where the subnational role in education appears minor). Health expenditures are of the order of 16 percent in Colombia but seem to be far less of a subnational charge in other countries. Social Security and Welfare are significant in Argentina and Brazil (13 and 9 percent respectively), due to the relative decentralization of their systems, but account for 5 percent or less of total subnational expenditures elsewhere. Housing and Community facilities grew quite rapidly in the subnational budgets of Colombia and Panama, and averaged some 5 to 10 percent of subnational budgets. General Services (Administration and public order) command a considerable share of subnational outlays, ranging from 19 percent in Colombia up to 65 percent in Chile. In real terms this type of expenditure has been growing quite steeply in Colombia, where their weight is still moderate, but remained constant in Panama where they are very high (68 percent). Outlays for Economic Services, generally in the order of 15 percent, experienced lower than average growth, with transportation investments accounting for the main share. Obviously, this generalized picture tends to blur structural differences between regional and local level budgets and between the expenditure patterns of metropolitan areas and those of small rural communities. Detailed expenditure studies for Brazil, for instance, show that significant correlations exist between the level of urbanization of local jurisdictions and the composition of their expenditures.

Table 4.16a: 1982 EXPENDITURES BY FUNCTION AND LEVEL OF GOVERNMENT AS PERCENT OF GDP

	Industrialized Countries	Developing Countries	LAC (a) Countries	Argentina	Brazil	Chile	Colombia	Panama
GENERAL GOVERNMENT								
EXPENDITURES	44.6	32.6	32.1	31.1	39.1	34.7	20.8	40.1
General Services (a)	N.A.	N.A.	N.A.	2.4	6.7	5.9	3.9	11.4
Economic Services	N.A.	N.A.	N.A.	N.A.	6.3	3.1	5.3	5.1
Social Services	24.5	11.3	13.2	11.5	14.3	24.2	10.7	14.2
- Education	5.1	3.6	3.4	2.9	2.9	6.2	5.4	4.2
- Health	5.3	1.8	1.3	1.0	2.4	2.4	1.2	5.0
-Soc. Sec. & Welfare]			]	]	]	]	]	]
-Housing & Community]	14.2	5.8	] 8.4	] 7.4	] 9.0	] 15.6	] 4.0	] 5.1
Amenities]			]	]	]	]	]	]
Social Expenditures as % of Total Expend.	(55.0)	(34.6)	(41.0)	(37.0)	(36.5)	(69.7)	(51.4)	(35.4)
CENTRAL GOVERNMENT								
EXPENDITURES	34.1	27.2	27.2	22.7	27.7	31.2	15.1	39.4
General Services (a)	.7	.8	.6	1.6	2.5	3.7	2.8	10.9
Economic Services	3.1	5.8	5.2	3.6	4.6	3.1	4.3	5.1
Social Services	18.4	7.7	9.7	7.6	10.0	22.8	7.1	14.0
- Education	1.4	2.3	2.3	1.3	1.0	5.0	3.1	4.1
- Health	3.8	1.0	1.2	.2	1.6	2.3	.6	5.0
-Soc. Sec. & Welfare	12.4	3.9	5.8	5.8	7.4	14.3	3.0	3.1
-Housing & Community Amenities	.8	.5	.4	.2	.1	1.1	.4	1.7
Social Expenditures as % of Total Expend.	(54.0)	(28.1)	(35.5)	(33.4)	(36.1)	(72.9)	(47.4)	(35.4)
SUBNATIONAL GOVERNMENT								
EXPENDITURES	10.5	5.4	4.8	8.4	11.4	3.5	5.7	.7
General Services (a)	N.A.	N.A.	N.A.	.8	4.2	2.2	1.1	.4
Economic Services	N.A.	N.A.	N.A.	N.A.	1.8	N.A.	.9	.-
Social Services	6.1	3.6	3.5	3.9	4.3	1.2	3.5	.2
-Education	3.6	1.3	1.1	1.6	1.9	1.2	2.4	.-
-Health	1.5	.8	.2	.9	.8	.1	.6	.-
-Soc. Sec. & Welfare]	]	]	]	1.4	1.0	.-	.2	.-
-Housing & Community]	] 1.0	] 1.5	] 2.2	.-	.6	.-	.3	.2
Amenities]	]	]	]					
Social Expenditures as % of Total Expend.	(58.3)	(67.2)	(71.8)	(47.0)	(37.5)	(36.0)	(62.0)	

Source: Staff elaboration of data from IMF, Government Finance Statistics Yearbook, Volume X, 1986
Expenditure totals include Lending Minus Repayment and Transfer to Other Levels of Government.
Expenditures data for specific functions exclude net Lending flows.

(a) LAC regional averages weighted against GDP on a wider sample of countries.
(b) Includes General Administration and Public Order but excludes Defense expenditures.

Table 4.16b: SUBNATIONAL GOVERNMENT EXPENDITURES AS PERCENTAGE OF GDP a/

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
LAC SAMPLE b/	7.6	7.1	7.0	7.3	6.9	7.1	7.1	7.9	7.6	7.3
MARKET ECONOMIES b/	10.4	10.3	9.7	9.9	9.8	10.4	10.2	10.6	10.2	9.8

a/ Total expenditures include expenditures and lending minus repayment.
b/ Weighted averages. Comparability over time affected by the availability of data.

Table 4.16c: SUBNATIONAL GOVERNMENT EXPENDITURES AS PERCENTAGE OF GENERAL GOVERNMENT EXPENDITURES a/

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
LAC SAMPLE b/	24.4	23.8	22.8	23.0	23.0	23.0	21.0	20.1	19.8	20.4
MARKET ECONOMIES b/	26.5	26.5	25.4	25.5	25.1	25.4	24.7	24.7	23.8	24.0

a/ Total expenditures include expenditures and lending minus repayment. Expenditures have been consolidated.
b/ Weighted averages. Comparability over time affected by the availability of data.

Source: IMF, Government Finance Statistics yearbook, various years.

4.18 Constraints to Reducing Local Expenditures. It is quite plausible that the availability of transfer resources feeds the growth of expenditures, but it is unlikely that stricter rationing of this type of funds would achieve the desirable effect of balancing off local budgets, especially in rapidly urbanizing areas, because of the concern with maintaining a basic level of welfare for their growing populations.[36/] The common trends of Argentina, Chile, Colombia and Panama, (Tables 4.18 a, b, c & d in Annex) show that social expenditures continued to rise faster than those in economic sectors. The devolution of responsibilities for services like primary education or health to the lower tiers of government took place not so long ago and was based on the assumption that resource transfers supporting these expenditures would continue to grow over time. Additional problems arise from the repayment of capital loans received in the past by local governments and from the growing needs to replace a by now obsolescent capital stock. Certain capital improvements (e.g., water supply, sanitation, drainage, power) may be no longer postponed and are unlikely to take place through private sector initiatives. Deregulations of certain services may help eliminate gross local inefficiencies or restrictive practices and legitimize informal sector provision, but its applicability is limited and

36/ The legal/constitutional statutes of most LAC countries include the public obligation to provide specific local services. Several Latin American constitutions even state explicitly as a government responsibility that of providing all citizens with "decent" housing.

does not always reduce public spending or relieve the local budgets. Limiting the level of intervention of the public sector is a valuable objective, but it is difficult to determine in practice what its appropriate scope should be.[37/] It must be noted also that all solutions aimed at strenghtening the local resource base may reduce the need for transfers to the relatively affluent jurisdictions but do not eliminate the need of transfers to the poorest ones.

4.19 Spatial Cost Differentials. From a national perspective, the priority should be placed on reducing expenditures per unit of production of given goods or services and on achieving a significant proportion of local financing for those social goods which bear specifically local benefits. But even disregarding the existence of economies of scale and of local differences in demand levels, one still wonders at the great disproportion in per capita expenditures recorded in different areas of a country for specific budgetary entries. These differences can only be explained by relatively higher expenditure/product ratios, especially in peripheral regions, where apparently too much is being spent to obtain a given unit of public good, suggesting that specific public expenditures might be expanding simply because earmarked transfers become available. It may also suggest that some jurisdictions make expenditures or implement investments which are not of the highest priority and incur greater costs than others for equal services.[38/]

4.20 The Fiscal Gap of LAC Subnational Governments. The trends in own revenues and expenditures of the regional and local governments over the 1975-1984 period (see Table 4.20a & b) shows that a serious gap in their balance sheet was already widening before the onset of the debt crisis. As can be seen,

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37/ Two main considerations can be applied in determining which level of government is more suitable to provide which services: one is the extent to which the service involves externalities, the second whether scale economies are involved in its provision.

38/ This observation was made for the Argentine Provinces by J. Macon, who put in evidence the wide unit cost differentials encountered in the provision of similar services (see his essay Federalismo Fiscal y Sistemas Tributarios Subnacionales (1982). In fact, too little is known of these cost differentials within LAC countries in general. Discrepancies may be sectoral (of the rural vs. the urban sector), intra-regional (of the peripheral communities vs. the core city in a metropolitan area) or more often than not inter-regional (one region or city compared to another). Yet, these differential costs are seldom reflected in budgetary policies for urban service, which tend to be set uniformly throughout a country and even less in the formulation of special investment programs (such as those favoring medium size cities). Prices are not necessarily adjusted in these programs for cities where significant sunk capacities may already exist in given services and for cities where severe capacity constraints involve relatively higher marginal costs.

the expenditures of subnational governments traditionally supersede their own source revenues in practically all countries examined. In the larger countries (Argentina, Brazil, Colombia, Venezuela) the gap is of the order of 50 percent. (Table 4.20a Annex) In other words, the independent revenues of local authorities in these countries are barely sufficient to cover their basic administrative costs. Public services provision is being financed through other sources.

Table 4.20a: FISCAL GAP OF SUBNATIONAL GOVERNMENTS AS PERCENTAGE OF EXPENDITURES a/

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
LAC AVERAGE SAMPLE	-37.34	-33.56	-29.49	-30.06	-28.07	-21.78	-24.67	-21.22	-22.67	-15.61

Table 4.20b: FISCAL GAP OF SUBNATIONAL GOVERNMENTS AS PERCENTAGE OF GROSS DOMESTIC PRODUCT a/

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
LAC AVERAGE SAMPLE	-1.13	-0.85	-0.57	-0.72	-0.65	-0.61	-0.82	-0.76	-0.91	-0.72

a/ Fiscal gap = own revenues - expenditures and lending minus repayment.

Source: IMF, Government Finance Statistics Yearbook, various years.

C. Current Strategies to Relieve Fiscal Stress

4.21 General. As we have seen above, the fiscal imbalance of many subnational governments is due to the fact that the expenditure demands arising from urbanization have not been matched by sufficient revenues. This may be due to the failure of local authorities to engage in proportionate efforts of revenue collection but also to the limited buoyancy of their revenue sources to respond to the increasing needs and the fluctuations of the economy. As a result, almost everywhere in Latin America the central governments are called upon to fill the

gap in the current accounts of subnational governments. A variety of strategies is being used to this end, which can be reviewed under the following headings: (i) changing the scope and scale of local expenditures, (ii) changing the territorial base of jurisdictions, (iii) raising the level of fees and charges; (iv) implementing tax reforms; (v) relying on transfers, (vi) relying on concessionary credit. Most often, a combination of the above strategies is being used.

4.22 Changing the Scope and Scale of Subnational Expenditures. A variety of approaches can be used by governments: (i) taking over the burden of some local expenditures at the regional or national level; which is accomplished by transferring specific functions[39/] or by direct financing of capital investments while local authorities remain responsible for the operation and maintenance of the facilities; (ii) privatizing or franchising the provision of certain services, which may be helpful if guided by commercial logic and if the regulatory framework (tariff control, operating rules) is appropriately modified; (iii) exerting direct administrative control on local expenditures to ensure consistency with national objectives, as long as the changing needs of local communities are adequately recognized by the measures introduced (ceilings to the growth of given expenditures or to payroll outlays, measures of the cost effectiveness or efficiency of expenditures); (iv) resorting to technical assistance and persuasion to improve local practices of expenditure planning, programming, budgeting and of revenue assessment, imposition and collection; diffusion of public information on comparative fiscal performance could also help in this respect; (v) applying monetary and interest rate policies so as to expand (or restrict) the supply of credit to finance public expenditures; and, lastly, (vi) limiting top-down transfers, which may be an effective approach insofar as sufficient local autonomy is granted to undertake fiscal initiative and to make independent decisions on the cost efficiency of expenditures.

4.23 Restructuring the Territorial Base of Jurisdictions. The jurisdictional problems arising in large conurbations can be addressed in several ways: (i) annexing surrounding areas and jurisdictions to a core city and uniforming the tax base so as to balance the metropolitan burden of provision of certain services and to internalize spillover benefits as well as costs; (ii) reducing the number of administrative units by consolidation to ward off

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39/ This case is rare: the general tendency is towards decentralization of service responsibilities, especially in the education and health sectors. However, Bird points out how the Colombian government dealt with the general problems of departmental finance by taking away the most important departmental functions, i.e., the provision of education and health services.

the weaknesses of unviable communities;[40] (iii) creating a two-tier metropolitan government with revenue raising and spending authority; (iv) upgrading the level of government of the larger cities, conferring to them Special District status and prerogatives; and (v) establishing regional authorities or development corporations which assume certain expenditure responsibilities of the local government. The relative success of these solutions depends on the extent to which they consolidate activities which involve significant economies of scale and public externalities, leaving to the municipalities those services which require a direct and prompt response to local needs.

4.24 Adjusting the Level of Fees and Charges. To ensure that sufficient resources are raised to expand basic services in response to the rapid growth of cities, one could adjust their pricing so as to approach real costs and adopt standards of a level proportionate to the end user's ability and willingness to pay. Obviously, this approach applies only to services that are directly chargeable (e.g., utilities, public transport, shelter, garbage collection, etc.) while most others (e.g., education, health, welfare, recreation, fire and police protection, general administration) still remain to be financed through local taxes, transfers or other sources of revenues. In many LAC countries, where national or regional authorities set upper limits to user charges, price adjustments require legislative approval and political debate on whether the proposed measures do or do not preserve the social objectives of service provision. The usual approaches are (i) scheduling progressive price adjustments as conditions for grants or loan disbursement; (ii) delegating the authority to set tariffs to semi-autonomous enterprises providing specific services (e.g., utility companies, urban transport, garbage collection) on the expectation that they become self-supporting and (iii) privatizing the provision of particular services (through concessions, franchising, sub-contracting) - As already discussed (Paras. 3.4 & 3.5) few departmental enterprises or franchised companies in Latin America achieve a degree of financial viability and even fewer yield significant income to subnational governments. However, it ought to be recognized that direct cost recovery is not necessarily an overruling objective for all types of activities. A more realistic approach is to set appropriate targets of financial performance to ensure that local governments or enterprises remain responsible for raising at least part of the revenues necessary to cover service provision and develop a proper concern with the efficiency and the design of expenditures. (See Para. 5.31).

4.25 Implementing Tax Reforms. These may take place in a variety of ways. One is to improve the rates and collection procedures of existing taxes. The main focus may be brought on the taxes levied on goods and services, (upgrading

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40/ In reality, political pluralism and the peculiarities of some revenue sharing systems encourage a trend towards progressive disaggregation. This is particularly noticeable in Brazil, where the number of municipalities has grown from 3991 in 1985 to 4118 in 1986.

rates, extending registration, streamlining collection procedures, converting general sales taxes into value added taxes, adjusting fuel or motorvehicle taxes, increasing the fiscal burden on the consumption particular goods, etc.) These reforms are also frequently aimed at revamping property taxation (improving cadastral procedures, extending the tax base, updating assessments, improving collection). The most dramatic short term results are generally obtained by extending coverage of the property tax in rapidly expanding urban areas. However, once this is done, property values ought to be regularly re-assessed in order to guarantee a steady source of income for the future.[41/] A second approach is to allow the right to introduce new taxes to the subnational authorities: this may permit them to place emphasis on the fiscal instruments they consider more appropriate, to elect new ones or to modify the applicable rates within centrally mandated ceilings. A third approach aims to achieve better horizontal and vertical balance by reassigning or sharing some tax source between the national and the subnational authorities.

4.26 Relying on Intergovernment Transfers. All the above solutions (implementing tax reforms, restructuring the territorial base of imposition, changing the scope and scale of local expenditures, improving the level of fees and charges) may reduce the need for transfers to the more affluent jurisdictions of a country. But even if the majority of jurisdictions were to become self-reliant, national policy objectives or distributional considerations would still suggest the necessity of some transfers to the less fortunate areas. Besides that of achieving horizontal equity among jurisdictions, the main argument for intergovernmental transfers is one of vertical equity, because the national government controls the revenue sources which are more elastic to GNP trends and is presumably better equipped and more efficient in raising resources. The most current types of intergovernment transfers practiced in Latin American countries are reviewed in Box 5.

4.27 The Use of Transfers. The systems of intergovernmental transfers presently in place in Latin American countries, whether in form of revenue sharing, grants, or concessionary loans, came about over time through a series of discrete and contingent measures. It is therefore difficult to tell today why the transfers were originally established and what criteria were applied in their design. As they exist at present, they exhibit large margins of discretionality and a rather unpredictable volume over time. Much of the current arguments over revenue sharing derives from the lack of a explicit statement of objectives for the transfers and from the fact that they involve conflicting

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41/ The CIATA Program experience in Brazil, whereby the Federal Government provided grants and technical assistance to local governments for the establishment of cadasters, showed dramatic revenue improvements in the short term, but proved difficult to sustain once the external help was withdrawn, in face of macro-inflation. (See Mahar and Dillinger op.cit.)

Box 5: TYPES OF TRANSFERS

The most current types of intergovernment transfers practiced in Latin American countries are reviewed below:

(a) Origin-Based Tax Shares: consist in the straight devolution to the lower levels of government of a pre-established share of the amount collected by a superior authority within their jurisdiction. Being strictly based on origin, these schemes leave out distributional considerations. A typical example is the Value Added Tax (ICM) collected in Brazil by the States, which retain 80% and return 20% to the originating jurisdictions.

(b) Formula-Driven Tax Shares: redistribute the yield of certain taxes collected by a higher authority among contributing jurisdictions according to some formulae which may combine considerations of fiscal capacity (income), disparities in service levels (need) and encouragement of tax effort (per capita collection). It is however difficult to identify formulae which are equally suited to all cities and situations: the more sophisticated the formulae, the more likely they are to be politically questioned (See Box 5). Argentina, Brazil, and Mexico offer typical examples of relatively elaborate systems of formula-driven revenue sharing. (See Box 6).

(c) Unreported Transfers: one questionable type of transfers must be mentioned because of its widespread use of Latin American governments: this includes the non-payment of bills, contributions of taxes; the forgiving of arrear payments, the absorption of the operating deficits of subnational authorities by the treasury; the quasi-fiscal support measure adopted by monetary authorities and the many implicit subsidies that characterize intergovernment transactions.

(d) Discretionary Grants: another rather loose form of transfers, consists of ad-hoc allocations (generally from a reserve fund budgeted annually for discretionary used by the upper levels of government). This form of central government assistance has acquired extraordinary relevance in LAC countries, virtually overwhelming the redistributive impact of the parallel mandatory schemes.

(e) Emergency Relief Grants: jurisdictions struck by national or man-made calamities (floods, earthquakes, droughts, gluts of agricultural commodities, bankruptcies of departmental enterprises, etc) usually received central government subventions. These take place though quick disbursements from earmarked accounts or special bond issues and extra-budgetary transfers from the treasury. The disaster proneness of many LAC countries make this type of assistance a recurrent event.

(f) Capital Grants: these transfers represent unrequited contributions to specific local government initiatives dictated by the desire to encourage capital formation rather than recurrent expenditures. They are generally awarded upon a list of approved and localized projects, but may also be used in form of bloc-grants to fund broad capital improvements programs. Primary schools, local health center and a variety of other community facilities are almost invariably financed this way in LAC countries.

(g) Categorical Cost-reimbursement Grants: widely used in almost all countries, they consist in partial or full reimbursement of the costs incurred by area governments in carrying out specific activities. Usually some revenue sources are earmarked to finance particular activities (e.g., fuel taxes being used to finance highway improvements).

(h) Project Loans: since the terms of credit used in official lending are generally softer than commercial terms and the repayment of the corresponding debt is often forgiven, project loans can also be considered as a form of transfers. Even when external funding is involved, the foreign exchange risks is normally carried by the guarantor, which is a central government authority. Few of the Bank urban projects to Latin American countries have covenanted full coverage of debt-service by sub-borrowers.

issues of neutrality, efficient allocation or equity in distribution (See Box 6: Arguments on Transfers). This problem of internal consistency becomes explicit as one tries to correlate the different types of transfers in use with the possibly negative or positive impact they may have on the achievement of specific goals, as illustrated in Box 7. Types of transfers are grouped according to the extent to which they are conditional upon a specific use of funds (tied transfers) or unconditional (untied transfers). Objectives are grouped according to the three main functions of government policy: stabilization, allocation and distribution.

4.28 Stabilization Objectives. A first group of concerns has to do with the stabilization of the economy: these may reflect the intent to exert some budgetary control over the annual volume of resources transferred from the central to the local budgets; to avoid unwanted growth of central government parastatal agencies; to curb the budgetary displacement and inflationary effects of swelling social sector expenditures; to reduce subnational dependence upon top-down transfers; to maintain some predictability on regional and municipal budgets; to induce some tax effort and resource mobilization at subnational level by requiring matching contributions. Finally, transfers may be dictated by a desire to maintain stability to the political system, or by a feeling of national solidarity, which have obvious implications for economic growth and development.

4.29 Allocation Objectives. Another group of objectives may reflect concerns with resource allocation. These may be to ensure the provision of socially valuable, but non chargeable services, which subnational governments or the private sector may be reluctant to supply in adequate amounts and quality; another may be to support sectoral investment programs designed to achieve macro-economic or social targets (employment generation, export promotion, resource development, etc.); still others may be to promote the development of resource regions or to promote balanced development among regions; to ensure a margin of budgetary flexibility allowing subnational authorities to develop their own planning and programming capabilities; to foster awareness of the real costs of public service provision by making local governments more accountable for expenditure decisions; finally to encourage capital formation by earmarking transfers for specific purposes.

4.30 Distribution Objectives. A third group of objectives relates to the distribution of resources. One chief purpose of transfer systems is to reduce the vertical imbalance between the revenue authority and the service responsibilities of different levels of government so as to preserve some measure of subnational autonomy. Another is to ensure a horizontal distribution of resources which guarantees to all regional and municipal governments sufficient means to address local needs so as to achieve basic standards of welfare everywhere in the country.

4.31 The Design of Transfer Systems. The objectives that different forms of transfers intend to achieve are multiple and often conflict with each other.

