



Nearby solutions

The role of regional
and local governments
in Latin America
and the Caribbean

Executive Summary

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Nearby solutions: The role of regional and local governments in Latin America and the Caribbean

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Local and regional governments in Latin America and the Caribbean

Greater responsibilities bring new challenges

The decentralization process that has taken place over the past four decades in Latin America and the Caribbean (LAC) has heightened the importance of local and regional governments. As their responsibilities have expanded, these governments now play a central role in addressing key issues essential to achieving the Sustainable Development Goals (SDGs). Their work is crucial in urban infrastructure, education, health, and public safety, while also contributing to cross-cutting development priorities such as gender equity and environmental sustainability.

Bringing decision-making closer to citizens through decentralization holds the promise of improving governance and the quality of public services. Proximity to the population can facilitate the identification of local needs and enhance citizen oversight. Moreover, the proliferation of autonomous subnational governments fosters a diversity of practices, allowing for the exchange of experiences and the selection of the most effective approaches. However, decentralization also presents significant challenges, particularly in defining responsibilities, ensuring inter-jurisdictional

coordination, and strengthening governance capacities at the territorial level.

Evidence from the region suggests that some of the benefits of decentralization have materialized. Regional and local governments have established themselves as legitimate decision-making entities, and their responsibilities have steadily increased in recent decades. However, several issues remain evident. In particular, there are significant territorial disparities in development indicators within countries across the region. These inequalities extend to the financial, human, and technological resources available to local and regional administrations.

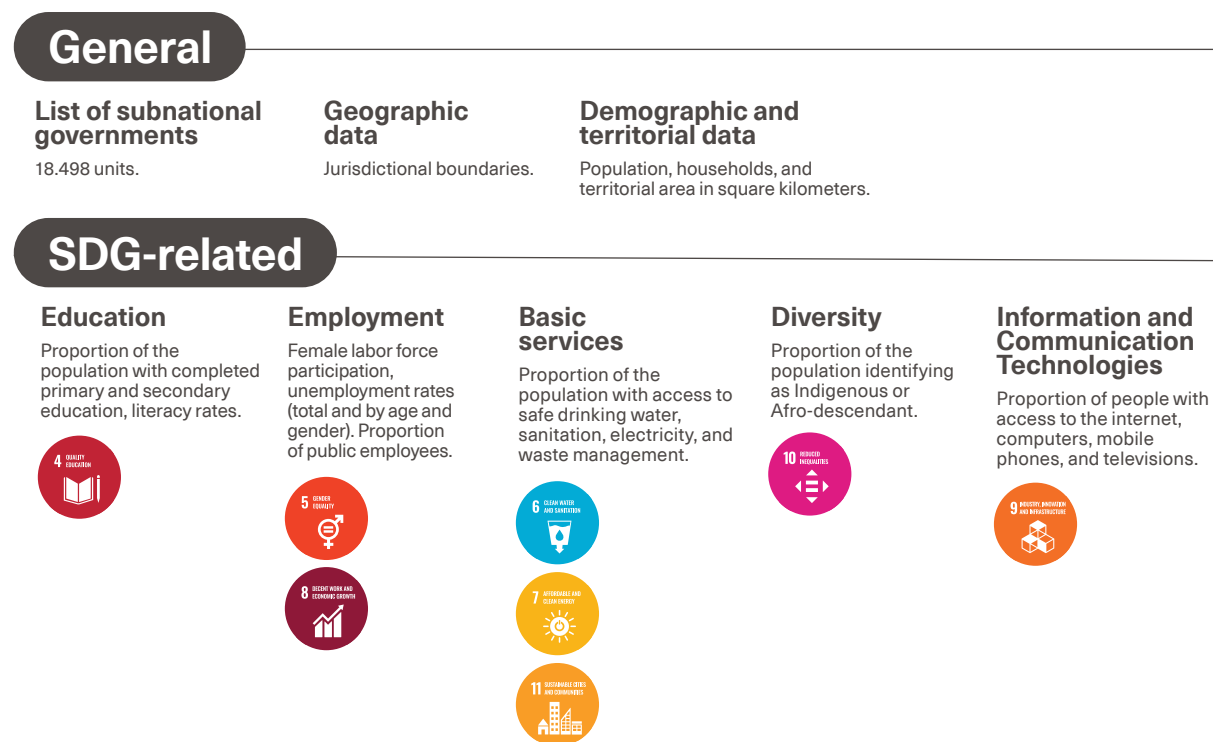
This edition of the *Report on Economy and Development (RED)* has two main objectives. First, to document the landscape of local and regional governments in terms of their responsibilities, resources, and practices—areas where systematized information remains surprisingly scarce. Second, to identify key areas and opportunities for capacity development that can enhance the ability of these governments to deliver essential services more effectively.

A vast, expanding, and largely unknown universe

Despite the growing importance of local and regional governments resulting from decades of decentralization, knowledge about them remains remarkably limited. This lack of information is not just an academic concern—it poses a serious barrier to improving governance. This edition of RED aims to contribute to reducing this gap by systematizing data and generating original knowledge about the functions, finances, human resources, and governance structures of subnational entities.

As part of the preparation of this report, a new database was created, containing demographic data and well-being indicators aligned with the SDGs for all subnational governments across the 33 countries of the Community of Latin American and Caribbean States (CELAC). This database consolidates 47 standardized variables derived from national census data (Figure 1) and is publicly accessible through an interactive online platform.

Figure 1
Indicators available in the Atlas of local and regional governments in Latin America and the Caribbean



CAF in Action.
Scan the QR code to access the interactive visualization platform.

The number of subnational governments is considerable. As of the end of 2024, Latin America and the Caribbean had 18,236 local governments and 262 regional governments. Table 1 presents the number of units and their official designations at each level for each country. Thirteen countries have

both regional and local governments, while another 16 only have local governments. Four of the 33 CELAC countries—Barbados, Grenada, Saint Lucia, and Saint Vincent and the Grenadines, all in the Caribbean—do not have subnational governments.

Table 1
Number and names of subnational governments by country and level

Country	Regional		Locales	
	Number	Name	Number	Name
Antigua and Barbuda	-	-	1	Council
Argentina	24	Province	2,320	Municipality, commune, or governing board
Bahamas	-	-	32	District
Belize	-	-	217	Council or municipality
Bolivia	10	Department or autonomous region	341	Municipality
Brazil	27	State	5,569	Municipality
Chile	16	Region	345	Municipality
Colombia	33	Department	1,104	Municipality
Costa Rica	-	-	84	Canton
Cuba	-	-	168	Municipality
Dominica	-	-	42	Council
Ecuador	24	Province	221	Canton
El Salvador	-	-	306	Municipality or district
Guatemala	-	-	340	Municipality
Guyana	10	Regional democratic council	185	Municipality or council
Haiti	-	-	710	Commune or section
Honduras	-	-	298	Municipality
Jamaica	-	-	14	Parish
Mexico	32	State	2,475	Municipality
Nicaragua	2	Autonomous region	153	Municipality
Panama	-	-	82	District
Paraguay	17	Department	263	Municipality
Peru	25	Department	2,087	Province or district
Dominican Republic	-	-	393	Municipality or district
Saint Kitts and Nevis	-	-	1	Assembly
Surinam	-	-	10	District
Trinidad and Tobago	-	-	15	Assembly or municipal corporation
Uruguay	19	Department	125	Municipality
Venezuela	23	State	335	Municipality
Total	262		18,236	

Note: This table shows the number and most common names of subnational governments in 29 CELAC countries, distinguishing between regional and local levels. Haiti, El Salvador, Peru, and the Dominican Republic have two sublevels within the local government level, and the figures presented are the sum of both.

Source: Authors based on CAF data (2024).