Box 6: ARGUMENTS ON TRANSFERS

In Favor	Against
Stabilization: Revenue sharing allows to the central government sufficient budgetary flexibility to tap the most productive and buoyant revenue sources.	Stabilization: Effective fiscal management is impaired, because the revenue structure becomes less flexible and public sector allocations correspondingly distorted.
Mandatory revenue sharing provides subnational authorities with a steady and predictable source of income, allowing for some budgetary latitude.	Irregularities and delays in the administrative transfer of funds hampers subnational cash management, especially in presence of high inflation.
If properly designed (matching grant schemes) a transfer system may induce the general public to pay for new taxes, promoting incremental resource mobilization.	Transfers foster dependence on this source of revenues, reducing self-reliance and fiscal effort. They tend to remain in force long after the circumstances for which they were established have ceased.
Reducing the fiscal gaps of subnational governments, transfers contribute to national unity and stability with obvious benefits for country-wide growth and development.	There are difficulties in designing an efficient revenue-sharing system suited to all cities and situations. Formula-driven schemes are politically questionable and tend to foster divisiveness rather than unity.
Earmarking may limit possible inflationary aspects of transfers.	Tied or untied, any increase in subnational expenditures tends to be inflationary, unless matched by incremental revenue growth.
Direct transfers to subnational levels avoids unwanted growth of inefficient central government enterprises.	Additional revenues at subnational level supports alternative growth of departmental enterprises, which are not necessarily more efficient.
Allocation: Transfers can be used to induce subnational governments to provide specific services according to nationally defined priorities.	Allocation: Greater availability of revenues does not always result in subnational production of the desired goods or of appropriate services.
Transfers are needed to offset externalities and congestion costs.	Both externalities and congestion costs are not easily translated into operational criteria.
Transfers can be used to promote development of resource regions in line with national priorities.	There may be better alternative uses of fiscal resources. The opportunity costs are likely to be high.
Categorical transfers may promote capital formation at subnational level.	Earmarking may distort local budgets and possibly lead to misallocation of resources and subsequent rises in recurrent costs.
If properly structured, transfers may promote awareness of real costs of service provision.	Transfers provide little incentive to improve expenditure efficiency and deter recipients from facing up to the real costs.
Distribution: Transfers are necessary to broaden the resource base of subnational governments to enable them to address the socio-economic needs of the areas where they provide direct benefits (vertical equity).	Distribution: Better achieved through explicit grant schemes, supporting the earning ability of the poor or improving conditions in the less developed areas of the country, than through broad-design revenue-sharing schemes, whereby different jurisdictions end up receiving too much or too little.
Revenue-sharing permits to compensate for differences in local fiscal capacity (horizontal equity).	Fiscal capacity can be measured only crudely and in relative terms (horizontal equity remains open to question).
Transfers enable all local governments to satisfy at least the basic needs of their constituencies.	Transfers should be related to effective local demand and fiscal effort. People will move from one jurisdiction to another.
Revenue-sharing results in a better spatial distribution of fiscal resources between urban and rural areas.	Large cities and industrialized areas, which contribute more to the tax-pool, resist especial treatment of rural jurisdictions.
Transfers increase subnational ability to provide servicies and to respond to local needs in the context of upper supervision (local autonomy).	Local authorities must be free to provide different types and amounts of services and to apply those charges which they consider more appropriate (local autonomy).

Box 7: INTERGOVERNMENT TRANSFERS ... OBJECTIVES

TRANSFER TYPES / OBJECTIVES	UNTIED (BLOC)			UNTIED OR TIED		TIED (CATEGORICAL)		
	Origin Based	Formula Driven	Unreported Transfers	Emergency Relief	Discretionary Transfers	Capital Grants	Cost Reimbursement	Project Loans
STABILIZATION								
Control of Total Transfer Volume	-	-	-	-	-	+	+	+
Limit Public Sector Growth	-	-	-	-	-	+	+	+
Inflat. Impact of Social Expenditure	+	+	-	-	±	±	+	+
Subnational Fiscal Dependence	+	-	-	-	-	-	+	+
Predictable Subnational Revenues	+	+	-	-	±	±	+	+
Subnational Resource Mobilization	+	±	-	-	-	-	±	+
ALLOCATION								
Non-Chargeable Service Provision	±	±	-	±	±	+	+	+
Development of Resource Regions	-	+	-	±	-	±	±	+
Balance Interregional Development	-	+	-	-	-	+	±	-
Subnational Planning/ Budgeting Flexibility	+	+	-	-	-	-	±	-
Subnational Real Cost Awareness	-	±	-	-	-	-	±	+
Promotion of Capital Formation	±	±	-	±	+	+	+	+
DISTRIBUTION								
Revenue Expenditure Vertical Balance	±	+	-	±	-	+	+	+
Local Autonomy Vertical Balance	±	+	-	-	-	-	-	+
Local Needs Responsiveness	-	+	-	-	+	-	±	+
Basic Needs Horizontal Equity	-	+	-	-	±	+	±	±
Fiscal Capacity Horizontal Equity	-	±	-	-	-	-	-	+
Fiscal Effort Horizontal Equity	-	±	-	-	-	-	-	+

+ mostly positive impact ± depends on transfers-design - mostly negative impact

The relative effectiveness of any particular system in achieving different goals depends in a fundamental way on the specific design adopted for its implementation (see Box 8.). One special difficulty of revenue sharing is to determine the extent to which the ability to pay for social services of different jurisdictions should be equalized through transfers, without de-motivating the recipients from making some contribution to their cost. This involves some measurement of relative fiscal capacity and fiscal effort.[42/] Since the main idea is not only to compensate for vertical imbalance but also to achieve some degree of economic welfare in a horizontal sense, almost all revenue-sharing formulae in use in LAC countries incorporate some re-distributive features (Argentina, Brazil, Colombia, Mexico, Venezuela) (see Box 9.) To a varying extent, they also try to make transfers partially dependent on local fiscal effort. However, the relative weight of these effort-based or redistributive corrections is offset in practice by the overwhelming weight of origin-based components or by the overdevelopment of parallel, discretionary forms of transfers. Nevertheless, a new trend is apparent, which may give preference to those types of transfers which are more conducive to local resource mobilization.

4.32 Summing Up: This section of the report has considered the importance of the subnational fiscal gap, which in several countries accounts for a significant portion of the aggregate deficit of the public sector. The discussion moved from the revenue side, analyzing the sources of independent income assigned to regional and local authorities, their relative buoyancy, administrative costs and effective yield. Among tax revenues, only those imposed on goods and services and on real property appear to be on some general

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42/ Accurate measurement of the fiscal capacity of a given jurisdiction would call for analysis of the "potential" revenue collection, but this involves in each community of the effective ability of the residents to pay taxes and other charges, the degree of monetization of the local economy, the availability of tax-handles, the ability and willingness of local administrators to impose and collect levies which are all factors that vary considerably from one part of the country to another and would require individual assessment and auditing of each jurisdiction. A gross, but widely used measure is the ratio of the per capita income of a particular community to the average national value. Other short cut indicators often used are the per capita value added produced in the jurisdictions, the consumption of fuel and electricity, the registration of motor vehicles, economic activities or property transactions, the extension of the area to be served or simply the size of the urban population as a proxy for all the above. Most revenue-sharing formulae in use in LAC countries rely on these or similar indicators. Relative fiscal effort is measured as a ratio between the actual amount of per capita revenue collection (tax and non-tax) of a jurisdiction and the potential collection obtainable from the local tax base by application of the average national value. By nature, it represents a relative, rather than absolute measurement.

Box 8: REVENUE SHARING BY FORMULA

A redistribution of fiscal participations by formula, (as opposed to a straight proportional devolution of the contribution made by each jurisdiction to the tax-pool) reflects the intent of directing more resources to the areas of greatest need or lesser fiscal capacity. Formulae are meant to avoid the issues of vertical and horizontal equity raised by more discretionary systems of redistribution, which are subject to political manipulation. However the basic ingredients of the formula itself may have differential impacts.

FORMULA INGREDIENTS:	POSITIVE IMPACTS	NEGATIVE IMPACTS
Equal Shares: divides the tax pool in equal parts (only apparently equitable).	rural areas, irrespective of lower tax contributions.	urban areas, irrespective of greater tax contributions.
Area: assumes that larger jurisdictions have greater infrastructure and services costs.	extensive jurisdictions may be underpopulated, underdeveloped (e.g., peripheral areas).	smaller jurisdictions may be highly urbanized (e.g., core cities, capital districts).
Total Population: overhead service financing.	more populous jurisdictions (urban areas)	less populous jurisdictions (rural or sparsely settled).
Urban Population: focus on cities service needs	more urbanized areas	rural areas
Last Population Census: legally reliable but often obsolete.	stagnant, declining areas	dynamic growth communities
Demographic Growth Rate: controversial, subject to estimates.	fastest growing areas/cities	outmigration areas, slow growth cities
Need Yardsticks: some indicators may reflect an urban or rural bias.	communities with greater gaps (housing, utility connections, education, health).	more endowed areas (generally the more urbanized ones).
Fiscal Performance: measures past expenditure against need.	more enterprising, wealthier jurisdictions.	underdeveloped areas with poor expenditure record.
Income Per Capita: accounts for demographic size, not for skewed income distribution, low monetization of economies.	poorest jurisdictions measurements often unreliable.	wealthier jurisdictions.
Total Revenue Collected: neglects demographic size, availability of tax handles.	more industrialized urbanized areas, able to impose/collect taxes and charges.	less developed, rural areas collecting little revenues.
Per Capita Revenues : accounts for demographic size not for income distribution.	tax-efficient urban areas, but large informal sector, urban poverty pose limits.	least tax efficient areas, especially rural.
Fiscal Capacity: pro-rated to potential revenue yield at average collection rates.	jurisdictions with relatively low capacity (problems with chosen indicators)	areas with above-average capacity (problems with indicators).
Fiscal Effort: local collection vs. capacity (matching grants).	preserves fiscal motivation of performing communities.	stimulates incremental efforts in non-performing communities.

Box 2: REVENUE SHARING CRITERIA IN ARGENTINA, BRAZIL, AND MEXICO (1985)

Shared Taxes	To Regional Governments		To Local Governments	
	% Share	Criteria	% Share	Criteria
ARGENTINA				
Sales Tax		65% Provinces' Population		40-100% Population
Rural Property Tax			Varies	0-3% Population Growth
Urban Property Tax	48.5	25% "Development Gap"	0 to	0-10% Land Surface
Vehicle Tax		(housing quality & n° of cars)	Province	5-30% Equal Shares
Stamp Tax		10% Inverse of Territorial Density		0-25% Payroll Expenditures
Other	3.0	General Provincial Fund		0-75% Fiscal Effort
In addition to national transfers, Provinces may share own source revenues with Municipalities				
BRAZIL	To Regional Governments		To Local Governments	
Income Tax and Mnfrng Sale Tax	12.5	95% Inverse Per Capita Income 5% Land Area of State	10.5	Educational Sector Priorities
Fuels Tax	30.7	40% Fuel Consumption 40% Population 20% Land Area	8.0	Nat'l Highway Plan Priorities
Vehicles Tax	45.0	100% Car Registrations	0 to	State Discretion
Highway Transp. Tax	20.0	50% Origin 30% Network Length 20% Population	0 to	State Planning Priorities
Electricity Tax	50.0	60% Population 20% Land Area 15% Consumption 5% Production and affected areas	10.0	Power Sector Investment Priorities
Mineral Tax	70.0	100% Origin	20.0	State Priorities
Education Salary	66.7	100% Origin	0 to	State Priorities
Rural Land Tax	0.0	Directly to municipalities	80.0	Origin
Value Added Tax	80	State Tax	20.0	75% Origin 25% State Discretion
Property Transfer Tax	50	State Tax	50.0	0 to Origin
In addition to national transfers, States share value added and property tax with municipalities				
MEXICO				
Foreign Trade Tax		90% General Fund	20.0 min	GF 50% Origin
Income Tax			but varies	CF 25% Population
Value Added Tax	17.4		0 to state	MDF 25% State Discretion
Services Tax	0 to	8% Complementary Fund		70% Inverse of GF Transfers
Mineral Extr. Fees	origin			30% Equal Shares
	& effort			90% Inverse of GF Transfers
	formula	2% Municip. Dvlpt Fund		10% Equal Shares
Automobile Tax	80.0	State Tax	20.0	General Fund Rules
Import (3%) and Export (2%) Surcharges	0.0	Directly to Collecting Munic.	95.0	0 to Origin
Hydrocarbons Fee (5%)	0.0	Directly to Municipalities	63.4	0 to Origin

significance, while betterment and user charges, income from departmental enterprises and a variety of other non-tax revenues seem to have become under-exploited forms of subnational imposition. Borrowing also appears to be a form of financing that is improperly used by LAC subnational governments because of little experience, restrictive practices or inadequate institutional procedures. Inter-government transfers, often the largest single source of revenue, are discussed at some length, because of their allocative potential. On the expenditure side, the analysis points to the relative weight of subnational outlays (about twenty percent of general government expenditures and eight percent of GDP) noting that the lower tier authorities carry out a significant proportion of national social expenditures (over forty percent). In addition, the traditional involvement of LAC subnational governments in capital investments is proportionally higher (about twice) than it is in industrial market economies.

4.33 A few general observations can be extracted from the review of typical strategies that LAC governments adopt to relieve subnational fiscal stress. Tax reforms (improving rates, introducing new taxes, modifying revenue sharing) may help rationalize the existing fiscal systems and strenghten the local revenue base. Certain departmental enterprises can be made more self-reliant by linking loans and equity contributions to price adjustments on the corresponding urban services. The largest urban agglomerations of the continent (Greater Mexico City, for instance) could achieve greater efficiency and rationality through a territorial re-organization of the tax base (through annexation, reduction in the number of administrative units, establishment of regional services or creation of two-tier metropolitan governments). In general, much could be achieved by: (i) changing the scope and scale of expenditures, (ii) relieving the local budgets of some expenditure responsibilities, (iii) franchising or privatizing the provision of certain services, (iv) de-regulating particular activities, (v) legalizing the services provided by the informal sector, (vi) extending technical assistance to local governments, (vii) exerting direct administrative control, (viii) applying more transparent monetary and interest rate policies, and (ix) limiting the volume of top-down transfers in exchange for some devolution of fiscal authority.

4.34 Transfers of some type appears inevitable and may be justified by objective differences in the fiscal capacity of individual jurisdictions. Here the main concern should be to take a fresh look at the present systems, selecting those reforms which are more conducive to local resource mobilization, eliminating cross-transfers and discretionary grants and gradually substituting credit schemes for grants wherever feasible. Large cities, which have the greatest potential to become self-reliant, should be encouraged to do so, by allowing them greater autonomy to determine tax rates and to select which fiscal instruments they want to emphasize for resource mobilization. It appears most important to break the present cycle of general dependence upon top-down transfers and to ensure that subnational authorities become responsible for raising a more significant portion of the revenues necessary to pay for their expenditures. This appears to be the way to develop in both taxpayers and decision makers a concern with the efficiency and the effectiveness of local expenditures. Nevertheless, financial assistance from the central government will continue to be needed for those poorer jurisdictions, which because of their limited fiscal base, would need to engage in a disproportionate fiscal effort in order to achieve even the minimum standards of basic services.

V. CONCLUSIONS

5.01 General. The conclusions of this paper can be organized according to three main groups of concerns: those more often voiced in Latin American countries; others of a more theoretical nature, which stem from economic and fiscal principles; and those emerging from the lending operations of the Bank itself. This Section has been divided in two parts: first it summarizes the main issues raised in the report (Part A), showing that obvious correlations exist between the three groups of concerns. These were visualized in Box 0.1. Part B addresses specific issues in form of recommendations. Some of the questions raised, which are more speculative or political in character, may not be answered here other than partially or in pragmatic terms. In fact, the intent of this paper is not to unravel theoretical knots with which scores of specialists have toiled for decades, but simply to take stock of the problems a Bank project officer faces when designing his operation and to examine some of the implications of empirical approaches. In the attached Boxes 10, 11 and 12, a few recent Bank projects are briefly summarized, to illustrate the type of situations encountered in urban sector activities in LAC countries, and to show how some of the concerns discussed in the paper may bear on the conception of projects. While the case studies presented reflect, no doubt, still partial and possibly inadequate approaches to the issues confronted, they indicate new trends in urban sector lending which are also evident in the current operations of other regions.

Part A: Issues

5.02 Country Concerns. A first group of concerns, frequently expressed by our borrowers, are mostly related to national fiscal politics and developmental aspirations. Among these, one can list the constant preoccupation with the uneven territorial distribution of population and economic activities, with the size and primacy of very large cities, with the relations between these cities and the smaller towns and the rural areas. The issues raised relate mainly to horizontal equity in the fiscal treatment of different communities or to the broader aim of interregional equalization.

5.03 There are also concerns with the deteriorating quality of the urban environment and the apparent reduction in the levels of service that the public authority can provide. The latter problem focuses attention on the burden of subnational deficits and calls into question the vertical assignment of powers and functions to different levels of government, pointing to the current mismatch between revenue authority and expenditure responsibility. Lack of liquidity at all levels of government may be imputed also to the limited capacity or willingness to pay of the taxpayers, and this in turn is linked to the poor quality and insufficient quantity of the services they receive. The above considerations often lead to the suggestion that some of the inefficiencies and

insolvencies of central government agencies could be offset by the local governments, were they granted greater participation and/or autonomy in expenditure decisions. This latter position is generally countered by national authorities, who point to the local governments' limited capacities to plan, implement and administer urban services, as "demonstrated" by the unregulated growth of self-help, informal sector activities. Moreover, the fragmentation of urban investment into a variety of authorities, budgets and programs makes it difficult to manage and even to conceive as a single, integrated sector. This may also explain why urban policies, expenditures and administration are often based on limited factual knowledge of relative needs, priorities and schedules of demand.

5.04 Theoretical Concerns. A second group of concerns relate to general economic and fiscal theory. Among these one should mention first the Bank's traditional concern with ensuring mobility of the main factors of production to create a suitable climate for free enterprise and investment. Country attitudes and policies concerning internal migrations, industrial location incentives and inter-regional terms of trade often interfere with the free flow of labor and capital. Other concerns relate to official disregard of agglomeration economies or indiscriminate emphasis on congestion costs. These stem from a segmented vision of the national urban system, which is seen fractionally, as a rank-size hierarchy of isolated settlements, rather than as an interdependent spatial network of productive, marketing and service flows. A comparative regional perspective is necessary also to confront the issues of horizontal equalization, recognizing that individual jurisdictions may differ substantially in fiscal capacity, but also in fiscal effort. Similarly, the problem of efficient allocation of resources brings into focus the relative returns of specific sector investments but also the notion of comparative advantage among different areas.

5.05 The existence of economies of scale, decreasing costs or externalities conditions the assignment of functions among government levels. One can debate to what extent re-distributive functions can be delegated to the subnational authorities as agents of the central government, but there is little doubt this question has particular significance for the implementation of poverty alleviation programs. Related concerns are the transparency and targeting of subsidies and the budgetary predictability of both revenues and expenditures. The subnational governments contribute substantially to the growth of domestic debt through deficit spending and inflationary borrowing. Policies of debt absorption, terms of on-lending and targeting of credit become critical issues because they may induce distortions on national financial markets. Fiscal stabilization would require rigorous criteria to assess the creditworthiness of sub-borrowers, and more efficient pricing of public goods to achieve acceptable levels of cost-recovery from end users. But local cost recovery and accountability for expenditures cannot be achieved without enabling local authorities to respond directly to the needs of their constituencies, which implies a certain degree of fiscal autonomy. Similarly, the promotion of local entrepreneurship and private investment for the provision of public services is

tied to the removal of unnecessary regulatory constraints. Finally, the financial requirements of an urban investment policy for the country as a whole should be assessed with regard to its allocative and fiscal implications. This is an operational issue which may shed a different light on many theoretical questions.

5.06 Operational Concerns. The third group of concerns refers to the relative impact of the Bank's lending operations on a national urban system as a whole. Questions can be raised on the overall effectiveness of our lending, its contingent character, its long term replicability. To make strategic use of the resources available implies selectivity in lending, which is not easily implemented, given the multi-sectoral complexity of urban operations, which occasionally makes them difficult to instrument and to manage even within the Bank itself. Moreover, counterpart funding is not always clearly identifiable in budgetary terms and often leads to exceptional allocations of earmarked grants by the central government for particular communities.

5.07 Broadening the scope of Bank lending for urban development evidently requires the linkage to a more systemic pattern of top-down transfers and the gradual substitution of requited credit for unrequited grants. This raises questions on the suitable financial intermediaries for on-lending, on the lending terms themselves and on the pattern of cost recovery of both capital and recurrent costs from end-users. Since the implementation and management of projects is of necessity decentralized, a more flexible approach, relying on development of the independent administrative capacities of sub-borrowers, is viewed as a desirable alternative to an unwanted proliferation of parastatal executing agencies, but requires a substantial injection of technical assistance. One last set of operational concerns relates to the eventual need to implement changes in the regulatory framework of urban services provision, which may result in specific covenants for Bank loans. Finally, there is an evident need to pursue research on urban development, to clarify its intersectoral and macro economic linkages, the related fiscal and institutional problems, and to address the issues arising from the introduction of new operational approaches.