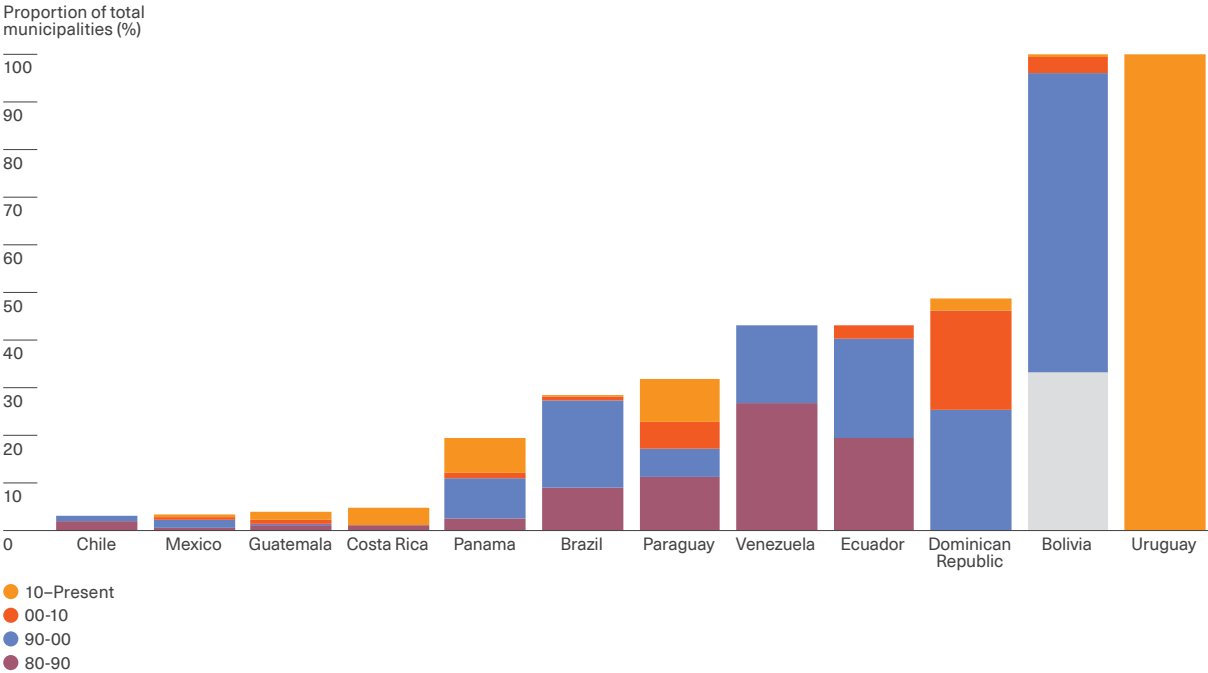
The countries that have both regional and local governments tend to be those with the largest land area and population. Among them, four are federal states: Argentina, Brazil, Mexico, and Venezuela. Throughout this report, the size of a country will emerge as a strong predictor of its level of decentralization. Notably, the three largest federal countries by land area—Argentina, Brazil, and Mexico—also have the most autonomous regional governments in LAC. Similarly, the largest unitary countries, such as Colombia and Peru, have granted significant autonomy to their subnational governments at both the regional and local levels.

The number of subnational administrations has expanded significantly over the past half-century, primarily due to the creation of new local governments. While this trend continues today,

its pace has slowed. In contrast, the number and boundaries of regional governments have remained much more stable over the same period.

Graph 1 illustrates the proportion of current local governments that were established in each of the past four decades across 12 countries. The 1980s and 1990s stand out as periods of rapid expansion, particularly in Bolivia, Brazil, Ecuador, Paraguay, and Venezuela. While the most intense phase of new local government creation occurred during these decades, the process did not come to a halt. Since 2010, new local governments have continued to emerge, particularly in Panama, Paraguay, and Uruguay. In the latter, as well as in Argentina, new municipalities were still in the process of being established at the end of 2024.

Graph 1
Proportion of current local governments created in the last four decades



Note: The graph illustrates the proportion of current local governments created in the periods 1980–1990, 1990–2000, 2000–2010, and from 2010 onward. In Bolivia, the creation dates of its 113 oldest municipalities could not be identified (represented in gray in the corresponding bar). The sources used to compile this graph are available in the appendix to Chapter 1 in the online edition of RED.