Part B: Recommendations - Country Approach

5.08 The territorial Distribution of Population and Economic Activities. As discussed in Chapter 1, most LAC countries present a high degree of spatial concentration of urban population and activities. In Argentina, Brazil, Colombia, Chile, Mexico, Peru and Venezuela, a very large share of the economy is concentrated in but a few cities with more than half a million inhabitants. The same is true also for the smaller countries, often to an even larger extent (see Table 1.2). Because the larger cities offer greater opportunities of employment, income and access to public services, and because of their sustained, self-cumulative growth, LAC goverments are increasingly concerned with the apparent inequity between the social conditions of metropolitan dwellers and the rest of the population. For this reason, they feel they have to reduce these differentials not only through social investments but also by redirecting

productive enterprises to lagging regions in order to forestall outmigration. This perspective does not always account for the important contribution the large urban agglomerations are making to the modernization and development of their own nation and for the fact that firms and households have very good economic and social reasons to gravitate towards the more urbanized areas. Experience shows that compulsory measures of deconcentration of business enterprises have only marginal impacts on overall demographic trends. Furthermore, countering the spontaneous trends towards agglomeration often results in a distorted use of public resources. While it is a responsibility of the central government to promote growth and to sustain productivity wherever unexploited potentials exist in the country, *population distribution objectives do not offer a sound basis for decisions on the decentralization of productive investments which should be guided by adequate feasibility studies and a specific statement of economic objectives.*

5.09 Intermediate Cities Programs. The above considerations apply also to the indiscriminate priority often accorded to public investments in the so called "intermediate-size" cities or "alternative" growth-poles (Mexico and Brazil are classical examples), which are generally costly and not necessarily conducive to the desired effects. In fact, some medium size cities may deserve urgent attention because their rate of spontaneous growth is for greater than that of other urban areas or because of other factors, which are generally not the result of conscious government decisions. In those cases, or when an identifiable sectoral constraint is stifling the growth of a particular city, discrete government support may be justified. But this is different from singling out all medium size cities as targets for public investment (or external loans) merely on the basis of demographic size, trying to confer to them some comparative advantage which might induce sustained growth. *The experience with broadly defined investment programs for intermediate cities has proven generally ineffective and sometimes wasteful because the sheer provision of infrastructure and services cannot assure to them a viable economic base, while living conditions are only marginally improved.*

5.10 Small Towns Programs. A second instance of misguided policy is the tendency of LAC governments to scatter social investments in small towns and semi-rural hamlets, in the hope of improving the lot of farming populations in areas of rural exodus and stagnant agriculture. This type of investments may make good sense within the impact zones of broader programs, where systemic change is being introduced in the current patterns of land tenure, farming techniques, water management and crop choices. However, they provide only marginal and temporary relief in areas where structural conditions persist for endemic unemployment, declining prices and depressed incomes. Investments in infrastructure and services in market towns may become an important factor in the transformation of the rural environment where a perspective of growth and change exists (see Box 10) but one must also recognize its obvious limitations in recessionary situations. *In most cases, small towns programs might improve the welfare of the population which will remain but will accomplish little in retaining excess labor.*

5.11 Large Cities Programs. Yet, in spite of the prevailing rhetorics on decentralization, the investment policies of LAC countries continue to favor the larger cities. This is because these policies are basically aimed at filling perceived service gaps and because the most visible, growing concentrations of urban poverty and political instability are found in metropolitan areas. When the rise of current costs and the decline of statutory transfers deprived the metropolitan governments of investment resources, these were the arguments used to justify exceptional measures such as debt cancellations or rollovers, external loans, ad hoc transfers, and direct investments by central government agencies. But the favor accorded to large cities is also justified by a growing realization that *large urban areas make a critical contribution to the national economy, and inadequate infrastructure may bottleneck effective resumption of economic activities, discouraging private investment and diverting savings towards unproductive uses.*

5.12 Reviewing Fiscal Assignment. The arguments on equity and efficiency in resource allocation converge on the issue of fiscal assignment. As discussed in previous chapters, urban agglomeration calls for a variety of functions and services to be carried out by the public sector for one reason or another. Urban services provision involves economies of scale and benefit or cost spillovers from one jurisdiction to another. Jurisdictions with a low tax base would have to impose higher taxes and charges in order to raise sufficient revenues to achieve levels of service comparable to those of other communities. The need for a particular service may be greater or lesser in different jurisdictions. The cost of providing the same service may vary from one community to another. Some services can be directly charged to end-users, others cannot and must be financed through general revenues.

5.13 The above considerations imply that it is not always simple to determine what service should be provided and paid for by each level of government. In practice one has to consider, service by service and for each tier of government: (i) the current statutory arrangements; (ii) the spatial incidence of each service and the externalities involved; (iii) the corresponding economies of scale; and (iv) the availability of sufficient revenue sources to finance its provision. Table 1.7 offers an illustration of the functional assignment of responsibilities between central, regional, and local governments in Brazil. Quite often these responsibilities are shared by different tiers of government, but it is the very proportion of this sharing that remains ambiguous and does not clearly tell when and for what support is provided by a higher authority. *To grasp the realities in the assignment of public service functions among government levels, an inventory of the present inter-institutional and budgetary arrangements (in law and in practice) becomes necessary in each case.*

5.14 Containing Central Government Transfers. In Para. 4.19, the observation was made that only when local governments are made responsible for raising at least part of the revenues necessary to finance their expenditures, they will develop a concern with the efficiency and effectiveness of public spending. The Latin American experience shows that excessive reliance on

transfers reduces the political responsibility of local leaders and possibly results in wasteful use of resources. Reducing the dependence on transfers calls for some decentralization of fiscal authority, not necessarily to match service responsibilities, but to an extent sufficient to make both decisionmakers and consumers aware of the political responsibility to impose and pay the corresponding charges. This paper is not advocating an increase in the volume of unrequited intergovernment transfers. Its central theme is rather to reduce the relative importance of the grant and revenue sharing systems to avoid too great a dependence on national sources of financing and its undesirable effects on the subnational public sector. *The best approach to achieve efficiency in local expenditures is not to emphasize grants, but to assign some additional sources of revenue to the administration of subnational authorities or to guarantee to them a share of particular taxes, according to an explicit set of performance rules.*

5.15 Decentralizing Fiscal Authority. To a considerable extent some administrative decentralization of the responsibilities for providing specific urban services has already occurred in LAC countries and keeps occurring. However, as suggested above, along with the authority over certain expenditures many governments would need to decentralize to some extent also the tax system, at least in sufficient measure to discourage subnational governments from carrying out investments which are less essential or from spending inordinate amounts to provide virtually the same services. The traditional solution of establishing regional service branches of central government agencies has already expanded the parastatal bureaucracy to an extent that it is no more efficient or prompt in meeting public needs than the local governments. Besides, the incremental current costs of this overbloated parastatal sector impose constraints on other forms of budgetary assistance and claim resources which could be used for re-distribution. *Rather than encouraging further expansion of LAC parastatal sector the fiscal system should be so modified as to offer sufficient motivation for local decisionmakers to take into consideration the costs as well as the benefits of urban services provision.*

5.16 Improving the Existing Revenue Sharing Systems. Many LAC countries are presently trying to improve their revenue sharing systems. The recession of national economies has generally affected the yield of the tax sources on which these schemes were based, and spurred abnormal growth of compensatory flows of discretionary grants which add significantly to the fiscal burden of more conventional types of transfers as in the case of Argentina (footnote 2) or Brazil (Box 3), where they are generally perceived as arbitrary and inequitable and have occasionally become a dominant source of local revenues. What is needed instead is an analysis of the extent to which top-down transfers are instrumental to achieve: (i) country-wide objectives (growth resumption, fixed capital formation, employment, inflation control, human resource development); (ii) some predictability and control of the annual volume of transfers (to minimize unanticipated budgetary deficits); (iii) better accountability for their use; (iv) more efficient allocation of resources at the local level; (v) greater local

autonomy and self-reliance; (vi) greater interjurisdictional equity; (vii) improved local planning, programming and budgeting; (viii) greater mobilization of local resources; and (ix) a more focussed impact on the alleviation of urban and rural poverty. *Reform of the present revenue sharing systems should aim at the elimination of discretionary transfers and move from a comprehensive reassessment of all intergovernmental flows to the local governments, not only in the context of urban development policy, but in the context of national stabilization and economic recovery objectives.*

5.17 Improving Subnational Administrations. One argument often voiced in LAC countries to explain shortfalls in cost recovery and general mismanagement of local services, is that the technical capacities of lower level officials are limited and this is seen as a serious obstacle to the devolution of either expenditure or revenue authority. True enough, administrative skills are frequently scarce, especially in the less developed areas of a country. But, the purported greater competence and integrity of higher level officials is only based on the fact that their actions are less closely scrutinized, and that more able officials are drawn to central government posts by the better pay, more secure tenure and higher status. It is difficult to believe that the officials of lower level governments in Latin America could not learn to make sound decisions, given adequate time, suitable training and technical assistance, appropriate salary policies and more secure tenure, or simply by being placed in a situation that is conducive to responsible management.[43/] *Given their greater and more direct knowledge of their jurisdictions, subnational administrators may perform better than central administrators when it comes to responsiveness to local demands.*

5.18 Substituting Borrowing for Grant-Transfers. Many urban services involve creation of long-lived capital assets (roads, water and sewerage mains, power grids, public building, housing), for which the long-term repayment of borrowed funds makes good sense. However, there are few LAC countries in which long term borrowing is available to local communities in sufficient amounts at affordable conditions. Thus it might be desirable to assist LAC governments in financing such works through lines of credit and through the establishment or adequate restructuring of Municipal Development Funds. Past experience with MDF's in several LAC countries (Bolivia, Brazil, Colombia, Costa Rica, Guatemala, Honduras, Mexico, Venezuela) has been disappointing as they generally failed to become self-sustaining or to achieve a significant scale of operation.[44/] However, the present efforts to strenghten existing MDF's or to create new ones on sounder footings should be encouraged under current circumstances. Institutional credit should be associated with active programs of technical assistance to the borrowing municipalities, to help them in project identification and design, in planning their investments and in putting order in their financial accounts so as to reach minimal conditions of eligibility. Capital improvement credit should be made accessible to all jurisdictions meeting set criteria of eligibility, giving preference to revenue-generating investments and

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43/ Bird, Bahl and Linn, Macon, op. cit.

44/ Kenneth Davey, Municipal Development Funds and Intermediaries World Bank, PPR Working Papers, 1988.

setting some conditions for direct and indirect cost-recovery. *Municipal loans should be coordinated with the parallel flows of grant and revenue-sharing funds, which also must be made conducive to local fiscal effort.*

5.19 Assessing Local Capacity and Willingness to Pay. It has been pointed out that "even very poor people are willing to pay something for service they value and moreover that people value more those things for which they have to pay something."[45/] Shelter, water, education and medicine are cases in point. However the general public is likely to resist the attempts of a public authority to raise the level of current taxes or charges as long as its confidence in a corresponding improvement of services has been undermined by decades of poor performance in delivery. This attitude of end users is often generalized in the stance of many LAC communities when faced with central government promises of "conditional" improvement programs: it is difficult to expect of them an incremental effort before some service improvement is actually implemented. Not only is it difficult to start exacting payment for functions which the central government was traditionally expected to provide free of charge, but it is particularly difficult in those communities which in the past have seen their claims inadequately, if at all, attended by superior authorities. This tends to create a self-fulfilling cycle whereby no service improvement is feasible without mobilizing additional resources and no improvement in the charging system proves acceptable without visible progress in the delivery system. Nevertheless preliminary experience in a few Bank projects based on competitive access to credit (Boxes 10, 11, 12) would indicate that the extent of repressed demand for urban services is such, that *attitudes towards public cost recovery can change quite rapidly even in those communities which were at first most reluctant, as soon as the demonstration effects of an going program begin to materialize in the neighboring communities.*

5.20 Containing the Growth of Fiscal Deficits. In Section 4 it has been shown that the subnational governments of LAC countries account for a substantial share of general government expenditures and that the cumulative deficit of regional and local budgets represent a serious, destabilizing factor in their economies. It has been shown also, in Section 2, that the growth of demand for urban services makes incremental expenditures unavoidable. Gradual substitution of credit for the existing, alarming pattern of discretionary transfers would

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45/ Richard Bird in A Review of Recent Fiscal Decentralization Measures, Sector Report p. 71 . See also Gabriel Roth's review of a variety of cost recovery experiences in his "The Private Provision of Public Services in Developing Countries", Oxford University Press, New York, 1987.

help making local authorities more concerned with the design and cost-effectiveness of their expenditures. As most of the works financed involve a low component of foreign exchange, external support to this type of operations could also have some beneficial impacts on the country's balance of payments, as long as its scale is significant and the cost-sharing ratio of the foreign lender is relatively high. The terms of on-lending should be realistic enough to avoid inflationary or deficitary effects. The expectation is that the improved performance of local governments in delivering urban services would be rewarded by end-users through enhanced cost recovery. While some emphasis on directing credit to revenue generating investments may be helpful in this respect, it need not become an overruling criterion: *the borrowing communities would be induced to make rational choices if debt amortization payment were to be retained from the future flows of revenue sharing transfers as a form of collateral guarantee.*

Part C: Theoretical Approach

5.21 Intersectoral Allocation of Resources. The urban investments carried out by subnational authorities mainly consist of social overhead capital, rather than directly productive investments. Although part of these investments, especially those in infrastructure and land development, represent intermediate inputs and support mobilization of productive capital, they are mostly categorized in government budgets as "social service" expenditures.[46/] Decisions on social sector expenditures and on corresponding transfers are set in view of long range policies of national development rather than in the context of short-term management of the economy and therefore remain vaguely (and more politically) defined. This means that the volume of social sectors, allocations can only tentatively be derived from macro-economic planning targets. This also makes the measurement of their relative efficiency a highly controversial matter.

5.22 In practice, some emphasis on allocative efficiency and some criteria to evaluate performance are specially required as long as the national economies are under stress and may give way to greater emphasis on re-distributive and poverty alleviation criteria when economies will be buoyant once again. But it is obvious that the financing of broad-design programs to spread social services across regions or categories of cities is a less effective way to pursue distributional adjustments than might be more focused programs to generate employment and improve earning power of social groups at the lower end of the income ladder. Nor can efficiency be ensured in the local use of resources by simply earmarking funds to sectoral programs which promise relatively higher returns or by imposing some perfunctory criteria of project evaluation. Resource transfers to subnational governments are typically subdivided in many different localities and small projects, covering a variety of sectors, many of which do not generate cash revenues or quantifiable benefits. In fact, this diffuse character of urban investments is at the same time an asset (in that it

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46/ See footnote 5 at page 6.

subdivides the risks of large, single-purpose projects, allowing for greater implementation flexibility) and a source of concern (because it makes it difficult to detail 'ex-ante' the eventual use of funds and therefore require intensive monitoring during the investment stage). *A deterministic approach would call for rationing capital improvement grants or subloans among local jurisdictions after a comparative assessment of their present or potential contributions to national development, their fiscal performance, or the extent to which their past expenditures met actual needs: these are evaluations which are as difficult to make in technical as in political terms for any central government.*

5.23 Spatial Allocation of Resources and Factor Mobility. Normative theory of fiscal assignment does not recognize a significant role for the subnational governments in stimulating area development, because they have no control over the flows of capital and labor from one part of the country to another and a preeminent concern with the provision of local public goods. Some time ago, Thiebout has argued that, assuming free inter-regional flows of factors of production, people would "vote with the feet" and move to those jurisdictions where their preferences for social services are met in more satisfactory and cheaper ways (lower costs or lower taxes) and that this form of competition in the provision of public goods could lead to the gradual elimination of interregional disparities. While this image suits best the situation of the industrialized market economies, where capital flows between one part of the country and another are definitely more pronounced, and where income levels and employment opportunities are more evenly distributed, there is no question that "voting with the feet" occurs also in LAC countries, even if the reduction of spatial disparities is progressing at an intolerably slow pace.

5.24 The misguided assumption underlying the medium and small size cities programs mentioned in paras. 5.9 and 5.10, is that a different size distribution of cities may result from carrying out improvements in urban services, while contradictory national policies continue to exist, which constrain or discourage the flow of entrepreneurial capital or try to force investment into specified areas. In reality, large cities remain more attractive for private investment, because of the higher returns afforded by their agglomeration economies and their large sunk investments. So far, the metropolitan areas of LAC have continued to absorb incremental labor productively and have performed a vital role in redistributing personal income and developing human resources. In a climate of public resource constraints, *deployment of public resources in order to divert productive investments towards alternative urban centers (where profitability is less evident and potentials often vaguely identified) may fritter resources without achieving significant impacts on the inflow of migrants to the large cities.*

5.25 Equity and Efficiency in Spatial Policy. Although it could be argued, from a broader perspective, that the efficiency of investments is not necessarily in conflict with interpersonal income distribution, one must acknowledge that the pursuit of efficiency does not by itself lead to interregional equalization. It may be argued also that territorially uniform development is not an attainable

goal, because areas differ in comparative advantage, both natural and man-made, and therefore a policy of spatial equalization would result in diminishing returns for the country as a whole (para 3.15). Finally it may be argued that supply-side policies of equalization would deprive municipalities of cost-recovery incentives and discourage self-reliant development initiatives. On the other end, severe regional disparities engender political disunity and unrest, which can threaten both economic growth and stabilization. Since the welfare of a nation must be measured also for its discrete territorial units, considerations of spatial equity may actually clash with national efficiency and some trade-off between the two objectives becomes an inevitable concern of fiscal policy. *The basic question is then to determine what resources can be devoted to the pursuit of territorial equalization and to define clearly the instruments that can be used to reduce disparities to an acceptable level in the less dynamic areas of the country, without unduly slowing down the overall growth of the economy.*

5.26 Fiscal Equity. This paper is concerned with the efficient and equitable provision of urban services within a national territory. Since urban services are mostly local in character, one could argue that they should be provided and paid for by the residents of the jurisdiction in which their benefits accrue, so as to link directly the revenue and the expenditure side of public choices. However, this concept of benefit region is not easy to apply in practice, because the income and willingness to pay of the end-users may be unevenly distributed within the jurisdiction and many of them will tend to act as free-riders. Difficulties arise also from the existence of economies of scale (decreasing marginal costs) or congestion (increasing marginal costs) which grow with city size and density, and from the fact that certain essential social services ought to be provided everywhere in the country, irrespective of the local ability to pay. Therefore, national policy seeks to ensure that jurisdictions (and social groups) of uneven revenue potential are not burdened with equal expenditures and that different levels of government have the ability (and authority) to raise sufficient revenues to confront their expenditure responsibilities. *The very initiative of revenue sharing, which stems from the dual objective of approaching vertical and horizontal balance, should preserve the concept of fiscal equity, distributing the fiscal burden in line with the economic capacity of different communities.*

5.27 Approaches to Inter-Area Equalization. The current revenue sharing systems in LAC countries seek to achieve horizontal equity among various jurisdictions in different ways, depending on whether they distribute the pool of available resources according to some measure of relative need for urban services, (such as the size of existing shortfalls from pre-established minimum standards of national welfare) or according to the fiscal capacity of jurisdictions, (so as to enable the poorer communities to achieve some acceptable, average level of service without a greater than average fiscal effort). The first approach (basic needs) eventually slants the distribution of national government expenditures (through direct investments or closed-ended, earmarked grants) towards regions and local jurisdictions, which present the larger gaps. The second directs resources to those subnational governments

which do not have sufficient resources to provide their residents with a minimum standard of service which is considered appropriate in kind and correct in amount for all areas. As illustrated by the examples presented in Box 9, many current formulas try to help the less urbanized areas by incorporating some factor of inverse proportionality to income per capita or population size. These corrections confer a character of ambivalence to the resulting revenue sharing pattern which combines considerations of basic needs and fiscal capacity by assigning different weights to diverse formula ingredients which often offset each other. The resulting distribution of resources is unclear and tends to overlook the fact that, in spite of their higher average income, the metropolitan areas may contain large concentrations of poverty and that economies of scale could be reaped by encouraging them to provide more basic services. *The ambivalence of revenue sharing formulae is not cured by simply reverting to a straight origin-based devolution, nor by eliminating or playing down income related coefficients (reverting to a pure basic needs approach): the real issue is to provide adequate incentive for the larger urban communities to improve their fiscal performance.*

5.28 Delegating Some Re-distributive Responsibilities. National policies of urban service financing are bound to be spatially differentiated. Large cities have a different fiscal base than small towns, different service needs, and different concentrations of poverty. These disparities can be generalized at country level, but are better understood in the context of specific regions. Regional authorities are better aware of specific local situations than central authorities can possily be and local authorities have a detailed knowledge of the spatial distribution of income groups within their own jurisdictions. While general criteria for the allocation and distribution of resources must be set by central planning authorities, regional and local authorities can implement these policies in a more responsive and equitable manner within their own constituencies. Even though the lower level authorities of most LAC countries are in practice agents of the central government, they have closer political ties to the people they serve. Therefore, they would be better positioned to read their preferences and priorities and to determine how much should be spent for each service in different localities, which type of charges are more suitable to recover its costs from end-users, and how proposed changes in local imposition would affect the wellbeing of the poor. *Regional involvement in redistributive policy is desirable because it can supply the more direct and detailed knowledge of the location of poverty than that afforded by the generalized, comparative statistical information available at national level.*

5.29 A Regional Perspective on Urban Investments. Another reason for relying on subnational authorities is that the territorial distribution of infrastructure investments (e.g. transportation, drainage, water, sewerage and power) must consider the dynamics of growth of individual centers within clusters of cities and their relations to the rural areas which surround them. This more focused regional perspective is useful because regional economies are indeed subsets of the national economy, but have internal trends and characteristics

of their own, which ought to be specifically considered when making decisions on the distribution of investment among and within urban subsystems. Moreover, in those countries where an intermediate level of government exists, the regional authorities not only have a responsibility in passing through national revenue sharing flows, but often complement these flows with parallel fiscal transfers of their own, which may be of equivalent importance. *Strategies for the development of particular regions should not be merely conceived as sectoral interventions of the central government but should pay attention to the existing budgetary mechanisms within the regions themselves and their component jurisdictions.*

5.30 Direct or Indirect Cost Recovery? From a public finance perspective, it could be argued that many important urban services should be fully charged to the direct beneficiaries because they are technically "private" rather than "public" goods according to the exclusion principle. This is the case of individual connections to public utilities (water, sewerage, electricity, gas, telephone) which benefit directly households or business enterprises and can be rationed through user fees. By extension one could restrict to paying customers even the access to roadspace, recreational grounds, schools, health clinics and a host of other facilities, even if this may become technically difficult or politically undesirable. The point made here, however, is not that urban services should be treated as "public" goods (most of them are at best "mixed" or "merit" goods) but that their provision has a spatially defined range, and mainly benefit a community of residents in which all members are potential users. There is little argument that in Latin America urban services still afford scope for a more rigorous application of user charges and for innovative Bank operations which may link directly expenditures with revenues, while this is not possible for most national functions. But it should be recognized also that this approach raises thorny distributional issues which in final analysis limit the effective level of cost recovery or the delivery of needed services to all members of the community. *In practice it does not matter much whether or not particular services are charged directly to individual users or indirectly to the urban community as a whole, as long as sufficient consensus can be achieved, within the community itself, to bear the corresponding costs through some type of collective fiscal effort.*

5.31 Should the Cost of Urban Services be Fully Recovered? In addition, the provision of urban services presents numerous exceptions to the rule of short-term marginal pricing. Second best pricing often falls short of full cost recovery. Therefore, the question can be raised, whether the full recovery of the costs of specific projects or programs should be regarded as a primary objective, especially in local jurisdictions which, because of their limited fiscal capacity, will continue to receive transfers on a predictable basis. It may be noted also that the pattern of foreseable cost recovery greatly depends on the nature of the activity that is being financed. When the national interest is significantly involved, full cost recovery becomes just one of many plausible objectives. The critical issue becomes not the level of cost recovery that can

be reasonably expected, but the more general decision by the central government whether or not to provide some subsidy, by weighing alternative uses of the resources involved. *Since intergovernmental transfers are designed to help communities provide those public services which they need most rather than those for which cost recovery is more readily achievable, the Bank preference for the recovery through direct user charges of some specific costs of urban projects may lead to distortions in local budgetary allocations.*