Source: Authors based on data from technical and methodological documents of national population censuses.

The rapid creation of new municipal units in LAC over the past half-century coincided with a period of strong population growth, which reached 80% between 1980 and 2023 (United Nations, 2024). In the coming decades, however, demographic growth is expected to slow, and the region's population could even begin to decline by the middle of the century. The experience of developed countries

that underwent this demographic transition earlier than LAC suggests that this new phase may drive municipal consolidation processes. In countries such as France, Greece, Japan, and the United Kingdom, slower population growth, combined with internal migration, led to the depopulation of certain areas, prompting consolidation efforts that reduced the number of municipalities by at least half.

Territorial challenges: High urbanization and big development gaps

Understanding the current challenges faced by subnational governments in Latin America and the Caribbean is key to identifying the areas where capacity development efforts should be prioritized. These challenges are shaped by the region's unique territorial characteristics. LAC is distinguished by vast, sparsely populated land areas alongside a highly urbanized population (Figure 2). This pattern means that many local governments manage territories with low population densities, while a smaller number administer urban areas with millions of residents. In numerical terms, half of the region's local jurisdictions have fewer than 10,000 inhabitants, whereas just 20% of them account for two-thirds of the total population.

Another feature of this spatial concentration is that within the universe of urban municipalities, a few very large cities dominate. These are often national capitals: the metropolitan areas of Chile, Costa Rica, El Salvador, Paraguay, the Dominican Republic, Suriname, and Uruguay contain at least 40% of their respective national populations. In other countries, urban concentration is distributed among a few major cities rather than a single dominant metropolis.

This extreme concentration in a handful of cities presents two major challenges addressed in this report. First, megacities often span multiple local jurisdictions, requiring strong coordination mechanisms to align policies across them. Second, high population density drives up housing costs and increases commuting times, posing significant challenges for urban planning, land-use regulation, and the management of mass public transportation systems. These issues are central to local government responsibilities and are examined in detail throughout the report.

Another defining characteristic of subnational territories in LAC is the presence of stark development disparities within countries. The incidence of poverty varies by more than 30 percentage points between regional jurisdictions in countries such as Bolivia, Brazil, Colombia, Mexico, and Peru (Panel A, Graph 2). Significant disparities also exist across local jurisdictions in multiple well-being indicators, including access to adequate sanitation (Panel B, Graph 2). One of the greatest challenges for countries in the region is reducing these wide gaps in well-being in a context where subnational governments have highly unequal capacities and access to resources.

Figure 2
Population density in Latin America and the Caribbean

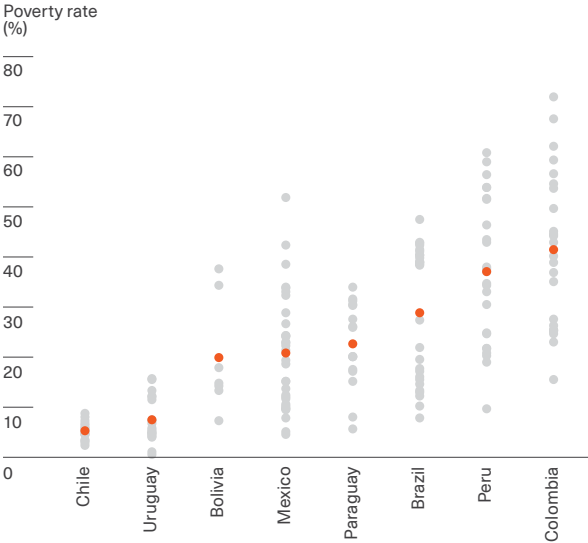


Note: The graph illustrates population density (inhabitants/km²) across local government territories in the region. For Argentina, Bolivia, Paraguay, and Uruguay, data is presented at the regional government level, while Belize, Guatemala, and Suriname are represented by administrative divisions that do not constitute formal governments. No subnational population or land area data is available for the Bahamas or Haiti.