5.32 Setting Targets of Overall Fiscal Performance: One cannot ignore the fact that the success of a given program in achieving cost recovery may be considerably influenced by the nature of parallel intergovernmental fiscal flows. Direct and full recovery of the cost of specific urban service improvements may not be critical for sound financial management, as long as there is reasonable expectation that budgetary resource will become available to replicate needed investments. In this respect, it appears more important to establish a sound financial framework for the overall management of the local budgets (including an element of explicit subsidy where necessary) and to make sure that sufficient resources are likely to become available and put to appropriate use, in response to an adequate assessment of priority projects and effective demand. Transparency of general accounts and public assessments of comparative fiscal performance may have more significant impacts on the accountability of local authorities than isolated records on specific tariff hikes or sectoral improvements, which are difficult to monitor in a large number of jurisdictions. *To introduce some financial discipline in local accounts, higher level authorities should set realistic targets of overall performance and make transfers, credits or matching funds conditional upon the achievement of such topics.*

Part D: Operational Approach [47/]

5.33 Revising the Traditional Bank Approach to Urban Lending. The earlier urban loans of the World Bank to LAC countries were made to support capital improvements in individual cities or categories of cities, generally singled out by population size or service gaps. Since loan repayment was usually expected from the central government, even the credit share of project financing acquired the character of an equity contribution to the local governments. Concessionary credit would also be accompanied by ad-hoc national grants, complementing the local counterpart efforts which were frequently in kind (land, force account works and project administration). This meant that selected cities would receive a sudden windfall of incremental revenues to assist (and induce) them in carrying

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47/ Several observations reported in this last section were made by Koichi Mera (OPS Regional Planning Advisor) who, before leaving the Bank, became the most explicit advocate of change in our urban lending policy (see his draft paper: Intergovernmental Financial Relationships, Financing of Local Public Services and Regional Development, dated 3/24/86.

out particular projects. Thus, the availability of Bank financing would have a rather disruptive impact on the regular process of national resource allocation. Although more systemic approaches were developed over time, it cannot be said that, at the start, the urban lending approach of the Bank reflected particular concerns with the fiscal aspects of urban services financing besides those related to re-distributive policy. *Not surprisingly, a case-by-case approach was welcomed by our LAC Borrowers, as it fell quite consistently within their conventional pattern of discretionary grant allocations and often proved expedient in meeting special political pressures.*[48/]

5.34 The Conventional Cycle of Project Development. Usually this went through the following stages: first, the Bank Project Officer would carry a survey of the urban sector (or subsector). He would then proceed to identify target cities and investment priorities, following the Bank's recognition of sector issues and its perception of what was feasible among the opportunities pointed out by national authorities. Thirdly, he would undertake preparation of the project with a team of colleagues, some consultants and eager local authorities. Lastly, he would work out the financing arrangements, often requesting a special allocation of central and regional public resources in form of a tied grant, sufficient to cover the capital costs of the project and often also those of a single-purpose special unit established to administer and implement the project through a separate account. *Project arrangements were consolidated in a legal agreement and extraordinary budget appropriations were often covenanted as conditions for effectiveness.*

5.35 Project Specific or Poverty Alleviation Focus. The main emphasis was on targeting subsidies to low-income groups and reducing the design standards to affordable cost levels. More often than not, the financing arrangements were worked out only after the identification of target cities and physical improvements. User or betterment charges would be set at levels considered appropriate to the economic capacity of project beneficiaries, and public counterpart funds requested to make up for the difference. Loan repayment responsibilities and complementary financing would be carried by the central authorities, who considered it unrealistic to expect independent financing of the "Bank" Projects by the local government concerned, irrespective of their ability to raise revenues. Occasionally, the distributional or developmental objectives of a project were perceived as overriding considerations even if some recipient communities were incapable or unwilling to contribute anything at all to project funding, it was felt that *the project-specific developmental or distributional objectives constituted overriding considerations.*

48/ There have been few cases in which the protests and competitive claims of other jurisdictions found their avenue in the political process of loan approval and temporarily stalled congressional or state ratification of the agreement with the Bank.

5.36 The Concern with Project Replicability. The observations made above do not imply that in past urban operations Bank staff neglected to analyze the financial situation of the target municipalities. A certain care was always used to identify the local sources which could be used for partial financing of the proposed investments or to ensure coverage of operation and maintenance costs. But the resource requirement of a particular project are only part of a much greater fiscal problem of national urban development. Even when economic analysis may support the priority accorded to specific operations, the distortion it induces on the overall fiscal system can be undesirable. This more general concern with the fiscal impact of individual projects, with their replicability and with the magnitude of Latin American urban problems has led Bank staff in recent years to pay increasing attention to the country-wide implications of urban improvement financing. *Given the number of cities which would "deserve" projects of the conventional type, the ad-hoc allocation of grants or concessionary credit to a few municipalities does not represent a significant solution unless the problem addressed is a unique and one-time event.*

5.37 The Volume of Urban Development Lending. Since the inception of urban operations in 1972, the World Bank has made forty-nine loans to LAC countries totalling the equivalent of US$3.2 billion. To the Urban Development Projects one must add another US$2.5 billion for forty-five Water and Sewerage Projects over the same period. If one were to sum up also US$1.8 billion in Education, Health and Nutrition Projects, all of which have a direct bearing on urban welfare, one achieves the sizeable cumulative contribution of US$7.5 billion for social sector improvements in Latin American cities. However, one must note that this money was divided among two dozen countries and all sizes of urban centers. During the same years, the total capital investment of LAC subnational governments in the same sectors can be estimated to have been in the order of US$350 billion, more than fortyfive times the volume of Bank lending. Taken together, the four metropolitan areas of Buenos Aires, Mexico City, Sao Paulo and Rio make every year capital investments about two times bigger than the annual volume of Bank lending for all LAC cities.

5.38 Leveraging the Impact of External Funding. At best, the World Bank, the InterAmerican Development Bank and the bilateral donor agencies combined may contribute less than one billion dollars per year to LAC urban development. To expect a visible, direct impact of these external contributions on the physical environment of 280 million urban dwellers through a direct "project approach" may be asking too much. Our urban loans must therefore become less project focused and more systemic in character. This means that the Bank's urban staff as well as that of other donors should become increasingly involved in sector and country policy dialogue so as *to leverage the impact of external lending with some policy adjustment on the use of domestic resources.* As the nature of lending operations might evolve, so would the character of the attached conditionalities, calling for fiscal and financial adjustments and for administrative and regulatory change.

5.39 The Concern with Counterpart Funding. As the above implies also an escalation in the volume of lending, it becomes increasingly apparent that the Bank loans should be linked to a sizeable and predictable flow of resource transfers in the borrowing countries. The annual flow of statutory revenue sharing between the national and the subnational governments of LAC countries represents a regular and important transfer of resources. (See Table 4.12c in Annex) In fact, its contraction or expansion might aggravate existing disparities among regions and levels of government and threaten the stability of the overall fiscal system. *If the existing revenue sharing pattern is questionable, the Bank should be prepared to assist the government in its attempts to improve its overall design, rather than inducing the central authorities to make independent allocations to support specific projects.* Intergovernmental finance could become a productive area for policy dialogue with LAC countries but this requires not only a change in focus but also adequate training and development of the Bank's urban staff.

5.40 Non Additionality of Bank Lending. Ideally, one should make sure that at least the cost of the external loan is repaid to the central government by the borrowing municipalities, which should in turn recover their costs from the consumers in form of general taxes or in form of user or betterment charges. Because the externally borrowed funds usually cover only part of the total investment costs, it is assumed that other counterpart funds supplied by central or regional authorities to complement local contributions correspond to some regular flow of revenue sharing or capital grants schemes. It is assumed also that these complementary flows follow rational criteria of allocation which are not inconsistent with the objectives of the Bank-sponsored program. This is because only part of the total system of top-down transfers (the portion used in counterpart financing) would become affected by specific loan conditionalities. In other words, the Bank's objectives of rationalization of the existing fiscal system can only operate at the margin and, because money is fungible, could be frustrated if an overwhelming proportion of the total transfers received by municipalities follows rules that are incompatible with those of the Bank-sponsored program. *Some government commitment to the revision of inconsistent revenue sharing rules ought to be built-in in the loan agreement.*

5.41 A Fiscal Perspective on City Size. The conventional distinction among cities according to population size has been dismissed as a useful perspective for planning decisions because it may lead to separate consideration of individual urban centers and tends to neglect the economic and functional linkages which operate within a given cluster of cities and their territory. Nevertheless the categorization of urban jurisdictions according to demographic size may be warranted in one respect: average per capita income and population size seem to go hand-in-hand. This consideration would lead to a design of the revenue sharing system along the lines recommended by Richard Bird in the case

of Colombia.[49] The more urbanized jurisdictions generally have a more buoyant tax base and therefore a greater potential for independent revenues. They should be treated as largely self-financing entities and be granted not relatively larger transfers in per capita terms, but simply greater authority to set tax rates and to collect revenues and possibly more autonomy to provide chargeable services on their own. Relative self-reliance could be promoted also in some intermediate size cities as an option rewarded with special grants matching incremental revenue raising efforts. Finally, financial assistance would continue to be given to the small municipalities enable them to achieve predetermined level of services, as long as they engage in some fiscal effort of their own, they revise and rationalize the local revenue system and improve their administration with the help of upper level authorities. *The main objective of improvements in the current revenue sharing systems should be to stimulate tax efforts in all size cities, while ensuring that at least a minimum level of urban services can be provided in those of lesser fiscal capacity.*

5.42 Selecting Target Municipalities. As we have seen, the tendency in traditional urban loans has been to allocate resources according to perceived urban service gaps. The main focus was on the expenditure side, how to deliver urban services best, in a cost-effective manner. Now the focus is veering on the revenue side: how to pay for urban services. While some years ago it was taken for granted that LAC economies would continue to expand faster than their population, and that the growth of personal income in their cities would support greater capacity and willingness to pay for more urban services, this is no longer the case: demand for public goods keeps expanding, but economies are stagnant, personal income is eroded and, with it, also the capacity and willingness to pay of urban dwellers. In this situation, the "basic needs" approach is only conducive to staggering estimates of capital requirements which central governments cannot meet, no matter how modest a service standard is assumed. *Since repayment of the Bank loans can be reasonably expected only from creditworthy municipalities, the selection of target cities for our projects must be guided by some different criteria than a basic need approach.*

5.43 Should the Worst Come First? As a Bank consultant pointed out in the case of Brazil,[50] the "worst-first" approach may not work and may even result in the allocation of resources to areas that are actually losing population. *Experience shows that the diffusion of sound management practices in poorer jurisdictions become easier only after change has been successfully implemented in a few pilot municipalities. Therefore, credit funds should not be assigned first to areas where poverty itself is highest, but to those where the potential for alleviating poverty is greater, because of their higher likelihood to achieve employment and income growth and because of the ability and willingness of the local administrations to implement reforms.*

49/ Richard Bird: Intergovernmental Finance in Colombia, Harvard University Press, Cambridge, Mass. 1984.

50/ David Vetter in: The Policy Framework for Cost Recovery for Infrastructure and Energy in Brazil, November 27, 1987 (Draft Report).

5.44 A Gradualistic Strategy. A programmatic approach that can be taken is to accept that fiscal equity concern continue to rule the general distribution of grant money, while at the same time a complementary system is established, promoting criteria of efficiency in the distribution of borrowed funds. This can be summarized as a three-tier scheme. In any given region, there will be many municipalities, which are not at present or in the foreseeable future in the position to service incremental debt of any size and that, because of their weak fiscal base or stagnant economy, will need to continue receiving external help in form of grants. But there will be also some municipalities which can effectively absorb loan funds in limited amounts and are willing to implement the required reforms. Between these two extremes one is likely to find a number of municipalities which could technically borrow some resources for investment, but are as yet reluctant to submit to the discipline of the Bank-sponsored program or simply prefer to continue managing on the basis of the grants they receive. The strategy should be to ration capital grants (or revenue sharing funds) among municipalities according to their relative fiscal capacity, but to set aside a sufficient amount each year, to be used as a complementary matching fund for the credit scheme, in order to induce more municipalities to move from the third group into the second. *This gradual strategy is likely to move forward to a more efficiency minded system without drastically altering the current pattern of revenue sharing. It also permits to narrow progressively the grant money to needy municipalities and, by inducing initially reluctant municipalities to borrow, it allows a gradual expansion of credit without jeopardizing either the principle of equity in grant distribution or that of financial efficiency.*

5.45 Inducing Resource Mobilization with Matching Grants. The requirement of a local counterpart contribution (in kind if not in money) as a condition for receiving project grants or credits is seen as a useful device to stimulate local resource mobilization and to ensure committment to the realization of local projects. However, the level of matching grants should not become so high as to make them into a principal, rather than supplemental source of project financing. The required matching ratio (of the counterpart funds) may be varied with both the nature of the projects financed (for instance with the size of the local benefit component) and at least to some extent with the fiscal capacity of the jurisdictions concerned. This latter feature would represent a natural evolution of the present practice of grant distribution, which is often made in inverse proportion to the locally generated value added or to the revenue collected during the previous year or simply to the urban population of different communities. Thus, *matching grants could be used to reward local fiscal effort.*

5.46 Developing Local Planning Capabilities. A coherent plan for regional (or national) urban investment should be based on a comprehensive (and comparative) assessment of the expenditure needs in local services and infrastructure in different areas. This is necessary to analyze financing gaps and to devise possible credit schemes. Some planning function for medium term capital improvement must therefore be developed at the local level, to identify and select the projects to be financed. In turn, this requires the establishment of a fiscal framework in which the future availability of resources can be reasonably forecast over, say, the next five years. Although some tradition of

budgetary programming exists in most municipalities (albeit imperfect and short-term) technical assistance from upper level authorities may be required to achieve some uniformity of criteria for project selection and some control over unit costs. Experience in a few Bank projects indicates that this can be done relatively rapidly and effectively, even when little traditional practice exists in this respect, through the establishment of regional pools of professionals, serving clusters of local communities. The work performed by these teams is both technical and political, as they must assist the mayors in their consultations of the city councils, to clarify the purposes of the program under consideration and to orient local options towards feasible and financeable initiatives. *At the very least, municipalities should be required, as a condition for receiving capital transfers, to provide minimal investment plans as to the uses to which they propose to put the new resources, and some estimate of their own capacities to contribute to the investments and to carry the maintenance and operation costs of the facilities to be built.*

5.47 The New Lending Approach. The recent reorganization of the World Bank was designed to make our approach more systemic and less project focused by regrouping professional resources on a country-focus and by supporting intersectoral coordination. In the urban sector, this new lending approach calls for:

(a) pursuing country wide dialogue on those stabilization, allocation and distribution policies which affect directly the economic and fiscal performance of cities (i.e. issues of intergovernmental relations, local resource mobilization, tax reforms, pricing of urban services, interest rates, subsidies, investment criteria, assessment and monitoring of urban management performance, public/private sector roles, etc.);

(b) transferring project development responsibilities to our Borrowers which implies more sector work (to appraise institutional capacities, regulatory framework and criteria of operation) and more technical assistance (to develop national or regional capabilities when needed).

(c) selecting and strengthening financial intermediaries for the efficient pass-through of our loans, which means more attention to the on-lending criteria, the financial viability of the institutions and the impact of their operations on the national budget and the financial market;

(d) adopting alternative lending tools, more comprehensive and supple than specific project loans, such as (i) sector wide investment or maintenance loans (umbrella operations extended to all cities meeting set performance criteria); (ii) financial intermediation loans (conceived and managed as lines of credit); (iii) restructuring loans for departmental enterprises (covering one or more subsectors); and (iv) sector adjustment loans (supporting the short term foreign exchange needs of large programs).

(e) refocusing urban research efforts on such themes as: (i) the national impact of intergovernment transfers, housing finance subsidies, urban infrastructure investments and land policies; (ii) the economic contribution of cities and, in particular, of the very large ones to national development; (iii) the functional, economic and fiscal flows which, irrespective of their size, link different cities one to another and to their rural hinterland within integrated regional systems; (iv) the public/private sector roles in urban service provision; and (v) the potential impact of de-regulation of certain services and legalization of informal sector provision.

Box 10: BRAZIL: PARANA MARKET TOWNS IMPROVEMENT PROJECT (LOAN 2343-BR)

Parana' as Pilot State: Favored by a natural environment well suited for export crops and by the entrepreneurial skills of recent waves of immigrants, Parana' accounts for nearly one-fifth of Brazil's foreign exchange earnings with only 2.3 percent of its land area and 6.4 percent of its population. Nevertheless, Parana' is not one of the richest states of Brazil: its per capita income may be less skewed in distribution, but is only slightly above the national average. Nor is the State immune of social tensions: during the 1970's an estimated 15 percent of its population left Parana' to other regions, mostly from its rural areas, where convulsive changes occurred in land use, tenure and degree of mechanization. Sharp contrasts exist in the endowement of resources and access to public services between the rural and the urban sector and between areas of the State. Parts of Parana' are still in the process of colonization, others are pockets of poor, subsistence farming and others are overtaken by industrialized agriculture, yielding surpluses which are reinvested in the main cities in commerce, real estate and industry. These contrasts are reflected in deep political divisions, causing the alternance of different factions in State and municipal governance.

The Project and its Objectives: In August 1983, the World Bank approved a US$50 million loan to support and rationalize a program of financial assistance to municipalities (the PRAM or Municipal Action Program, which the State of Parana' had undertaken since 1981. The main objectives of the project were to systematize the flow of earmarked fiscal transfers by introducing a 35 percent credit component and cost recovery criteria, so as to pave the way to a progressive emphasis on borrowing rather than grant financing and to a gradual re-direction of unrequited transfers on the most needy municipalities.

Project Design: The project design interlinked municipal investments in infrastructure and services with fiscal improvements and selection of productive components, to expand the local revenue base and cope with rising current costs. It promoted widespread awareness of economic and fiscal constraints, fostering creative competitive approaches by local authorities to develop comparative advantage and attract private sector initiatives to their jurisdictions.

See IBRD-4403 a-BR: BRAZIL: Parana' Market Towns Improvement Project, Staff Appraisal Report, May, 1983.

Implementation: After four years of implementation, achievement of the project objectives can be considered satisfactory. Nearly all eligible municipalities have become sub-borrowers (280 against appraisal expectations of only 50) and some 2000 subprojects have been completed (another 500 are still in progress). Despite the 1983 political elections and the financial and monetary crisis which caused a belated project start and a climate of general uncertainty, disbursement of loan funds matched the average Bank profile, making this project a rare exception in Brazil's urban portfolio of the Bank.

Project Impact: The improvements made in small market centers yielded evident welfare gains for their residents, relieving social tensions and possibly some contributing factors of out-migration. However, the most important contribution of the PRAM project was that of enhancing the capacities of rural municipalities, the lowest tier of Brazil's administrative hierarchy, to recover the costs of social investments thus lessening their own dependence on State and Federal grants. The project did not involve a Federal contribution, its entire cost being financed by the State of Parana'. Municipal loan repayments are used to capitalize a Municipal Development Fund.

The project concept had far reaching impact. Not only was it adopted in a subsequent Bank loan to the nearby State of Santa Catarina (Loan No. 2623-BR) but several other Brazilian States have expressed interest in Bank support for similar initiatives. It has been adopted also by the Government of Argentina for a five Province operation (see Box 11) and is under active consideration in Mexico and Colombia.

Project Data: Total cost US$150.2 million of which 35 percent financed by the World Bank, 65 percent by the State of Parana' and Municipalities. Infrastructure investments are expected to amount to 65 percent of total costs, community facilities another 23 percent and vehicles and equipment 7 percent. Project design, administration, and technical assistance account for 5 percent. Foreign costs were estimated at 35 percent of the total. The project disbursement profile had been assumed to span four years (to December 31, 1987), but a one year extension was required due to the delay in loan effectiveness. Onlending terms to Municipalities were at 11 percent interest over indexed principal, with maturities up to ten years and 1-3 years grace periods.

Box 11: ARGENTINA MUNICIPAL DEVELOPMENT PROJECT (Loan 2920-AR)

Objectives and Description: A US$120 million loan was approved for this project on 03/22/88, with the main purpose of contributing to more effective public sector management at provincial and municipal level. Its specific objectives are: a) mobilizing external and internal resources to finance justified local investments in a non-deficitary and non-inflationary way; b) strengthening municipal capacities to plan, finance and execute cost-effective programs of capital improvements; and c) promoting structured, periodic consultations between municipal and provincial authorities for the formulation and evaluation of investment plans. The project provides subloans to five of Argentina's 22 Provinces (Buenos Aires, Cordoba, La Pampa, Neuquen and Santa Fe) and to eligible municipalities of those provinces, financing up to 50% of eligible costs for: a) physical investments, including construction and rehabilitation of infrastructure and community facilities and purchases of vehicles and equipment; and b) technical assistance and training. In order to implement effectively the project objectives, only creditworthy municipalities (having a balanced current account and debt obligations within acceptable limits) are eligible to receive subloans for physical investments, and their annual capital improvement plans must allocate at least 65% of total proposed investment to components for which investments costs will be fully recovered from direct payments to the municipalities by direct beneficiaries (betterment charges, connection charges).

Relending Terms: The Central Government onlends the proceeds of the Bank Loan to the Provinces under the same terms and conditions (15 years, including three years of grace at the standard variable rate of interest) except that the Central Government would assume the cross-currency exchange risk and pass on the US dollar exchange risk to the Provinces with the condition that any required adjustments in the periodic, dollar-indexed debt service exceeding a plus or minus 10% deviation from the official inflation rate will be credited to/or capitalized in outstanding provincial debt. In addition, Provinces pay a service charge for financial intermediation of up to 1 percent of loan account disbursed. Except for an amount up to 5-10 percent of the loan financing technical assistance and training, all proceeds of the Bank loan are onlent from the provinces to the municipalities on "harder" terms (max 10 years repayment including up to one year of grace) with spreads of at least 1.5 percentage points over interest paid by the Provinces to the Central Government in order to capitalize Municipal Development Fund for project replication in each Province. Municipal repayment of subloans is guaranteed through the Province's retention of the municipality's debt servicing obligations from provincial revenue sharing.

Benefits: Four main categories of benefits are expected from the project: (a) financial, where the project's design criteria assure that incremental resources are mobilized by limiting onlending to municipalities which are creditworthy and willing to recover costs substantially in excess of the loan amount and that participating municipalities are financially strenghtened to provide other services not financed under the project; b) distributive, where long-term financing makes cost recovery affordable to the poor, besides creating approximately 58 thousands person/years of construction work; c) institutional, through providing financial predictability necessary for subnational governments to plan and program investments; and d) economic, with an average rate of return of 38 percent on infrastructure investments. In addition, it is anticipated that the lessons learned from this operation will support replication of the project to other Argentine Provinces.

Risks and Safeguards: Possible risks include ineffective provincial management and lack of continuity in project support. The main safeguards for this are the spreading of risk among the five Provinces. This has been sought primarily through the condition that, if implementation delays occur in some provinces, the initial loan allocation by province would be adjusted in favor of those provinces with demonstrated greater implementation capacity.

Project Data: Total costs US$240 million of which 50 percent financed by the Bank, 13.3 percent by the Provinces and 36.7 percent by the municipalities. Infrastructure investments are expected to amount to 69 percent of total costs, community facilities to another 9 percent and vehicles and equipment 12 percent. Project design and administration and technical assistance and training each account for 5 percent. Foreign costs are estimated at 35 percent of total. An eight years disbursement profile has been assumed as for the project.

See IBRD-7093-AR: ARGENTINA: Municipal Development Project, Staff Appraisal Report, February 26, 1988.

Box 12: MEXICO: LOW INCOME HOUSING PROJECT (LOAN 2612-ME)

Background: Mexico's housing problems are rooted in the rapid growth (2.5% p.a.) of its large demographic base (76 million), the pace of its urbanization (over 5% p.a.), and the uneven financial capacity of consumers, 70% of which earn insufficient income to afford the price of conventional housing on adequately serviced land. Therefore, about half of housing supply takes place on illegally occupied and poorly serviced sites through the initiative of clandestine developers who infringe building codes and planning ordinances. This "informal" property cannot be used as an acceptable collateral for home improvement loans and buyers are forced to resort to the disadvantageous conditions offered by of the unregulated credit market.

The critical issues of the regulated housing supply are (i) the generally low capital recovery of public investments (traditionally of the order of 30% in real terms); (ii) the fragmentation of supply among disparate agencies, each practicing different mortgage terms, which renders it difficult to control and predict the total public subsidy involved; and (iii) the inequitable distribution of such subsidy among social groups. The rationale for the Bank loan approved on 08/06/85 was to strengthen capital recovery during the initial phase of operation of FONHAPO, a national trust fund established to finance land development and core housing for the urban poor.

Project Objectives and Description: Following a housing sector review (IBRD No. 4993a-ME), Loan 2612-ME was conceived as a country-wide operation, supporting FONHAPO's credits to States, Municipalities and Building Associations. It was intended to assist the Government of Mexico in its objective to redirect an increasing percentage of public subsidies to the poorest and largest segment of the housing market. The project also endorsed the Government's commitment to control and reduce the subsidy element of preferential credit, by making it explicit and moving towards its gradual reduction.

Implementation: Subloans include land preparation and basic infrastructure works, core dwellings and technical assistance. The sub-borrowers prepare and implement projects of a certain size (minimum 500 units) within established unit cost ceilings, participate in their financing, provide collateral guarantees, and allocate the facilities built under mortgage arrangements to non-wage workers earning less than 2.5 times the minimum salary. One important feature of the FONHAPO programs is that beneficiaries' are pre-selected and subloans are underwritten only when projects are completed and at least 80% occupied. Monitoring and evaluation studies are conducted annually, verifying compliance with income targeting, unit costs and cost recovery.

Project Impact: A Housing Finance Study carried out under the project focussed Government attention on the fiscal importance of housing subsidies during a period of severe financial and economic adjustment. The Housing Policy Statement of February 1987 spelled out strategic government commitments to sector reform, namely greater administrative coordination, legislative changes, cost recovery targets and resource mobilization for rental and rural housing, paving the way for subsequent Bank operations in the sector. FONHAPO improved its operational structure and financial capacity, contributing to the continuation of its activity through the revenues of an already sizeable portfolio. The quantitative targets already achieved are impressive, including settlement of some 150,000 low income families in over one hundred subprojects in 27 states, despite the inflation of construction costs and steady erosion of the beneficiaries ability to pay.

On-lending Terms: The proceeds of the Bank loan are onlent by FONHAPO to Sub-borrowers on terms and conditions which vary with the type of Sub-Borrower and the unit cost of developments. As a first step in sector improvement, a minimal level of cost recovery of 50% in real terms was covenanted in view of FONHAPO's rigorous targeting of its production to beneficiaries of very low income. The Loan Agreement called for reviews of the annual programs for commitment of loan funds and periodic revision of mortgage terms if needed. FONHAPO eventually agreed to a solution that: (a) maintains the level of mortgage payments in fixed proportions to the real income of beneficiaries (expressed in multiples of the prevailing minimum wage rate); (b) charges an interest rate equal to the level of domestic inflation; (c) capitalizes interest charges in excess of monthly payments, and (d) makes the fiscal subsidy explicit and budgetable, in form of an up-front grant.

Project Data: Total costs US$300 million financed through a US$150 million loan of the Bank (50%), a US$40 million equity contribution by the Government (13.3%), US$35 million counterpart financing by Sub-Borrowers (11.7%) and US$75 million (25%) by FONHAPO through own revenues. About 78% of total project costs are in civil works and 12% in land purchases with administrative, professional, and technical assistance costs accounting for another 10%. The foreign component was estimated at about 25%. Project disbursement is likely to be completed in a considerably shorter period (four years) than the originally anticipated seven years profile.

See IBRD No. 5473c - MEXICO: Low Income Housing Project, Staff Appraisal Report, July 18, 1985.

STATISTICAL TABLES

Tables are numbered according to the text paragraph in which reference to them is first made. Tables marked with an Asterisk (*) are found in the body of the report. Several Table summaries (weighted averages) have also been incorporated in the main text of the report.

LIST OF TABLES

Table 1.19: GENERAL GOVERNMENT EXPENDITURES IN THE SOCIAL SECTORS a/
- in 1980 US Dollars -

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
ARGENTINA										
Millions	7450	5195	5228	7098	6810	7723	7772	5525	7790	8715
Dollars Percapita	287	196	194	260	245	274	271	189	263	290
BOLIVIA										
Millions	109	129	134	157	164	177	141	100	86	110
Dollars Percapita	22	26	26	30	30	32	24	17	14	17
BRAZIL										
Millions	17902	19605	20851	23788	23507	20716	22241	23799	15770	14167
Dollars Percapita	171	182	189	211	203	171	179	188	122	107
CHILE										
Millions	1865	2180	3057	3300	3891	4620	5474	4672	3383	3174
Dollars Percapita	183	210	291	306	354	416	484	406	289	267
COLOMBIA										
Millions	NA	NA	NA	NA	NA	NA	NA	3495	3421	3322
Dollars Percapita	NA	NA	NA	NA	NA	NA	NA	129	124	118
COSTA RICA										
Millions	365	463	474	648	705	782	336	286	385	406
Dollars Percapita	182	232	226	309	321	340	146	124	160	169
DOMINICAN REPUBLIC										
Millions	347	380	378	364	434	410	411	345	327	222
Dollars Percapita	72	78	76	70	82	76	73	60	54	36
GUATEMALA										
Millions	168	237	192	198	206	NA	NA	NA	NA	NA
Dollars Percapita	27	38	30	31	31	NA	NA	NA	NA	NA
MEXICO										
Millions	9323	9383	8260	8823	10408	12962	17327	11758	7623	8228
Dollars Percapita	155	151	129	134	154	187	243	161	102	107
PANAMA										
Millions	400	404	413	410	495	475	479	508	567	598
Dollars Percapita	235	237	230	228	275	250	252	254	270	285
PARAGUAY										
Millions	95	100	109	127	155	163	187	202	149	180
Dollars Percapita	35	36	38	44	52	52	57	59	43	50
URUGUAY										
Millions	781	861	774	892	965	1393	1631	1515	678	559
Dollars Percapita	279	307	267	308	333	480	562	522	226	186
VENEZUELA										
Millions	3334	4477	4320	4157	4471	5163	6048	5701	6431	3943
Dollars Percapita	263	342	318	295	308	344	390	359	392	235
LAC SAMPLE 2/										
Millions	41970	43177	43999	49765	52006	54586	62046	54410	43188	40303
Variat.Index 1975=100	100	103	105	119	124	130	148	130	103	96
Dollars Percapita	180	181	180	198	202	205	228	195	151	138
Variat.Index 1975=100	100	100	100	110	112	114	126	108	84	77
MARKET ECONOMIES 3/										
Millions	728097	787019	868617	1039564	1201856	1403882	1410800	1459511	1496096	1188182
Variat.Index 1975=100	100	108	119	143	165	193	194	200	205	163
Dollars Percapita	1645	1672	1722	1904	1964	2006	1811	1753	1731	1484
Variat.Index 1975=100	100	102	105	116	119	122	110	107	105	90

a/ Social expenditures comprise education, health, social security and welfare, housing, recreation and other community services. Road construction and maintenance are not included.
b/ Argentina, Colombia and Panama include central and subnational governments expenditures while only central government expenditures are reported for the other countries.
c/ Australia, Austria, Denmark, Iceland, Luxembourg and Switzerland include central and subnational governments expenditures, while only central government expenditures are reported for Canada, France, FR Germany, UK and USA.

Source: IMF, Government Finance Statistics Yearbook, various years.

Table 1.10: PER CAPITA GNP AND SUBNATIONAL EXPENDITURES
-Variation Index, 1975=100- a/

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
ARGENTINA										
Percapita Expenditure	100	75	92	82	81	89	82	68	93	93
GNP Percapita	100	96	95	85	87	85	76	73	74	NA
Population	100	102	103	105	107	108	110	112	114	116
BRAZIL										
Percapita Expenditure	100	102	100	111	113	114	110	122	107	112
GNP Percapita	100	110	115	121	129	140	129	125	118	126
Population	100	102	105	108	110	116	118	121	124	126
CHILE										
Percapita Expenditure	100	152	117	153	155	186	356	501	384	373
GNP Percapita	100	115	134	157	182	185	178	150	144	NA
Population	100	102	103	106	108	109	111	113	115	117
COLOMBIA										
Percapita Expenditure	100	98	101	119	132	156	158	150	155	173
GNP Percapita	100	106	108	114	117	121	117	114	114	121
Population	100	103	103	106	108	110	112	114	117	119
COSTA RICA										
Percapita Expenditure	100	158	178	178	164	173	138	91	99	128
GNP Percapita	100	119	139	150	149	143	134	113	112	134
Population	100	100	105	105	110	115	115	115	120	120
DOMINICAN REP										
Percapita Expenditure	100	99	99	110	100	105	93	84	96	122
GNP Percapita	100	100	101	97	100	102	99	100	98	92
Population	100	102	104	108	110	113	117	119	125	127
MEXICO										
Percapita Expenditure	100	99	101	113	135	159	147	128	128	117
GNP Percapita	100	104	105	110	119	127	132	127	111	110
Population	100	103	106	109	112	115	119	122	125	128
PANAMA										
Percapita Expenditure	100	103	92	82	77	81	85	87	83	83
GNP Percapita	100	100	96	110	114	122	125	124	122	122
Population	100	100	106	106	106	112	112	118	124	124
PARAGUAY										
Percapita Expenditure	100	127	142	158	135	159	NA	NA	NA	146
GNP Percapita	100	104	114	126	127	131	137	130	123	129
Population	100	104	107	107	111	115	122	126	130	133
URUGUAY										
Percapita Expenditure	100	104	95	107	105	112	123	123	118	98
GNP Percapita	100	103	97	103	117	114	114	99	89	90
Population	100	100	104	104	104	104	104	104	107	107
VENEZUELA										
Percapita Expenditure	100	112	99	104	76	NA	NA	NA	NA	NA
GNP Percapita	100	103	106	103	110	108	101	89	80	84
Population	100	103	107	111	114	118	122	125	129	132
LAC SAMPLE										
Percapita Expenditure	100	102	110	128	141	158	156	174	168	143
GNP Percapita	100	108	117	132	154	177	197	171	141	139
Population	100	103	105	108	110	114	117	119	122	125

a/ The expenditure and GNP variation index for the individual countries is based on constant national currencies time-series while the variation index for the sample average is based on constant US dollars.

Source: IMF, Government Finance Statistics Yearbook, various years.

Table 1.13: EXPENDITURES BY LEVEL OF GOVERNMENT
-In Percentage, General Gov't=100%-

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	AVERAGE
ARGENTINA											
Regional Govt	36.8	39.9	41.0	36.1	34.4	34.9	32.4	29.1	31.1	36.8	35.2
Central Govt	63.2	60.1	59.0	63.9	65.6	65.1	67.6	70.9	68.9	63.2	64.8
BOLIVIA											
Local Govt	NA	NA	NA	NA	NA	7.1	6.9	NA	3.2	1.4	4.6
Regional Govt	NA	NA	NA	NA	NA	6.1	9.3	NA	6.1	4.3	6.4
Central Govt	NA	NA	NA	NA	NA	86.9	83.8	NA	90.7	94.3	88.9
BRAZIL											
Local Govt	8.6	10.0	8.6	8.3	8.6	8.2	7.2	7.6	6.7	7.2	8.1
Regional Govt	29.5	26.2	23.0	23.1	23.1	20.9	20.8	21.2	18.3	18.3	22.5
Central Govt	62.0	63.8	68.5	68.6	68.3	70.9	71.9	71.1	74.8	74.5	69.4
CHILE											
Local Govt	3.1	4.4	2.8	3.1	3.0	3.6	6.7	10.5	8.5	7.9	5.3
Central Govt	96.9	95.6	97.2	96.9	97.0	96.4	93.3	89.5	91.5	92.1	94.7
COLOMBIA											
Local Govt	NA	NA	NA	NA	7.6	8.8	8.9	8.8	9.3	NA	8.7
Regional Govt	NA	NA	NA	NA	23.1	22.6	25.0	23.8	24.8	NA	23.9
Central Govt	NA	NA	NA	NA	69.4	68.6	66.0	67.4	65.9	NA	67.4
COSTA RICA											
Local Govt	NA	NA	5.0	3.9	3.4	3.9	3.7	3.1	2.8	3.3	3.6
Central Govt	NA	NA	95.0	96.1	96.6	96.1	96.3	96.9	97.2	96.7	96.4
DOMINICAN REP											
Local Govt	3.3	3.6	3.9	4.0	3.0	3.4	3.3	3.5	3.9	5.5	3.7
Central Govt	96.7	96.4	96.1	96.0	97.0	96.6	96.7	96.5	96.1	94.5	96.3
GUATEMALA											
Local Govt	NA	NA	NA	5.1	5.0	4.4	3.6	4.5	4.7	NA	4.5
Central Govt	NA	NA	NA	94.9	95.0	95.6	96.4	95.5	95.3	NA	95.5
MEXICO											
Local Govt	2.3	2.4	2.3	2.3	2.4	2.3	2.4	1.7	2.1	2.9	2.3
Regional Govt	14.4	13.6	14.2	14.9	15.5	15.0	10.8	6.5	7.0	8.8	12.1
Central Govt	83.3	84.1	83.5	82.8	82.1	82.7	86.7	91.8	90.8	88.3	85.6
PANAMA											
Local Govt	3.0	3.0	2.8	2.3	1.7	2.0	1.9	1.7	1.9	1.7	2.2
Central Govt	97.0	97.0	97.2	97.7	98.3	98.0	98.1	98.3	98.1	98.3	97.8
PARAGUAY											
Local Govt	NA	NA	NA	NA	NA	5.2	NA	NA	NA	4.6	4.9
Central Govt	NA	NA	NA	NA	NA	94.8	NA	NA	NA	95.4	95.1
URUGUAY											
Local Govt	8.5	8.1	7.8	8.4	8.1	8.5	9.2	9.5	9.5	8.3	8.6
Central Govt	91.5	91.9	92.2	91.6	91.9	91.5	90.8	90.5	90.5	91.7	91.4
VENEZUELA											
Local Govt	2.5	2.7	2.5	2.9	2.7	NA	NA	NA	NA	NA	2.7
Central Govt	97.5	97.3	97.5	97.1	97.3	NA	NA	NA	NA	NA	97.3
LAC SAMPLE AVERAGE 2/											
Subnational Govt	24.4	23.8	22.8	23.0	23.0	23.0	21.0	20.1	19.8	20.4	22.1
Central Government	75.6	76.2	77.2	77.0	77.0	77.0	79.0	79.9	80.2	79.6	77.9
MARKET ECONOMIES											
Subnational Govt	26.5	26.5	25.4	25.5	25.1	25.4	24.7	24.7	23.8	24.0	25.2
Central Government	73.5	73.5	74.6	74.5	74.9	74.6	75.3	75.3	76.2	76.0	74.8

a/ Total expenditures comprise expenditures and lending minus repayment. Expenditures have been consolidated eliminating transfers (interest payments, subsidies, lending-repayment) among levels of government.

b/ Weighted averages. Comparability over time affected by the availability of data.

Source: IMF, Government Finance Statistics Yearbook, various years.

Table 1.15: PER CAPITA INCOME AND URBANIZATION TREND
-GNP in Current US Dollars-

	1976	1977	1978	1979	1980	1981	1982	1983	1984
ARGENTINA									
GNP Percapita	1409	1538	1553	1820	1994	1921	1779	1983	NA
% Urban /Total Population	81.0	81.4	81.9	82.3	82.7	83.1	83.4	83.8	NA
BOLIVIA									
GNP Percapita	694	641	590	545	512	535	526	506	496
% Urban /Total Population	41.7	41.8	42.0	42.1	42.3	42.7	43.1	43.4	NA
BRAZIL									
GNP Percapita	1395	1570	1804	1972	1996	2132	2119	1516	1493
% Urban /Total Population	63.0	64.1	65.2	66.4	67.5	69.1	70.6	71.7	NA
CHILE									
GNP Percapita	917	1239	1387	1824	2400	2759	1953	1543	NA
% Urban /Total Population	79.0	79.5	80.1	80.6	81.1	81.6	82.0	82.5	82.9
COLOMBIA									
GNP Percapita	621	796	926	1093	1285	1371	1422	1375	1326
% Urban /Total Population	61.5	62.2	62.9	63.5	64.2	65.2	66.1	66.8	NA
COSTA RICA									
GNP Percapita	1170	1427	1628	1766	2000	1012	946	1127	1396
% Urban /Total Population	41.7	42.1	42.5	43.0	43.4	43.9	44.4	44.9	45.4
DOMINICAN REPUBLIC									
GNP Percapita	781	893	884	1002	1189	1245	1241	1101	805
% Urban /Total Population	46.3	47.4	48.4	49.5	50.5	51.5	52.6	53.6	54.6
GUATEMALA									
GNP Percapita	692	851	930	1028	1132	1198	1199	1192	1203
% Urban /Total Population	37.4	37.8	38.2	38.5	38.9	39.4	39.9	40.4	40.9
MEXICO									
GNP Percapita	1403	1254	1528	1943	2611	3246	2161	1787	2097
% Urban /Total Population	63.8	64.5	65.2	66.0	66.7	67.3	68.0	68.6	69.3
PANAMA									
GNP Percapita	1118	1115	1331	1499	1815	2000	2070	2084	2115
% Urban /Total Population	48.7	48.8	49.0	49.1	49.3	49.5	49.7	49.8	50.0
PARAGUAY									
GNP Percapita	604	722	888	1142	1448	1519	1265	928	853
% Urban /Total Population	38.2	38.5	38.8	39.1	39.4	39.8	40.2	40.6	41.0
URUGUAY									
GNP Percapita	1369	1445	1714	2508	3461	3877	3123	1690	1628
% Urban /Total Population	83.2	83.4	83.6	83.8	84.0	84.2	84.5	84.7	84.8
VENEZUELA									
GNP Percapita	2407	2661	2783	3325	3967	4321	4171	3982	2876
% Urban /Total Population	80.8	81.5	82.1	82.7	83.3	83.8	84.3	84.8	85.2
LAC SAMPLE									
GNP Percapita a/	1307	1406	1596	1862	2136	2373	2058	1699	1673
% Urban /Total Population	58.9	59.5	60.0	60.5	61.0	61.6	62.2	62.7	61.6
MARKET ECONOMIES									
GNP Percapita a/	7229	7940	8811	10046	11350	12638	13153	13812	14962
% Urban /Total Population	76.9	77.0	77.1	77.2	77.3	77.4	77.6	77.7	77.8

a/ Weighted average.

Sources: United Nations National Accounts.
The World Bank, Bank of Economic and Social Data.

Table 2.1c: CENTRAL GOVERNMENT INTEREST PAYMENT AS PERCENTAGE OF TOTAL EXPENDITURES a/

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
ARGENTINA	3.2	11.5	11.6	10.2	11.1	8.5	13.1	20.4	8.8	11.5
BOLIVIA	3.6	2.8	2.4	3.0	1.7	10.7	6.6	NA	4.6	1.4
BRAZIL	5.9	6.8	7.9	8.0	8.6	7.3	7.3	10.9	14.1	23.5
CHILE	9.9	8.2	9.1	5.1	3.7	2.8	1.3	1.7	4.1	4.4
COLOMBIA	NA	NA	NA	NA	4.4	4.1	4.5	5.7	5.2	NA
COSTA R	5.8	5.3	6.1	6.2	7.2	8.6	7.7	8.9	8.0	9.4
DOMINICAN REP	1.0	1.5	1.2	1.6	5.5	5.7	6.3	6.5	8.0	5.7
GUATEMALA	5.5	5.0	5.1	5.2	4.9	3.7	3.9	5.7	6.6	NA
MEXICO	7.3	8.7	10.5	10.7	9.7	9.3	13.1	14.0	35.0	32.9
PANAMA	7.2	8.3	9.9	10.6	11.9	18.1	19.4	19.5	18.7	18.2
PARAGUAY	1.9	1.8	2.7	2.5	3.0	3.0	2.6	3.0	3.1	4.1
URUGUAY	1.8	0.8	1.4	3.7	3.0	1.6	1.3	3.3	4.8	8.2
VENEZUELA	0.7	1.5	2.1	4.1	7.1	6.5	5.7	6.6	7.9	8.1
LAC SAMPLE 2/	5.5	7.1	8.1	8.2	8.3	7.4	9.0	12.2	16.6	22.0

a/ Total expenditures include expenditures and lending minus repayment.