Source: Authors based on data from CAF (2025).

Graph 2
Incidence of poverty and access to improved sanitation

Panel A.
Poverty based on household income



Panel B.
Access to improved sanitation



Note: In Panel A, the graph presents, at the regional government level, the poverty incidence based on household income, adjusted for price differences between countries using a purchasing power parity (PPP) index and a threshold of USD 6.85 per day. The data is derived from household surveys from 2022, the most recent available, with exceptions for Bolivia (2021) and Paraguay (2023). In orange, the national average is highlighted. Data is not available for all regional entities in Bolivia (seven out of nine), Colombia (24 out of 33), or Paraguay (16 out of 18). In Panel B, the graph geographically represents the proportion of households with access to improved sanitation services, defined as a connection to a public sewer system, a septic tank, or ventilated and improved latrines. In all cases, data is collected at the local government level, except for Argentina, Paraguay, and Uruguay, where figures correspond to the regional level. Territories of countries for which no data is available, were not analyzed, or do not have a subnational government are shaded in grey. The information is based on the most recent available population and housing census in each country, except for sanitation data in Paraguay, which was obtained from household surveys.

Source: Authors based on CAF data (2024) and household surveys.

The asymmetry in resources among subnational governments directly affects both the quantity and quality of the services they provide. The most immediate source of inequality stems from the fiscal resources available to each jurisdiction. Without central government transfers, the per capita tax revenues of the wealthiest jurisdictions would

far exceed those of the poorest. This pattern is also evident in the availability of skilled workers and access to technological resources—two fundamental cross-cutting factors that shape governance capacity. These issues are explored in greater depth in specific chapters of this report.

Global challenges with local and regional implications: Climate change and digitalization

Subnational governments face global challenges and have become key actors in addressing them. Two of these challenges stand out for their significance to subnational government action: the climate and biodiversity crisis and digitalization.

Subnational governments play key roles both in adapting to the impacts of climate change and in mitigating it by reducing greenhouse gas emissions and protecting biodiversity (Álvarez et al., 2024; Brassiolo et al., 2023). Adaptation efforts at the subnational level primarily focus on two areas. First, territorial planning and investments in resilient infrastructure help protect populations from extreme weather events such as floods and hurricanes. Second, as will be discussed later, subnational governments have multiple responsibilities in water resource management.

In terms of climate change mitigation, territorial planning is essential for protecting local ecosystems and the region's rich biodiversity. Additionally, local governments play a crucial role in reducing emissions during the energy transition by managing public transportation systems and regulating building construction.

Digitalization presents subnational governments with the challenge of harnessing its benefits while preventing it from becoming another driver of widening inequalities. Implementing digital technologies requires investments in infrastructure, software, and human resources—barriers that are particularly significant for smaller jurisdictions and less developed regions. National governments play a crucial role in ensuring that subnational administrations can harness the full potential of these technologies. This process begins with digitalizing administrative operations and expands to more advanced applications, including machine learning and artificial intelligence. Central administrations should take the lead in establishing common platforms and standards to integrate national and subnational management systems, helping to lower implementation costs. Additionally, targeted financial and technical support is essential to ensure that the most disadvantaged jurisdictions have equitable access to digital technologies.

Subnational government responsibilities

Subnational autonomy: A growing but uneven trend

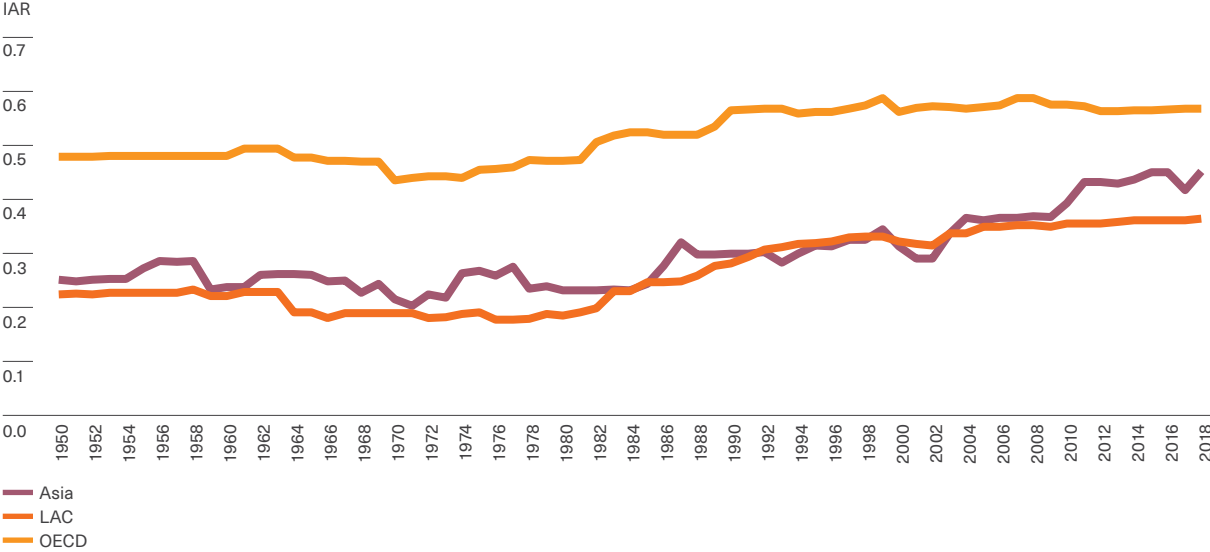
During the 1980s and 1990s, subnational governments in LAC not only increased in number but also gained greater autonomy. Data from the Regional Authority Index (RAI) developed by Hooghe et al. (2016) provides two key insights into this evolution and the current level of government decentralization in the region (see Graph 3). Although the index specifically measures regional jurisdictions, the analysis in this report suggests that the findings apply equally to the local level.

First, decentralization occurred in stages, with different dimensions of autonomy expanding in each decade. In the 1980s, amid a wave of democratization across the region, the residents of subnational jurisdictions began electing their own authorities, marking the first phase—political decentralization. Once political autonomy was established, the following decade saw a significant expansion of subnational government responsibilities through administrative and functional decentralization. The 1990s, for instance, witnessed major decentralization processes in education and health in Argentina, Brazil, Colombia, Mexico, and Peru.

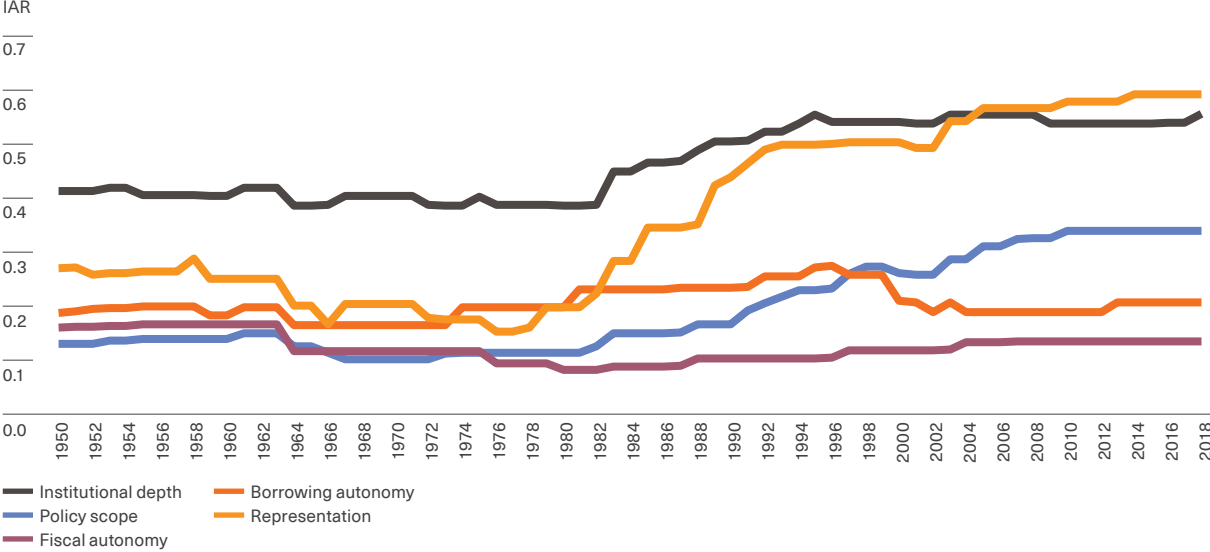
Second, despite the significant increase in political representation and responsibilities, regional governments in LAC remain far less autonomous than their OECD counterparts. A comparative analysis of the RAI's dimensions indicates that this disparity is largely due to limited decision-making power over taxation and borrowing. Panel B shows that fiscal autonomy remained largely unchanged throughout the period and remains low. This means that most regional governments in LAC lack the authority to set rates for key taxes, such as value-added taxes, income taxes, or corporate taxes. Conversely, subnational governments' borrowing autonomy increased between the mid-1970s and mid-1990s before declining. This reversal was driven by episodes of excessive indebtedness—for example, by the early 2000s, subnational government debt in Argentina and Brazil had reached approximately 20% of GDP.