Table 2.1d: CENTRAL GOVERNMENT INTEREST PAYMENTS AS PERCENTAGE OF GDP a/

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
ARGENTINA	0.7	1.7	1.8	1.9	2.1	1.8	3.3	4.7	2.5	2.3
BOLIVIA	0.4	0.3	0.3	0.4	0.2	1.6	0.9	NA	0.6	0.5
BRAZIL	1.2	1.4	1.8	2.0	2.0	1.8	2.0	3.2	4.3	6.7
CHILE	3.5	2.5	3.0	1.7	1.1	0.8	0.4	0.5	1.2	1.4
COLOMBIA	NA	NA	NA	NA	0.6	0.6	0.6	0.9	0.8	0.6
COSTA RICA	1.2	1.1	1.2	1.5	1.8	2.2	1.6	1.6	2.0	2.2
DOMINICAN REP	0.2	0.2	0.2	0.3	1.0	1.0	1.0	0.9	1.1	0.8
GUATEMALA	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.8	0.9	NA
MEXICO	1.2	1.5	1.7	1.8	1.7	1.8	2.9	4.4	9.4	7.9
PANAMA	2.3	2.7	3.2	3.3	4.5	5.9	6.8	7.7	6.8	6.9
PARAGUAY	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.5
URUGUAY	0.4	0.2	0.3	0.9	0.6	0.4	0.3	1.0	1.2	2.0
VENEZUELA	0.2	0.5	0.7	1.2	1.6	1.7	2.0	2.2	2.2	2.1
LAC SAMPLE 2/	1.1	1.3	1.7	1.8	1.7	1.6	2.2	3.5	4.6	5.3

a/ Interest payments by subnational governments are generally negligible except for Brazil, where subnational government interest payments reached about 1% of GDP in 1983.
b/ Weighted average.

Source: IMF, Government Finance Statistics Yearbook, various years.

Table 3.9a: GENERAL GOVERNMENT EXPENDITURES AS PERCENTAGE OF GDP a/

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	AVERAGE
ARGENTINA	30.8	27.8	25.0	27.6	27.4	30.3	34.3	30.4	38.8	30.6	30.3
BOLIVIA	11.2	11.8	11.7	12.5	13.1	14.7	14.1	NA	13.3	32.1	15.0
BRAZIL	29.0	28.3	30.8	32.9	30.9	32.0	34.6	37.8	38.0	35.6	33.0
CHILE	32.7	29.6	32.1	31.7	28.1	28.1	30.8	33.5	32.0	33.6	31.2
COLOMBIA	14.3	13.0	13.1	13.3	14.8	16.5	17.5	17.7	17.4	NA	15.3
COSTA RICA	21.0	22.1	20.8	24.1	25.7	25.8	21.7	18.9	24.6	23.4	22.8
DOMINICAN REP	18.0	16.3	15.1	16.5	19.3	17.2	16.4	13.6	14.3	13.7	16.1
GUATEMALA	9.8	11.9	11.7	12.1	11.8	15.1	16.7	14.6	13.2	NA	13.0
MEXICO	20.6	20.4	19.7	20.1	21.6	23.2	25.7	34.9	30.7	27.6	24.5
PANAMA	33.6	33.8	33.0	31.6	38.8	33.3	35.8	40.1	37.2	38.2	35.5
PARAGUAY	11.4	12.2	11.3	11.7	10.9	10.8	10.7	11.8	10.7	11.3	11.3
URUGUAY	24.9	26.2	26.1	25.4	23.0	24.3	27.4	32.9	28.1	26.0	26.4
VENEZUELA	34.3	32.5	31.9	29.5	22.7	26.2	35.7	33.2	28.3	25.9	30.0
LAC SAMPLE b/	26.2	25.5	26.3	27.3	25.9	27.1	30.0	33.7	32.4	31.0	28.5
MARKET ECONOMIES b/	39.2	38.7	38.3	38.9	39.1	40.9	41.3	42.8	42.8	41.0	40.3

a/ Total expenditures include expenditures and lending minus repayment.
General Government comprises central, regional and local governments. This is different from 'Total Public Sector' which includes decentralize public enterprises.
b/ Weighted averages. Comparability over time affected by availability of data.

Table 3.9b: GENERAL GOVERNMENT REVENUES AS PERCENTAGE OF GDP a/

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	AVERAGE
ARGENTINA	14.7	13.2	19.1	22.9	23.9	25.4	23.6	22.0	21.2	20.3	20.6
BOLIVIA	NA	NA	NA	NA	NA	NA	NA	NA	5.7	5.1	5.4
BRAZIL	27.3	26.8	29.4	30.1	29.7	29.0	31.2	33.7	32.7	29.9	30.0
CHILE	32.9	31.1	31.1	31.5	33.0	33.6	33.1	31.3	29.4	30.6	31.7
COLOMBIA	14.1	13.9	13.7	14.0	14.1	14.6	14.8	16.4	16.5	NA	14.7
COSTA RICA	18.5	18.4	17.4	19.8	19.0	18.5	18.5	18.0	23.0	23.0	19.4
DOMINICAN REP	19.7	16.1	15.2	15.0	13.6	14.7	13.9	10.6	11.8	12.6	14.3
GUATEMALA	NA	NA	NA	NA	NA	11.7	11.0	10.5	10.2	NA	10.8
MEXICO	14.9	15.3	16.0	16.9	17.4	19.7	18.4	19.1	22.2	20.4	18.0
PANAMA	25.4	23.4	27.2	25.1	25.5	27.8	27.2	28.8	31.0	30.8	27.2
PARAGUAY	11.5	11.7	12.4	13.2	12.4	11.6	NA	NA	NA	10.1	11.8
URUGUAY	20.7	24.4	24.8	24.5	23.2	24.5	26.0	23.9	24.2	20.8	23.7
VENEZUELA	36.2	29.8	27.9	25.6	24.8	NA	NA	NA	NA	NA	28.8
LAC SAMPLE b/	22.3	21.9	24.1	24.7	24.4	24.4	24.5	26.3	25.8	24.6	24.3
MARKET ECONOMIES 2/	36.3	36.3	36.8	36.5	36.7	37.9	38.7	39.4	38.9	39.0	37.7

a/ Total Revenues include revenues and grants.
b/ Weighted averages. Comparability over time affected by the availability of data.

Source: IMF, Government Finance Statistics, various years.

Table 3.10a: REVENUES BY LEVEL OF GOVERNMENT
In Percentage, General Govt=100%

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	AVERAGE
ARGENTINA											
Regional Govt	23.8	27.3	40.0	33.3	32.4	31.9	29.2	29.1	27.3	27.7	30.2
Central Govt	76.2	72.7	60.0	66.7	67.6	68.1	70.8	70.9	72.7	72.3	69.8
BOLIVIA											
Local Govt	NA	NA	NA	NA	NA	10.1	9.2	8.3	6.6	4.0	7.6
Regional Govt	NA	NA	NA	NA	NA	10.1	13.0	27.9	18.9	24.4	18.9
Central Govt	NA	NA	NA	NA	NA	79.9	77.7	63.8	74.5	71.6	73.5
BRAZIL											
Local Govt	2.9	3.7	3.0	3.0	3.6	3.5	3.0	2.5	2.7	2.7	3.1
Regional Govt	25.5	23.0	20.8	21.1	20.9	20.9	19.3	19.5	17.1	19.0	20.7
Central Govt	71.5	73.3	76.2	75.9	75.5	75.6	77.7	78.0	80.2	78.3	76.2
CHILE											
Local Govt	1.7	1.9	1.6	2.1	1.8	3.0	5.4	6.6	9.0	8.5	4.2
Central Govt	98.3	98.1	98.4	97.9	98.2	97.0	94.6	93.4	91.0	91.5	95.8
COLOMBIA											
Local Govt	4.5	5.2	4.4	5.0	5.0	5.4	6.2	5.5	5.8	NA	5.2
Regional Govt	11.7	11.8	12.3	12.0	13.5	13.2	15.4	12.6	13.6	NA	12.9
Central Govt	83.8	83.0	83.3	83.0	81.5	81.4	78.4	81.9	80.6	NA	81.9
COSTA RICA											
Local Govt	3.3	4.6	4.7	4.1	4.1	4.2	3.8	3.2	3.2	3.2	3.8
Central Govt	96.7	95.4	95.3	95.9	95.9	95.8	96.2	96.8	96.8	96.8	96.2
DOMINICAN REP											
Local Govt	2.0	2.3	2.7	2.4	1.2	1.7	1.7	1.8	1.9	1.6	1.9
Central Govt	98.0	97.7	97.3	97.6	98.8	98.3	98.3	98.2	98.1	98.4	98.1
GUATEMALA											
Local Govt	NA	NA	NA	4.5	5.4	4.4	4.9	5.2	5.2	NA	4.9
Central Govt	NA	NA	NA	95.5	94.6	95.6	95.1	94.8	94.8	NA	95.1
MEXICO											
Local Govt	2.3	2.3	2.1	2.0	2.2	2.2	2.8	3.1	3.0	4.0	2.6
Regional Govt	16.3	17.2	16.5	16.1	15.6	17.6	14.8	12.4	13.0	15.1	15.5
Central Govt	81.3	80.5	81.5	81.9	82.2	80.1	82.5	84.5	84.0	80.9	81.9
PANAMA											
Local Govt	3.7	3.8	3.2	2.9	2.8	2.5	2.6	2.4	2.3	2.1	2.8
Central Govt	96.3	96.2	96.8	97.1	97.2	97.5	97.4	97.6	97.7	97.9	97.2
PARAGUAY											
Local Govt	3.2	4.5	4.1	3.9	3.9	4.5	NA	NA	NA	5.1	4.1
Central Govt	96.8	95.5	95.9	96.1	96.1	95.5	NA	NA	NA	94.9	95.9
URUGUAY											
Local Govt	10.3	9.1	8.1	8.8	8.7	9.1	8.7	11.0	10.3	9.5	9.4
Central Govt	89.7	90.9	91.9	91.2	91.3	90.9	91.3	89.0	89.7	90.5	90.6
VENEZUELA											
Local Govt	0.7	1.0	1.2	1.3	1.2	NA	NA	NA	NA	NA	1.1
Central Govt	99.3	99.0	98.8	98.7	98.8	NA	NA	NA	NA	NA	98.9
LAC SAMPLE AVERAGE b/											
Subnational Govt	20.1	20.4	20.6	20.0	19.8	21.5	19.8	19.8	18.6	20.5	20.1
Central Government	79.9	79.6	79.4	80.0	80.2	78.5	80.2	80.2	81.4	79.5	79.9
MARKET ECONOMIES											
Subnational Govt	28.8	28.3	27.7	27.2	26.3	26.6	26.4	26.3	26.6	27.0	27.1
Central Government	71.2	71.7	72.3	72.8	73.7	73.4	73.6	73.7	73.4	73.0	72.9

a/ Revenues and grants have been consolidated eliminating transfers among levels of government.
b/ Weighted averages. Comparability over time affected by the availability of data.

Source: IMF, Government Finance Statistics Yearbook, various years.

Table 3.10b: CAPITAL EXPENDITURES AS PERCENTAGE OF TOTAL EXPENDITURES BY LEVEL OF GOVERNMENT

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	AVERAGE
ARGENTINA											
Regional Government	28.6	37.9	37.5	40.0	38.5	31.0	26.8	25.0	21.0	23.3	31.0
Central Government	14.3	37.0	26.3	22.2	16.0	13.0	16.3	13.1	10.2	9.1	17.8
BOLIVIA											
Local Government	NA	NA	NA	NA	NA	21.4	23.5	15.4	28.6	6.7	19.1
Regional Government	NA	NA	NA	0.0	NA	41.7	52.4	53.2	30.0	66.7	48.8
Central Government	14.3	15.5	17.1	16.0	13.6	5.6	7.1	NA	5.4	1.4	10.7
BRAZIL											
Local Government	NA	NA	33.3	32.6	31.1	31.7	30.4	25.0	17.2	21.8	27.9
Regional Government	NA	NA	17.5	15.6	12.0	13.3	13.1	12.9	10.0	10.8	13.2
Central Government	13.6	15.1	7.8	9.6	6.6	7.9	8.7	8.8	8.9	5.3	9.2
CHILE											
Local Government	5.3	3.8	5.8	9.3	11.4	23.1	22.3	10.7	15.0	14.6	12.1
Central Government	19.9	14.6	11.7	12.5	12.0	9.6	[illegible]	6.6	6.9	8.8	11.1
COLOMBIA											
Local Government	11.0	20.1	14.7	25.8	19.5	35.9	38.1	34.7	25.8	21.0	24.6
Regional Government	8.3	12.8	10.6	18.1	22.4	20.8	13.0	12.1	9.0	10.8	13.8
Central Government	32.0	33.2	36.3	30.6	24.2	30.6	27.9	26.6	23.4	NA	29.4
COSTA RICA											
Local Government	NA	NA	43.1	37.7	33.6	38.9	34.2	24.3	24.4	31.8	33.5
Central Government	19.1	27.4	22.0	17.9	19.8	20.7	16.4	13.4	17.8	15.9	19.1
DOMINICAN REPUBLIC											
Local Government	NA	NA	NA	NA	NA	NA	NA	NA	8.8	14.3	11.6
Central Government	49.0	42.9	38.8	34.0	27.6	30.5	26.8	18.9	19.5	22.7	31.1
GUATEMALA											
Local Government	NA	NA	NA	42.3	41.8	48.0	42.2	47.8	44.4	NA	44.4
Central Government	25.0	40.6	31.9	29.4	37.0	37.6	46.7	33.8	25.7	NA	34.2
MEXICO											
Local Government	28.8	26.9	25.6	25.5	25.5	27.2	32.2	30.1	33.4	38.2	29.3
Regional Government	25.5	22.9	19.2	29.6	35.9	37.9	28.2	19.9	19.6	30.8	26.9
Central Government	23.3	25.0	22.3	24.9	30.8	32.5	28.7	22.6	18.1	19.2	24.7
PANAMA											
Local Government	7.0	11.1	7.2	6.0	4.3	4.3	1.9	NA	2.6	2.6	5.2
Central Government	25.9	23.5	18.0	16.5	25.3	18.2	19.1	13.1	11.3	11.8	18.3
PARAGUAY											
Local Government	NA	NA	NA	NA	NA	47.6	NA	NA	NA	44.9	46.2
Central Government	19.3	25.6	25.4	30.1	28.7	24.1	24.1	16.5	16.5	21.9	23.2
URUGUAY											
Local Government	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Central Government	5.2	9.1	10.8	10.8	12.3	7.9	7.4	7.3	7.1	8.4	8.6
VENEZUELA											
Local Government	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Central Government	29.5	38.7	42.2	41.4	26.5	21.6	29.0	30.6	21.1	14.0	29.5
LAC SAMPLE AVERAGE a/											
Subnational Govts	25.7	28.3	23.5	23.6	22.7	24.5	21.3	17.8	15.4	19.0	22.2
Central Government	19.0	23.0	18.5	19.0	17.0	17.9	19.2	16.9	14.1	11.7	17.6
MARKET ECONOMIES											
Subnational Govts	25.0	23.7	21.9	22.9	22.2	18.7	17.1	16.3	15.2	14.8	19.8
Central Government	8.8	8.5	9.8	8.5	7.8	8.3	9.2	9.4	8.8	8.0	8.7

a/ Weighted averages. Comparability across time affected by data availability.

Source: IMF, Government Finance Statistics Yearbook, 1987.

Table 3.10c: CAPITAL EXPENDITURE PER CAPITA
-In constant 1980 US $-

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
ARGENTINA										
Regional Government	63.7	60.1	75.8	75.8	73.1	64.0	49.9	35.0	42.7	51.3
Central Government	63.7	101.1	79.8	75.8	58.5	49.7	66.5	45.1	40.3	31.6
BOLIVIA										
Local Government	NA	NA	NA	NA	NA	1.3	1.4	0.5	0.6	0.1
Regional Government	NA	NA	NA	0.0	NA	2.2	3.7	3.0	1.2	3.9
Central Government	8.9	11.4	12.2	11.9	9.9	4.5	5.1	1.7	3.2	1.9
BRAZIL										
Local Government	NA	NA	18.3	19.2	17.1	15.5	13.9	12.5	5.6	6.8
Regional Government	NA	NA	27.9	28.5	20.4	18.3	19.0	19.9	9.8	9.7
Central Government	44.9	55.5	31.4	42.7	26.2	30.8	34.0	34.8	24.6	13.6
CHILE										
Local Government	0.6	0.7	1.0	1.8	2.2	6.2	12.4	6.7	5.7	5.0
Central Government	74.0	60.2	64.6	71.7	73.4	66.9	68.9	40.5	30.7	36.6
COLOMBIA										
Local Government	1.1	2.0	1.5	3.2	2.5	6.7	7.5	6.5	4.8	3.6
Regional Government	2.3	3.4	3.6	7.5	10.9	11.4	7.1	6.2	4.5	5.3
Central Government	34.0	32.7	44.9	42.5	37.0	53.1	48.3	49.4	40.3	33.3
COSTA RICA										
Local Government	NA	NA	9.6	8.3	6.7	8.5	2.9	1.4	1.8	3.0
Central Government	54.9	96.2	84.6	88.0	102.4	108.7	35.7	23.9	45.4	44.0
DOMINICAN REP										
Local Government	NA	NA	NA	NA	NA	NA	NA	NA	0.5	0.7
Central Government	98.8	80.1	70.5	61.5	57.2	63.5	50.8	28.0	25.7	19.9
GUATEMALA										
Local Government	NA	NA	NA	3.8	3.7	4.7	3.7	4.3	3.5	NA
Central Government	27.7	52.5	51.6	47.6	62.2	78.5	104.8	64.7	41.5	NA
MEXICO										
Local Government	3.1	2.7	2.1	2.4	3.0	4.0	6.2	3.6	3.4	5.4
Regional Government	18.7	14.5	10.5	19.6	30.0	41.8	29.9	11.7	10.8	16.5
Central Government	76.8	80.1	60.0	77.3	114.8	152.9	176.1	132.2	74.2	79.8
PANAMÁ										
Local Government	1.2	1.9	1.1	0.8	0.5	0.5	0.2	NA	0.3	0.3
Central Government	135.5	125.3	88.3	85.5	170.3	111.4	120.3	90.0	67.1	73.8
PARAGUAY										
Local Government	NA	NA	NA	NA	NA	4.1	NA	NA	NA	1.7
Central Government	18.4	26.6	27.6	39.3	39.2	35.1	35.0	20.8	13.4	16.0
URUGUAY										
Central Government	23.5	43.1	50.7	54.7	71.3	60.3	65.6	58.7	26.2	27.6
VENEZUELA										
Central Government	228.1	326.1	415.0	400.8	216.8	187.0	333.2	323.5	187.8	77.2
LAC SAMPLE a/										
SUBNATIONAL GOVERNMENT	14.8	13.8	23.2	27.1	29.7	33.0	32.2	26.1	17.9	22.8
CENTRAL GOVERNMENT	41.1	52.9	48.3	58.0	57.4	74.3	98.8	87.4	57.7	47.6
MARKET ECONOMIES SAMPLE a/										
SUBNATIONAL GOVERNMENT	177.7	162.6	162.5	202.8	212.4	294.6	241.9	221.5	204.6	191.3
CENTRAL GOVERNMENT	325.1	303.0	364.8	393.4	401.1	437.7	394.9	383.0	333.1	285.5

a/ Weighted averages. Comparability over time affected by the availability of data.

Source: IMF, Government Finance Statistics, various years.

Table 3.10d: CAPITAL EXPENDITURES BY LEVEL OF GOVERNMENT
-Variation Index, 1975=100- a/

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
ARGENTINA										
Regional Government	100	101	125	121	117	105	85	67	78	88
Central Government	100	170	132	121	93	81	114	86	73	54
BOLIVIA										
Central Government	100	132	155	160	134	57	66	27	55	37
BRAZIL										
Central Government	100	124	71	98	67	100	107	116	114	73
CHILE										
Local Government	100	112	134	286	362	890	1672	1152	1259	1208
Central Government	100	75	74	96	98	79	77	58	56	74
COLOMBIA										
Local Government	100	194	126	264	205	546	622	556	440	388
Regional Government	100	154	136	286	410	434	277	248	194	269
Central Government	100	98	114	107	93	135	125	131	115	112
COSTA RICA										
Central Government	100	179	169	178	222	236	159	102	173	169
DOMINICAN REP										
Central Government	100	81	69	65	63	69	59	35	39	41
GUATEMALA										
Central Government	100	184	175	167	223	293	402	267	178	NA
MEXICO										
Local Government	100	104	98	106	132	163	237	215	227	331
Regional Government	100	90	81	144	213	276	187	115	119	164
Central Government	100	121	113	138	199	247	269	318	199	193
PANAMA										
Local Government	100	163	99	75	50	55	26	NA	39	38
Central Government	100	94	72	71	147	101	112	90	71	80
PARAGUAY										
Central Government	100	152	159	220	197	169	198	146	129	188
URUGUAY										
Central Government	100	190	219	228	257	175	186	191	151	174
VENEZUELA										
Central Government	100	145	190	191	105	88	153	148	86	55
LAC SAMPLE										
Subnational Governments	100	91	261	298	299	313	280	217	151	186
Central Government	100	125	109	125	114	134	166	141	92	73
MARKET ECONOMIES SAMPLE										
Subnational Governments	100	92	94	136	151	226	187	172	159	150
Central Government	100	93	112	121	123	135	122	118	103	88

a/ The variation index for individual countries is based on constant national currencies time series, while the index for the averages is based on constant US dollars.

Source: IMF, Government Finance Statistics Yearbook, various years.

Table 3.11a: INTERGOVERNMENTAL TRANSFERS AS PERCENTAGE OF GDP

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
ARGENTINA										
Regional Government	3.50	2.77	0.96	0.88	0.71	0.68	1.39	1.17	2.39	1.11
BOLIVIA										
Local Government	NA	NA	NA	NA	NA	0.08	0.07	0.02	0.06	0.26
Regional Government	NA	NA	NA	NA	NA	0.08	0.07	0.05	0.08	0.12
BRAZIL										
Local Government	1.49	1.66	1.61	1.66	1.54	1.49	1.49	1.75	1.51	1.60
Regional Government	1.99	1.29	1.45	1.44	1.37	1.12	1.13	1.41	1.31	1.27
CHILE										
Local Government	0.54	0.87	0.48	0.34	0.36	0.19	0.12	0.08	NS	NS
COLOMBIA										
Local Government	0.46	0.36	0.30	0.40	0.54	0.53	0.48	0.57	0.68	NA
Regional Government	1.61	1.28	1.48	1.87	2.08	2.34	2.52	2.49	2.55	NA
COSTA RICA										
Local Government	0.05	0.05	0.05	0.05	0.04	0.23	0.08	0.03	0.18	0.16
DOMINICAN REPUBLIC										
Local Government	0.33	0.30	0.28	0.33	0.47	0.40	0.34	0.34	0.36	0.57
GUATEMALA										
Local Government	NA	NA	NA	0.05	0.01	0.05	0.04	0.03	0.05	NA
MEXICO										
Local Government	0.01	0.01	0.01	0.02	0.03	0.02	NA	NA	NA	NA
Regional Government	0.11	0.11	0.24	0.23	0.25	0.32	0.22	0.28	NA	NA
PANAMA										
Local Government	0.03	0.05	0.03	0.02	0.02	0.02	0.02	0.01	0.01	0.02
PARAGUAY										
Local Government	0.10	0.03	0.03	0.02	0.01	0.02	NA	NA	NA	0.03
URUGUAY										
Local Government	0.26	0.14	0.08	0.04	0.03	0.01	0.07	0.05	0.17	0.18
VENEZUELA										
Local Government	0.72	0.31	0.49	0.48	0.48	NA	NA	NA	NA	NA
LAC SAMPLE a/	1.36	1.19	1.08	1.08	0.98	0.90	1.23	1.41	1.41	1.11
MARKET ECONOMIES a/	3.51	3.59	3.55	3.51	3.48	3.45	3.41	3.36	3.28	3.12

a/ Weighted averages.