Graph 3
Evolution of the self-rule component of the Regional Authority Index (RAI)

Panel A.
By regions



Panel B.
By component for LAC countries



Note: The graph shows, in Panel A, the evolution of the self-rule component of the RAI for the average of LAC (covering 20 countries), Asia (11 countries), and the OECD (20 countries) from 1950 to 2018. Panel B focuses on the dimensions that make up the index value for the group of LAC countries. The scale of values has been adjusted to range from 0 to 1. Only countries with complete data for the entire series were included. The index was calculated using the first level of regional government (tier 1 in the original database), except for Ecuador in 2018, where the second level (tier 2) was used to maintain comparability. This adjustment was necessary because, in that year, "provinces" (*provincias*) and "Galápagos" moved to the second level, while the first level was exclusively occupied by a new administrative division: Special Territorial District of the Amazon (*Circunscripción Territorial Especial Amazónica*).

Source: Authors based on data from Hooghe et al. (2016) and Hooghe & Marks (2016).

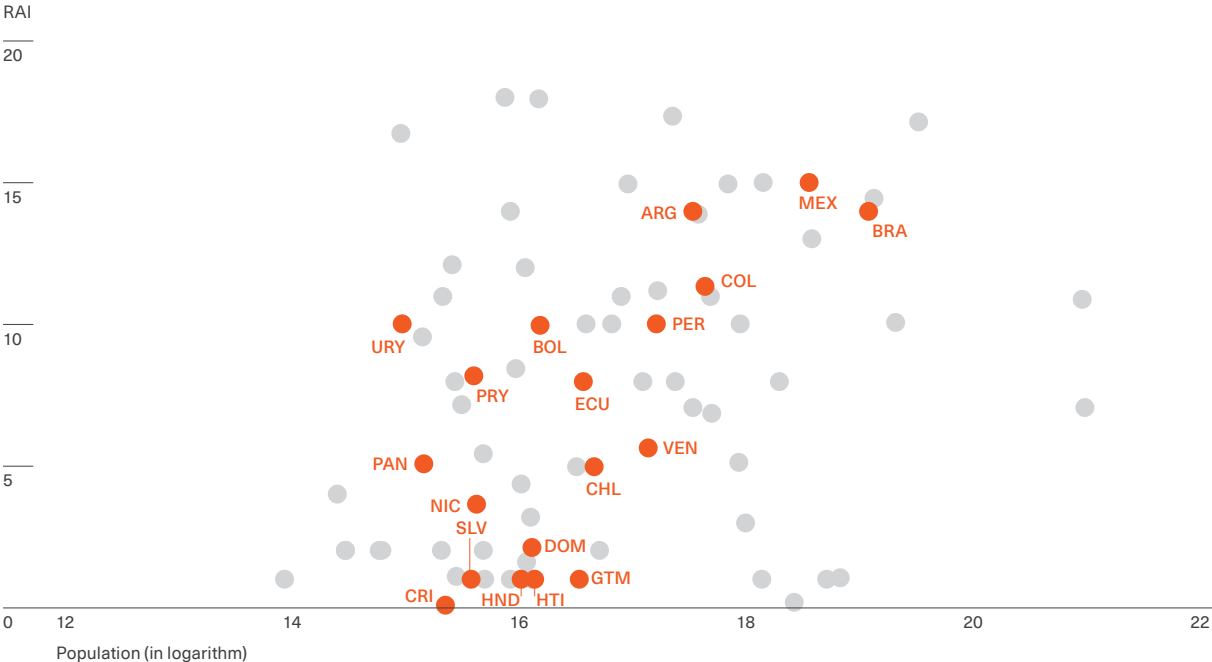
Subnational government autonomy tends to be greater in countries with larger land areas and populations (Graph 4). Argentina, Brazil, and Mexico—the three largest countries by land area and three of the four most populous—grant the highest level of autonomy to their regional governments. Brazil also stands out for having the local governments with the most extensive set of responsibilities in the region. Following these three, Colombia ranks highest in subnational autonomy; it is the third most populous country in the region, with both local and regional governments playing significant roles. The remaining South American countries exhibit intermediate levels of decentralization, whereas those in Central America and the Caribbean generally have very low levels of subnational autonomy.