Source: IMF, Government Finance Statistics Yearbook, various years.

Table 4.3a: PER CAPITA REVENUES OF SUBNATIONAL GOVERNMENTS a/
-In Contrast 1980 US dollars-

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
ARGENTINA	175	152	199	168	176	181	151	124	146	137
BOLIVIA	NA	NA	NA	NA	NA	12	13	13	6	7
BRAZIL	140	146	150	162	160	140	134	131	83	80
CHILE	6	8	9	12	13	25	47	37	38	34
COLOMBIA	19	21	24	26	30	34	36	34	35	NA
COSTA RICA	9	15	16	17	16	16	7	6	8	9
DOMINICAN REPUBLIC	4	4	5	4	2	3	3	2	2	1
GUATEMALA	NA	NA	NA	6	6	6	6	6	5	NA
MEXICO	62	61	50	59	69	104	74	55	52	66
PANAMA	16	15	13	12	12	13	13	12	12	11
PARAGUAY	3	5	5	6	6	7	NA	NA	NA	3
URUGUAY	42	43	40	47	58	78	79	70	36	27
VENEZUELA	9	10	12	11	11	NA	NA	NA	NA	NA
LAC SAMPLE b/	94	95	99	101	104	109	103	89	69	74
MARKET ECONOMIES b/	2064	2190	2265	2383	2417	2327	2097	2009	2030	2046

a/ Revenues include own revenues and grants.
b/ Weighted averages. Comparability over time affected by the availability of data

Table 4.3b: PER CAPITA REVENUES OF SUBNATIONAL GOVERNMENTS
- Variation Index, 1975=100- a/

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
ARGENTINA	100	92	117	93	95	99	85	78	87	75
BRAZIL	100	102	104	111	118	126	115	118	102	110
CHILE	100	121	119	185	194	332	577	575	738	715
COLOMBIA	100	110	110	113	127	141	150	146	160	NA
COSTA RICA	100	166	183	198	187	188	170	127	148	170
DOMINICAN REPUBLIC	100	94	107	89	42	65	61	49	57	49
MEXICO	100	112	112	122	133	181	152	139	144	159
PANAMA	100	98	90	86	88	90	95	94	90	87
PARAGUAY	100	149	156	175	164	184	NA	NA	NA	178
URUGUAY	100	106	93	107	112	120	121	124	111	89
VENEZUELA	100	118	135	131	129	NA	NA	NA	NA	NA
LAC SAMPLE	100	100	105	107	110	115	109	94	73	78
MARKET ECONOMIES	100	106	110	116	117	113	102	97	98	99

a/ The variation index for the individual countries is based on constant national currencies time series while the variation index for the sample average is based on constant US dollars.

Source: IMF, Government Finance Statistics Yearbook, various years.

Table 4.4b: STRUCTURE OF REVENUES OF SUBNATIONAL GOVERNMENTS IN ARGENTINA

	-Variation Index, 1975=100-									
	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
TOTAL REVENUE & GRANTS	100.0	93.7	214.0	99.5	101.2	109.3	93.9	87.7	98.9	86.7
I.TOTAL REVENUE	100.0	128.9	204.1	196.5	203.9	217.3	171.9	163.5	154.4	159.3
1.CURRENT REVENUE	100.0	128.9	202.7	195.6	202.8	216.3	170.9	161.5	153.5	157.5
1.1 TAX REVENUE	100.0	142.7	228.4	206.3	219.0	235.7	183.1	170.4	149.0	154.9
TX ON INC.,PROFITS & K GAINS	100.0	184.1	666.8	295.3	277.0	311.3	255.4	197.0	200.9	178.8
TAXES ON PROPERTY										
DOMESTIC TAXES ON GDS+SERVS	100.0	0.0	0.0	151.3	178.6	178.9	105.9	105.9	102.5	123.6
1.2 NONTAX REVENUE	100.0	73.6	0.0	242.1	138.0	138.9	122.0	125.7	171.9	167.9
2.CAPITAL REVENUE										
II.GRANTS	100.0	64.4	222.3	18.6	15.7	19.2	28.9	24.6	52.6	26.1
GRANTS FROM OTHER NATNL GOVT	100.0	64.4	222.3	18.6	15.7	19.2	28.9	24.6	52.6	26.1

Table 4.4c: STRUCTURE OF REVENUES OF SUBNATIONAL GOVERNMENTS IN BRAZIL

	-Variation Index, 1977=100-							
	1977	1978	1979	1980	1981	1982	1983	1984
TOTAL REVENUE & GRANTS	100.0	108.1	116.3	126.5	119.1	129.5	115.5	128.2
I.TOTAL REVENUE	100.0	109.0	119.4	132.9	124.2	130.4	115.6	127.7
1.CURRENT REVENUE	100.0	109.2	119.8	133.3	124.7	131.0	115.9	128.2
1.1 TAX REVENUE	100.0	109.6	114.2	130.7	122.3	126.4	118.6	129.1
SOCIAL SECURITY CONTRIBUTIONS	100.0	126.2	153.4	155.0	172.8	208.1	186.3	173.6
TAXES ON PROPERTY	100.0	100.9	132.2	142.1	119.4	132.1	98.4	91.9
DOMESTIC TAXES ON GDS+SERVS	100.0	109.2	110.2	128.0	112.8	122.2	117.1	129.8
1.2 NONTAX REVENUE	100.0	106.7	153.0	148.8	139.2	158.1	100.2	122.5
ADM.FEES + CHGS NONIND SALES	100.0	108.1	141.6	161.4	157.1	206.5	130.5	127.4
OPERATING SURPLUS OF ENTERPRS	100.0	120.2	133.8	133.5	161.3	191.7	116.3	182.1
2.CAPITAL REVENUE	100.0	72.1	47.2	51.7	37.7	38.1	55.1	40.6
II.GRANTS	100.0	106.2	109.3	111.8	107.3	127.2	115.2	129.3
GRANTS FROM OTHER NATNL GOVT	100.0	106.2	109.3	111.8	107.3	127.2	115.2	129.3

a/ Variation index is based on constant national currencies time-series.

Source: IMF, Government Finance Statistics Yearbook, various years.

Table 4.4d: STRUCTURE OF REVENUES OF SUBNATIONAL GOVERNMENTS IN COLOMBIA

-Variation Index, 1975=100-

	1975	1976	1977	1978	1979	1980	1981	1982	1983
TOTAL REVENUE & GRANTS	100	100	103	127	150	169	183	180	196
I.TOTAL REVENUE	100	113	112	119	137	154	168	167	186
1.CURRENT REVENUE	100	114	112	119	137	154	168	166	187
1.1 TAX REVENUE	100	110	113	118	137	147	152	154	159
SOCIAL SECURITY CONTRIBUTIONS	100	78	67	121	84	136	198	193	189
TAXES ON PROPERTY	100	119	99	118	118	137	149	173	184
DOMESTIC TAXES ON GDS+SERVS	100	113	118	125	129	136	158	159	160
1.2 NONTAX REVENUE	100	132	108	128	137	194	257	234	347
2.CAPITAL REVENUE	100	75	117	56	144	220	172	278	93
II.GRANTS	100	87	94	135	164	183	198	193	207
GRANTS FROM OTHER NATNL GOVT	100	86	95	130	158	182	186	193	208

Table 4.4e: STRUCTURE OF REVENUES OF SUBNATIONAL GOVERNMENTS IN MEXICO

-Variation Index, 1975=100-

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
TOTAL REVENUE & GRANTS	100	115	125	138	156	218	190	179	179	198
I.TOTAL REVENUE	100	93	91	102	109	100	61	61	52	61
1.CURRENT REVENUE	100	93	91	102	109	100	61	61	52	61
1.1 TAX REVENUE	100	78	78	92	106	65	37	32	24	20
TX ON INC.,PROFITS & K GAINS	100	113	96	100	142	124	95	104	80	70
TAXES ON PROPERTY	100	105	100	102	103	97	47	45	37	22
DOMESTIC TAXES ON GDS+SERVS	100	50	60	76	89	32	16	11	5	7
1.2 NONTAX REVENUE	100	122	116	123	116	170	109	118	109	142
ADM.FEES + CHGS NONIND SALES	100	122	116	123	116	170	109	118	109	142
II.TRANSFERS										
1.TX COLLECTED BY CENTRAL GOVT	100	182	203	224	267	529	531	488	552	[illegible]
2.GRANTS	100	117	224	225	281	368	353	350	172	121
GRANTS FROM OTHER NATNL GOVT	100	113	242	254	315	429	94	423	177	140

a/ Variation index is based on constant national currencies time-series.

Source: IMF, Government Finance Statistics Yearbook, various years.

Table 4.12a: INTERGOVERNMENTAL TRANSFERS AS PERCENTAGE OF TOTAL REVENUES

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
ARGENTINA										
Regional Government	50.0	37.5	9.1	10.3	8.4	9.7	16.7	15.3	29.1	16.4
BOLIVIA										
Local Government	NA	NA	NA	NA	NA	6.7	5.6	3.8	13.8	55.5
Regional Government	NA	NA	NA	NA	NA	6.7	4.0	2.3	6.9	8.9
BRAZIL										
Local Government	65.2	62.8	64.5	64.5	59.2	59.7	61.8	67.3	62.9	66.5
Regional Government	22.2	17.4	19.1	18.4	18.1	15.5	15.8	17.7	19.0	18.3
CHILE										
Local Government	48.7	59.3	48.4	33.3	37.5	15.5	6.4	3.8	0.0	0.0
COLOMBIA										
Local Government	41.7	32.9	33.3	35.9	43.2	40.0	34.2	38.6	41.5	NA
Regional Government	49.3	43.6	46.6	52.5	52.1	54.6	52.5	54.7	53.2	NA
COSTA RICA										
Local Government	7.6	5.5	6.2	5.4	5.4	22.6	10.1	4.6	19.5	18.5
DOMINICAN REPUBLIC										
Local Government	45.5	45.3	40.4	48.2	74.3	61.7	59.4	63.9	61.7	73.3
GUATEMALA										
Local Government	NA	NA	NA	9.0	2.1	8.1	6.8	5.0	8.3	NA
MEXICO 2/										
Local Government	20.5	22.0	23.8	29.4	31.7	41.6	NA	NA	NA	NA
Regional Government	29.3	44.7	49.8	48.8	51.8	69.7	77.4	70.5	NA	NA
PANAMA										
Local Government	2.8	4.9	3.8	2.7	2.5	2.4	2.5	2.0	1.6	2.3
PARAGUAY										
Local Government	20.7	4.6	4.7	3.3	2.8	2.9	NA	NA	NA	5.3
URUGUAY										
Local Government	10.7	6.1	3.6	1.9	1.5	0.3	3.0	1.9	6.2	8.4
VENEZUELA										
Local Government	73.6	50.9	60.0	59.5	61.4	NA	NA	NA	NA	NA
LAC SAMPLE 3/	39.5	38.0	38.2	38.5	38.5	40.0	41.6	42.8	37.8	37.6
MARKET ECONOMIES 3/	35.1	35.4	34.8	35.0	35.1	34.8	34.2	33.2	32.5	31.3

a/ Total Revenues= Own Revenues + Grants.
b/ Comprises Grants and Revenue Sharing.
c/ Weighted averages. Comparability over time affected by the availability of data.

Source: IMF, Government Finance Statistics Yearbook, various years.

Table 4.12b: TRENDS OF INTERGOVERNMENTAL TRANSFERS
-Variation Index, 1975=100-

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
ARGENTINA										
Regional Government	100	77	27	22	19	23	35	30	63	31
BRAZIL										
Local Government	100	127	131	141	143	159	151	175	153	179
Regional Government	100	74	88	92	96	89	86	106	100	107
CHILE										
Local Government	100	189	121	103	132	70	46	27	NA	NA
COLOMBIA										
Local Government	100	85	72	103	148	152	134	162	199	NA
Regional Government										
COSTA RICA										
Local Government	100	116	158	147	146	763	266	85	521	561
DOMINICAN REPUBLIC										
Local Government	100	95	90	107	160	142	124	123	137	203
MEXICO										
Local Government	100	173	134	285	386	344	NA	NA	NA	NA
Regional Government	100	108	251	252	309	436	318	419	NA	NA
PANAMA										
Local Government	100	173	129	88	82	86	94	77	63	87
PARAGUAY										
Local Government	100	28	32	25	20	24	NA	NA	NA	50
URUGUAY										
Local Government	100	57	30	18	15	3	32	20	65	73
VENEZUELA										
Local Government	100	45	78	76	84	NA	NA	NA	NA	NA
LAC SAMPLE	100	99	108	118	128	152	134	154	128	133
MARKET ECONOMIES	100	105	110	116	118	118	109	106	106	106

Source: IMF, Government Finance Statistics Yearbook, various years.

Table 4.12c: TRANSFERS TO SUBNATIONAL GOVERNMENTS
-In 1980 per capita constant US dollars-

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
ARGENTINA										
Regional Government	84.77	57.35	20.21	17.44	14.78	17.62	25.33	19.42	43.35	22.93
BOLIVIA										
Local Government	NA	NA	NA	NA	NA	0.73	0.50	0.08	0.05	0.01
Regional Government	NA	NA	NA	NA	NA	0.73	0.05	0.15	0.06	0.01
BRAZIL										
Local Government	28.70	34.07	34.88	37.15	33.85	29.40	28.96	31.54	19.76	20.06
Regional Government	38.26	26.50	31.39	32.20	30.21	22.05	21.97	25.54	17.12	15.93
CHILE										
Local Government	6.19	11.94	8.30	6.06	7.78	4.62	3.23	1.49	NS	NS
COLOMBIA										
Local Government	4.16	3.25	3.30	4.68	6.79	6.89	5.94	7.02	7.98	NA
Regional Government	14.60	11.69	16.20	22.02	25.99	30.16	31.44	30.66	29.67	NA
COSTA RICA										
Local Government	0.80	0.85	1.08	0.99	0.92	4.79	0.82	0.27	1.87	1.99
DOMINICAN REPUBLIC										
Local Government	3.98	3.54	3.48	3.84	5.50	4.93	4.05	3.67	3.41	3.70
GUATEMALA										
Local Government	NA	NA	NA	0.74	0.15	0.52	0.39	0.26	0.41	NA
MEXICO 1/										
Local Government	0.22	0.30	0.19	0.42	0.59	0.57	NA	NA	NA	NA
Regional Government	2.61	2.27	4.25	4.48	5.68	8.60	6.64	5.55	NA	NA
PANAMA										
Local Government	0.48	0.77	0.53	0.35	0.32	0.32	0.33	0.26	0.20	0.26
PARAGUAY										
Local Government	0.87	0.22	0.25	0.20	0.18	0.22	NA	NA	NA	0.19
URUGUAY										
Local Government	5.43	2.79	1.50	0.93	0.90	0.23	2.45	1.35	2.44	2.52
VENEZUELA										
Local Government	25.44	10.69	17.88	16.80	18.14	NA	NA	NA	NA	NA
LAC SAMPLE b/	23.33	19.58	19.38	20.03	19.22	16.67	19.35	20.45	18.35	13.99
MARKET ECONOMIES b/	1217.00	1290.00	1349.00	1427.00	1457.00	1426.00	1265.00	1208.00	1203.00	1191.00

a/ Comprises grants and revenue sharing.
b/ Weighted averages. Comparability over time affected by the availability of data.

Source: IMF, Government Finance Statistics Yearbook, various years.

Table 4.14: CENTRAL GOVERNMENT LENDING MINUS REPAYMENT AS PERCENTAGE OF TOTAL EXPENDITURE a/

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	AVERAGE
ARGENTINA	9.7	11.5	8.5	7.9	7.4	8.5	10.2	9.8	23.0	15.6	11.2
BOLIVIA	NS	NS	NS	NS	NS	NS	NS	NA	0.2	0.2	0.2
BRAZIL	8.9	10.5	20.5	20.0	21.9	19.1	25.3	24.9	31.0	27.9	21.0
CHILE	2.0	1.3	2.7	1.8	2.1	2.5	3.0	-9.4	-5.1	-2.2	-0.1
COLOMBIA	2.9	1.6	-1.9	-2.1	3.0	2.8	4.4	-0.1	-0.1	NA	1.2
COSTA R	5.3	4.7	2.4	3.6	0.7	0.6	-1.3	-0.3	0.7	1.0	1.7
DOMINICAN REP	1.0	0.0	1.3	2.7	8.2	0.6	0.2	-0.4	1.0	0.8	1.6
GUATEMALA	2.7	16.0	7.3	9.0	3.7	5.4	3.3	1.6	1.9	NA	5.6
MEXICO	13.8	9.2	5.5	4.8	6.6	7.3	8.2	4.9	2.5	1.8	6.4
PANAMA	3.2	2.6	2.3	2.7	0.2	0.0	3.1	4.4	5.3	3.5	2.7
PARAGUAY	2.7	3.4	1.8	0.2	3.1	5.9	9.4	-4.6	4.8	4.6	3.1
URUGUAY	0.1	0.3	2.6	1.9	4.7	1.8	1.4	2.6	2.3	2.0	2.0
VENEZUELA	32.2	25.6	15.1	6.9	5.0	16.3	16.9	12.6	7.9	9.4	14.8
LAC SAMPLE b/	12.8	11.6	14.1	12.6	13.1	12.6	15.4	13.6	16.6	14.9	13.7
MARKET ECONOMIES	5.6	4.4	6.8	6.4	6.2	5.9	5.2	5.2	4.7	4.5	5.5

a/ Total expenditures include expenditures and lending minus repayment.
b/ Weighted averages. Comparability over time affected by the availability of data.

Source: IMF, Government Finance Statistics Yearbook, various years.

Table 4.16b: SUBNATIONAL GOVERNMENT EXPENDITURES AS PERCENTAGE OF GDP a/

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
ARGENTINA	9.8	7.8	9.8	9.6	9.2	10.3	10.8	8.5	11.3	10.8
BOLIVIA	NA	NA	NA	NA	NA	2.2	2.7	1.9	1.4	1.9
BRAZIL	12.4	11.4	10.6	11.4	10.8	10.2	10.6	12.0	10.5	10.2
CHILE	1.1	1.4	1.0	1.1	0.9	1.1	2.2	3.5	2.7	2.6
COLOMBIA	4.4	4.0	4.1	4.6	5.0	5.7	5.9	5.7	5.9	6.2
COSTA RICA	0.9	1.2	1.1	1.0	1.0	1.0	0.8	0.6	0.7	0.8
DOMINICAN REP	0.6	0.6	0.6	0.7	0.6	0.6	0.5	0.5	0.6	0.8
GUATEMALA	NA	NA	NA	0.6	0.6	0.7	0.6	0.7	0.6	NA
MEXICO	3.8	3.6	3.6	3.8	4.2	4.7	4.1	3.6	4.1	3.8
PANAMA	1.0	1.0	0.9	0.7	0.7	0.7	0.7	0.7	0.7	0.7
PARAGUAY	0.5	0.6	0.6	0.6	0.5	0.6	NA	NA	NA	0.5
URUGUAY	2.1	2.1	2.0	2.1	1.9	2.1	2.3	2.6	2.7	2.1
VENEZUELA	0.8	0.8	0.8	0.8	0.5	NA	NA	NA	NA	NA
LAC SAMPLE b/	7.6	7.1	7.0	7.3	6.9	7.1	7.1	7.9	7.6	7.3
MARKET ECONOMIES b/	10.4	10.3	9.7	9.9	9.8	10.4	10.2	10.6	10.2	9.8

a/ Total expenditures include expenditures and lending minus repayment.
b/ Weighted averages. Comparability over time affected by the availability of data.

Table 4.16c: SUBNATIONAL GOVERNMENT EXPENDITURES AS PERCENTAGE OF GENERAL GOVERNMENT EXPENDITURES a/

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
ARGENTINA	36.8	39.9	41.0	36.1	34.4	34.9	32.4	29.1	31.1	36.8
BOLIVIA	NA	NA	NA	NA	NA	13.1	16.2	NA	9.3	5.7
BRAZIL	38.0	36.2	31.5	31.4	31.7	29.1	28.1	28.9	25.2	25.5
CHILE	3.1	4.4	2.8	3.1	3.0	3.6	6.7	10.5	8.5	7.9
COLOMBIA	NA	NA	NA	NA	30.6	31.4	34.0	32.6	34.1	NA
COSTA RICA	NA	NA	5.0	3.9	3.4	3.9	3.7	3.1	2.8	3.3
DOMINICAN REP	3.3	3.6	3.9	4.0	3.0	3.4	3.3	3.5	3.9	5.5
GUATEMALA	NA	NA	NA	5.1	5.0	4.4	3.6	4.5	4.7	NA
MEXICO	16.7	15.9	16.5	17.2	17.9	17.3	13.3	8.2	9.2	11.7
PANAMA	3.0	3.0	2.8	2.3	1.7	2.0	1.9	1.7	1.9	1.7
PARAGUAY	NA	NA	NA	NA	NA	5.2	NA	NA	NA	4.6
URUGUAY	8.5	8.1	7.8	8.4	8.1	8.5	9.2	9.5	9.5	8.3
VENEZUELA	2.5	2.7	2.5	2.9	2.7	NA	NA	NA	NA	NA
LAC SAMPLE b/	24.4	23.8	22.8	23.0	23.0	23.0	21.0	20.1	19.8	20.4
MARKET ECONOMIES b/	26.5	26.5	25.4	25.5	25.1	25.4	24.7	24.7	23.8	24.0

a/ Total expenditures include expenditures and lending minus repayment. Expenditures have been consolidated.
b/ Weighted averages. Comparability over time affected by the availability of data.

Source: IMF, Government Finance Statistics yearbook, various years.

Table 4.17a: EXPENDITURES BY LEVEL OF GOVERNMENT AND FUNCTION IN LATIN AMERICA
-In Percentage-

	ARGENTINA	BRAZIL	CHILE	COLOMBIA	PANAMA 1/
	1975-84	1984	1975-84	1982-84	1975-84
CENTRAL GOVERNMENT TOTAL EXPENDITURE	100.00	100	100.00	100.00	100.00
I. GOVERNMENT SERVICES	17.77	30.2	23.97	26.50	21.47
-General Public Services	7.73	NA	11.61	19.31	21.47
-Defense	10.04	NA	12.36	7.19	NA
II. SOCIAL SERVICES	42.04	26.3	58.65	48.17	42.74
-Education	8.13	10.3	13.97	20.32	14.71
-Health	1.77	2.5	6.70	4.35	14.04
-Social Security & Welfare	29.62	13	32.96	19.45	10.31
-Housing & Community Affairs	2.51	0.5	4.37	3.46	2.79
-Recreation & Cultural Affairs	-	-	0.64	0.59	0.89
III. ECONOMIC SERVICES	21.18	28.8	12.25	25.10	20.34
-Agriculture	0.76	4.4	1.89	1.80	4.91
-Mining, Manuf. & Construction	0.04	1.2	1.10	0.82	2.56
-Electricity, Gas & Water	5.48	7.7	0.13	4.79	2.19
-Transportation & Communicat.	9.40	15.5	3.60	11.26	7.20
-Other Economic Services	1.39	-	0.16	1.21	1.55
IV. OTHER SERVICES	16.04	14.7	5.14	5.57	15.45
	1975-84	1984	1981-84	1975-84	1975-84
SUBNATIONAL GOVERNMENTS TOTAL EXPENDITURE	100.00	100	100.00	100.00	100.00
I. GENERAL PUBLIC SERVICES	22.56	38.3	64.80	19.35	67.92
-Public Order & Safety	10.25	NA	64.80	1.35	
II.SOCIAL SERVICES	44.68	43.8	35.19	67.48	27.69
-Education	20.02	17.2	31.17	41.97	3.27
-Health	10.83	7.4	1.12	15.87	0.90
-Social Security & Welfare	13.10	9.1	2.90	4.81	5.13
-Housing & Community Affairs	0.73	10.1	-	2.66	15.50
-Recreation & Cultural Affairs	0.00	-	-	2.18	2.89
III. ECONOMIC SERVICES	10.17	15	NA	14.72	3.03
-Agriculture	0.00	1.4	NA	1.38	-
-Mining, Manuf. & Construction	0.00	1.2	NA	1.98	-
-Electricity, Gas & Water	0.44	0.9	NA	0.29	-
-Transportation & Communicat.	4.01	11.5	NA	7.08	-
-Other Economic Services	6.16	-	NA	3.99	3.03
IV. OTHER SERVICES	0.38	2.9	NA	2.11	1.36

a/ Central government exoenditures do not include expenditures in defense.

Source: IMF, Government Finance Statistics Yearbook, various years.

Table 4.17b: SUBNATIONAL GOVERNMENT EXPENDITURES BY FUNCTION IN LAC COUNTR
-As percentage of GDP-

	ARGENTINA	BRAZIL	CHILE	COLOMBIA	PANAMA
	1975-84	1984	1975-84	1982-84	1975-84
SUBNATIONAL GOVERNMENTS TOTAL EXPENDITURE	9.65	9.69	2.94	5.07	0.40
I. GENERAL PUBLIC SERVICES	2.18	3.71	1.91	0.98	0.27
-Public Order & Safety	0.99	NA	1.91	0.07	NA
II.SOCIAL SERVICES	4.31	4.24	1.03	3.42	0.11
-Education	1.93	1.67	0.92	2.13	0.01
-Health	1.05	0.72	0.03	0.80	-
-Social Security & Welfare	1.26	0.88	0.09	0.24	0.02
-Housing & Community Affairs	0.07	0.98	-	0.13	0.06
-Recreation & Cultural Affairs	-	-	-	0.11	0.01
III. ECONOMIC SERVICES	0.98	1.45	NA	0.75	0.01
-Agriculture	-	0.14	NA	0.07	-
-Mining, Manuf. & Construction	-	0.12	NA	0.10	-
-Electricity, Gas & Water	0.04	0.09	NA	0.01	-
-Transportation & Communicat.	0.39	1.11	NA	0.36	-
-Other Economic Services	0.59	-	NA	0.20	0.01
IV. OTHER SERVICES	0.04	0.28	NA	0.11	0.01

Table 4.17c: SUBNATIONAL GOVERNMENT EXPENDITURES BY FUNCTION IN LAC COUNTR
- In 1980 US Dollars-

	ARGENTINA	BRAZIL	CHILE	COLOMBIA	PANAMA
	1975-84	1984	1975-84	1982-84	1975-84
SUBNATIONAL GOVERNMENTS TOTAL EXPENDITURE	191.88	121.71	44.71	58.22	13.34
I. GENERAL PUBLIC SERVICES	43.28	46.61	28.97	11.27	9.06
-Public Order & Safety	19.67	NA	28.97	0.78	NA
II.SOCIAL SERVICES	85.73	53.31	15.73	39.29	3.69
-Education	38.41	20.93	13.93	24.43	0.44
-Health	20.79	9.01	0.50	9.24	0.12
-Social Security & Welfare	25.13	11.08	1.30	2.80	0.68
-Housing & Community Affairs	1.40	12.29	0.00	1.55	2.07
-Recreation & Cultural Affairs	-	-	0.00	1.27	0.39
III. ECONOMIC SERVICES	19.51	18.26	NA	8.57	0.40
-Agriculture	-	1.70	NA	0.80	-
-Mining, Manuf. & Construction	-	1.46	NA	1.15	-
-Electricity, Gas & Water	0.85	1.10	NA	0.17	-
-Transportation & Communicat.	7.69	14.00	NA	4.12	-
-Other Economic Services	11.82	-	NA	2.32	0.40
IV. OTHER SERVICES	0.73	3.53	NA	1.23	0.18

"-" = not significant or no expenditure was reported.

Source: IMF, Government Finance Statistics Yearbook, various years.

Table 4.17d: SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTION IN MARKET ECONOMIES
-As Percentage of GDP-

	AUSTRALIA Loc & Reg 1975-84	AUSTRIA Regional 1975-84	CANADA Loc & Reg 1979-84	DENMARK Local 1975-84	FRANCE Local 1978-83	GERMANY,FR Loc & Reg 1975-84	ICELAND Local 1975-77	LUXEMBOURG Local 1975-84	SWITZERLAND Loc & Reg 1975-84	U.KINGDOM Local 1979-84	UNITED STATES Loc & Reg 1980-84
TOTAL EXPENDITURE	16.92	7.17	30.56	32.95	7.62	22.65	7.20	7.28	22.94	13.38	17.04
GENERAL PUBLIC SERVICES	1.49	0.94	1.76	1.32	0.98	1.50	0.42	1.00	1.56	0.37	0.66
SOCIAL SERVICES	9.23	4.66	19.86	28.40	4.44	13.92	2.57	3.95	13.78	9.02	11.54
-Education	4.87	1.77	8.27	4.71	1.02	4.53	0.80	1.34	5.81	4.84	6.69
-Health	2.70	1.23	5.73	5.51	0.26	2.21	0.13	0.18	3.35	0.00	2.13
-SS & Welfare	0.41	1.30	3.59	15.75	1.41	4.25	1.23	0.38	2.16	1.42	2.15
-Housing	0.66	0.21	1.42	1.37	1.21	2.07	0.00	1.28	1.61	2.20	0.28
-Community and Recreation	0.60	0.15	0.85	1.05	0.54	0.86	0.42	0.78	0.85	0.57	0.29
ECONOMIC AND OTHER SERVICES	6.20	1.57	8.94	3.23	2.21	7.23	4.21	2.33	7.60	4.00	4.84

Table 4.17e: SUBNATIONAL GOVERNMENT PERCAPITA EXPENDITURE BY FUNCTION IN MARKET ECONOMIES
-In 1980 US Dollars-

	AUSTRALIA Loc & Reg 1975-84	AUSTRIA Regional 1975-84	CANADA Loc & Reg 1979-84	DENMARK Local 1975-84	FRANCE Local 1978-83	GERMANY,FR Loc & Reg 1975-84	ICELAND Local 1975-77	LUXEMBOURG Local 1975-84	SWITZERLAND Loc & Reg 1975-84	U.KINGDOM Local 1979-84	UNITED STATES Loc & Reg 1980-84
TOTAL EXPENDITURE	1653.07	600.07	3341.56	3757.49	787.48	2462.74	730.45	826.31	3172.20	1031.07	2021.93
GENERAL PUBLIC SERVICES	145.87	78.92	192.51	150.61	100.96	163.65	42.76	113.88	215.15	28.33	78.34
SOCIAL SERVICES	901.45	389.96	2171.58	3238.30	458.47	1513.31	260.54	448.15	1906.04	694.66	1368.84
-Education	475.30	148.07	904.80	536.94	104.92	492.27	81.06	151.93	803.19	372.63	794.36
-Health	263.28	102.98	626.22	628.49	26.43	240.21	12.80	20.13	463.31	0.00	253.18
-SS & Welfare	39.57	109.15	392.53	1796.05	145.58	462.24	124.34	43.05	299.21	109.07	254.72
-Housing	64.63	17.55	155.24	156.69	125.31	225.50	0.00	144.99	223.12	169.11	32.71
-Community and Recreation	58.67	12.21	92.79	120.13	56.24	93.09	42.34	88.04	117.21	43.86	33.87
ECONOMIC AND OTHER SERVICES	605.75	131.19	977.46	368.58	228.05	785.78	427.15	264.29	1051.01	308.08	574.75

Source: IMF, Government Finance Statistics Yearbook, various years.

Table 4.18a: EXPENDITURES BY LEVEL OF GOVERNMENT AND FUNCTION IN ARGENTINA

-Variation Index 1976=100- 1/

	1976	1977	1978	1979	1980	1981	1982	1983	1984
CENTRAL GOVERNMENT TOTAL EXPENDITURE	100	88	96	88	95	107	99	121	89
I. GOVERNMENT SERVICES	100	99	96	101	111	123	108	111	70
-General Public Services	100	109	109	101	126	136	112	137	63
-Defense	100	92	88	101	101	115	106	95	75
II. SOCIAL SERVICES	100	94	125	119	129	133	105	136	129
-Education	100	101	118	101	126	111	89	120	122
-Health	100	54	44	36	40	41	23	35	39
-Social Security & Welfare	100	100	141	163	171	185	145	186	173
-Housing & Community Affairs	100	97	142	26	25	21	31	28	25
III. ECONOMIC SERVICES	100	79	61	59	59	63	59	83	60
-Agriculture	100	109	118	132	139	123	93	137	113
-Electricity, Gas & Water	100	69	57	42	42	51	54	90	56
-Transportation & Communicat.	100	74	65	52	60	70	50	82	60
-Other Economic Services	100	109	79	71	66	62	117	58	55
IV. OTHER SERVICES	100	79	101	58	58	114	125	164	67
SUBNATIONAL GOVERNMENTS TOTAL EXPENDITURE	100	125	113	114	126	119	100	139	141
I. GENERAL PUBLIC SERVICES	NA	NA	NA	NA	NA	NA	NA	NA	NA
II. SOCIAL SERVICES	100	107	129	115	149	157	123	175	205
-Education	100	101	146	169	168	165	124	165	252
-Health	100	139	125	84	126	123	101	152	139
-Social Security & Welfare	100	88	111	72	144	176	140	209	116
III. ECONOMIC SERVICES	-	-	-	-	-	-	-	-	-
IV. OTHER SERVICES	-	-	-	-	-	-	-	-	-

Table 4.18b: CENTRAL GOVERNMENT EXPENDITURES BY FUNCTION IN CHILE

-Variation Index 1976=100- 1/

	1976	1977	1978	1979	1980	1981	1982	1983	1984
CENTRAL GOVERNMENT TOTAL EXPENDITURE	100	124	149	159	160	167	171	158	164
I. GENERAL SERVICES	100	116	137	141	144	151	145	142	142
-General Public Services	100	117	128	132	136	146	141	138	138
-Defense	100	116	146	149	152	156	150	145	145
II. SOCIAL SERVICES	100	130	157	181	189	207	226	206	210
-Education	100	132	151	172	170	180	184	159	156
-Health	100	122	147	150	170	157	168	136	146
-Social Security & Welfare	100	129	168	195	206	243	285	269	272
-Housing & Community Affairs	100	126	128	166	168	169	120	101	121
-Recreation & Cultural Affairs	100	229	211	268	275	231	182	281	251
III. ECONOMIC SERVICES	100	107	171	169	151	133	105	68	85
-Agriculture	100	115	121	123	109	89	72	99	103
-Mining, Manuf. & Construction	100	125	164	3831	3421	3051	1361	155	886
-Electricity, Gas & Water	100	108	112	26	22	27	17	10	11
-Transportation & Communicat.	100	52	37	28	21	17	16	12	10
-Other Economic Services	100	81	116	124	209	138	63	40	39
IV. OTHER SERVICES	100	142	94	72	55	28	32	75	90

a/ The variation index is based on constant national currencies time series.

Source: IMF, Government Finance Statistics yearbook, various years.

Table 4.18c: EXPENDITURES BY FUNCTION AT THE SUBNATIONAL GOVERNMENT LEVEL IN COLOMBIA

-Variation Index 1976=100- a/

	1976	1977	1978	1979	1980	1981	1982	1983	1984
SUBNATIONAL GOVERNMENTS TOTAL EXPENDITURE	100	98	118	132	162	158	152	160	184
I. GENERAL PUBLIC SERVICES	100	97	102	133	158	133	154	169	210
-Public Order	100	59	61	94	124	98	86	138	NA
II. SOCIAL SERVICES	100	101	125	137	168	155	148	156	182
-Education	100	104	122	137	166	170	166	164	197
-Health	100	88	118	120	157	100	83	116	107
-Social Security & Welfare	100	139	161	187	198	210	210	252	365
-Housing & Community Affairs	100	75	134	148	199	155	212	171	201
-Recreation & Cultural Affairs	100	141	177	196	236	306	247	206	262
III. ECONOMIC SERVICES	100	86	108	112	142	203	170	168	165
-Agriculture	100	62	88	119	154	940	142	135	224
-Mining, Manuf. & Construction	100	3	114	120	96	5	3	60	59
-Electricity, Gas & Water	100	76	160	192	137	142	141	510	212
-Transportation & Communicat.	100	97	122	140	233	258	250	155	177
-Other Economic Services	100	191	74	38	36	164	267	330	271
IV. OTHER SERVICES	100	188	364	305	199	279	355	319	489

Table 4.18d: EXPENDITURES BY LEVEL OF GOVERNMENT AND FUNCTION IN PANAMA

-Variation Index 1976=100- a/

	1976	1977	1978	1979	1980	1981	1982	1983	1984
CENTRAL GOVERNMENT TOTAL EXPENDITURE	100	99	108	145	139	147	172	158	170
I. GENERAL PUBLIC SERVICES b/	100	95	117	137	122	146	240	168	189
II. SOCIAL SERVICES	100	106	108	134	128	133	146	165	179
-Education	100	108	112	120	114	115	116	136	151
-Health	100	109	123	133	134	147	171	190	206
-Social Security & Welfare	100	99	88	122	120	113	119	140	152
-Housing & Community Affairs	100	129	112	504	381	450	574	558	555
-Recreation & Cultural Affairs	100	97	96	111	102	125	130	141	151
III. ECONOMIC SERVICES	100	83	88	148	116	103	88	75	78
-Agriculture	100	75	90	249	150	165	120	128	111
-Mining, Manuf. & Construction	100	344	863	722	1577	572	713	343	317
-Electricity, Gas & Water	100	59	22	109	21	27	10	1	10
-Transportation & Communicat.	100	71	68	79	56	58	62	59	78
-Other Economic Services	100	176	236	295	257	296	147	72	84
IV. OTHER SERVICES	100	122	143	201	290	336	379	338	347
SUBNATIONAL GOVERNMENTS TOTAL EXPENDITURE	100	94	84	79	88	92	99	100	99
I. GENERAL PUBLIC SERVICES	100	102	97	92	104	101	104	104	100
II. SOCIAL SERVICES	100	79	66	61	68	94	112	111	96
-Education	100	70	75	54	34	25	42	24	18
-Health	100	96	61	57	25	23	45	44	0
-Social Security & Welfare	100	106	102	94	100	108	104	116	129
-Housing & Community Affairs	100	88	66	50	56	88	153	197	209
-Recreation & Cultural Affairs	100	55	45	36	36	55	82	91	73
III. ECONOMIC SERVICES	100	167	200	117	83	50	33	33	50
-Economic Services	100	167	200	117	83	50	33	33	50
IV. OTHER SERVICES	100	63	25	13	25	13	13	13	13

a/ the variation index is based on constant national currencies time series.
b/ General public services do not include expenditure on defense.

Source: IMF, Government Finance Statistics Yearbook, various years.

Table 4.20a: FISCAL GAP OF SUBNATIONAL GOVERNMENTS AS PERCENTAGE OF EXPENDITURES a/

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
ARGENTINA										
Regional Government	-64.29	-40.68	-2.91	-20.79	-15.97	-21.29	-35.59	-24.60	-48.38	-47.71
BOLIVIA										
Local Government	NA	NA	NA	NA	NA	0.00	0.00	-3.85	-20.00	-39.50
Regional Government	NA	NA	NA	0.00	NA	8.33	0.00	61.54	12.86	-6.04
BRAZIL										
Local Government	-68.00	-65.22	-66.67	-66.67	-60.00	-61.16	-62.75	-70.46	-64.82	-68.39
Regional Government	-30.00	-28.57	-23.23	-26.52	-24.04	-20.41	-25.55	-28.40	-30.09	-26.19
CHILE										
Local Government	-47.37	-58.15	-46.35	-36.12	-34.27	-6.34	-15.68	-40.10	0.54	1.06
COLOMBIA										
Local Government	-43.22	-35.08	-36.66	-39.37	-36.55	-46.58	-41.77	-43.10	-39.72	NA
Regional Government	-51.24	-46.22	-46.99	-55.62	-55.09	-56.70	-55.11	-53.19	-50.34	NA
COSTA RICA										
Local Government	-30.79	-27.26	-28.82	-22.72	-21.20	-24.73	-15.82	-4.63	3.16	-8.53
DOMINICAN REP										
Local Government	-35.78	-38.82	-30.77	-46.88	-72.53	-59.06	-57.04	-60.78	-61.20	-73.61
GUATEMALA										
Local Government	NA	NA	NA	-14.63	-7.82	-22.89	-12.87	-20.92	-17.07	NA
MEXICO										
Local Government	-28.85	-31.34	-31.40	-29.09	-29.19	-22.55	-27.64	-11.38	0.91	-0.82
Regional Government	-26.59	-15.00	-17.13	-19.92	-27.58	-15.96	-23.55	-21.75	-21.28	-1.30
PANAMA										
Local Government	-6.49	-11.11	-8.21	-1.65	6.49	4.74	3.80	1.02	0.99	-1.31
PARAGUAY										
Local Government	-22.84	-10.94	-15.93	-13.61	-7.34	-12.23	NA	NA	NA	-5.37
URUGUAY										
Local Government	1.16	2.95	-1.48	1.22	7.88	8.35	-0.43	2.24	-5.53	-7.40
VENEZUELA										
Local Government	-68.49	-64.39	-56.35	-58.53	-43.91	NA	NA	NA	NA	NA
LAC SAMPLE AVERAGE	-37.34	-33.56	-29.49	-30.06	-28.07	-21.78	-24.67	-21.22	-22.67	-15.61

a/ Fiscal gap = own revenues - expenditures and lending minus repayment.

Source: IMF, Government Finance Statistics Yearbook, various years.

Table 4.20b: FISCAL GAP OF SUBNATIONAL GOVERNMENT AS PERCENTAGE OF GROSS DOMESTIC PRODUCT a/

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
ARGENTINA										
Regional Government	-6.29	-3.16	-0.29	-2.01	-1.47	-2.20	-3.84	-2.10	-5.48	-5.18
BOLIVIA										
Local Government	NA	NA	NA	NA	NA	0.00	0.00	-0.02	-0.09	-0.18
Regional Government	NA	NA	NA	0.00	NA	0.08	0.00	0.76	0.12	-0.09
BRAZIL										
Local Government	-1.69	-1.85	-1.77	-1.82	-1.59	-1.58	-1.55	-2.02	-1.65	-1.74
Regional Government	-2.99	-2.46	-1.85	-2.29	-1.97	-1.56	-2.07	-2.61	-2.41	-2.07
CHILE										
Local Government	-0.51	-0.83	-0.44	-0.38	-0.32	-0.07	-0.34	-1.39	0.01	0.03
COLOMBIA										
Local Government	-0.49	-0.38	-0.35	-0.42	-0.39	-0.67	-0.65	-0.66	-0.63	NA
Regional Government	-1.65	-1.36	-1.47	-1.96	-2.15	-2.41	-2.42	-2.22	-2.16	NA
COSTA RICA										
Local Government	-0.27	-0.32	-0.32	-0.24	-0.20	-0.26	-0.13	-0.03	0.02	-0.07
DOMINICAN REP										
Local Government	-0.22	-0.23	-0.18	-0.32	-0.43	-0.36	-0.31	-0.29	-0.35	-0.58
GUATEMALA										
Local Government	NA	NA	NA	-0.09	-0.05	-0.15	-0.08	-0.14	-0.11	NA
MEXICO										
Local Government	-0.14	-0.15	-0.15	-0.14	-0.15	-0.12	-0.17	-0.07	0.01	-0.01
Regional Government	-0.87	-0.46	-0.54	-0.67	-1.02	-0.65	-0.82	-0.66	-0.74	-0.04
PANAMA										
Local Government	-0.07	-0.11	-0.08	-0.01	0.04	0.03	0.03	0.01	0.01	-0.01
PARAGUAY										
Local Government	-0.11	-0.06	-0.10	-0.08	-0.04	-0.07	NA	NA	NA	-0.03
URUGUAY										
Local Government	0.02	0.06	-0.03	0.03	0.15	0.17	-0.01	0.06	-0.15	-0.16
VENEZUELA										
Local Government	-0.56	-0.54	-0.42	-0.46	-0.24	NA	NA	NA	NA	NA
LAC SAMPLE AVERAGE	-1.13	-0.85	-0.57	-0.72	-0.65	-0.61	-0.82	-0.76	-0.91	-0.72

a/ Fiscal gap = own revenues - expenditures and lending minus repayment.

Source: IMF, Government Finance Statistics Yearbook, various years.

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