The degree of subnational autonomy is not only heterogeneous across countries but also varies

within some nations. This phenomenon, known as asymmetric decentralization, is common in OECD countries, where nations such as Belgium, Spain, and Italy have regional governments with widely differing levels of autonomy. When designed effectively, asymmetric decentralization can help mitigate territorial inequalities in public service provision by granting greater autonomy to governments with stronger institutional capacities. However, unlike in the OECD, asymmetric decentralization at the regional government level is rare in LAC.

At the local level, some degree of asymmetric decentralization is observed in Argentina and Colombia. In the latter, the country’s Constitution explicitly allows for asymmetric decentralization, with local governments assuming substantial responsibilities in education and health service provision only when they reach a certain size or institutional capacity.

Graph 4
Self-rule component of the Regional Authority Index (RAI) and country population in 2018



Note: The graph shows the relationship between the self-rule component of the RAI and the natural logarithm of each country’s population, covering a total of 77 countries, including 19 from LAC.
Source: Authors based on data from the World Bank (2024), Hooghe et al. (2016), and Hooghe & Marks (2016).

Distribution of responsibilities across government levels

Modern states perform a vast array of functions. Table 2 groups these functions according to the level of government to which they are typically assigned. The lightest color indicates responsibilities that are always or predominantly managed by the national government, which is not the focus of this report. The darkest color highlights

responsibilities that are typically under the purview of local governments, which receive significant attention throughout the report. The middle section represents functions whose assignment varies from country to country, requiring a detailed examination to understand the degree of decentralization of responsibilities in each case.

Table 2

Distribution of functions by government levels broken down by typical responsibility

Always National	Defense and foreign relations	International trade Immigration
Mostly national	Technical and higher education	Social assistance and protection Electricity transmission
Mostly regional or national	Secondary education Regional road infrastructure	Health beyond primary care
Local, regional, or national	Preschool and primary education Water and sanitation	Security Primary health care
Mostly local	Urban transport	Waste disposal
Always local	Urban planning and land use regulation Licenses or permits for economic activities Cultural activities, sports, and local events	Maintenance and cleaning of public spaces Garbage collection Urban infrastructure: roads, lighting, and parks

Note: Education and healthcare refer to the public provision of these services.

Responsibilities of urban local governments

Local governments have a set of exclusive responsibilities, including territorial planning, maintaining public spaces, providing and maintaining the local road network, and waste collection. As discussed earlier, urban local governments serve the majority of the region's population, making their responsibilities particularly important.

By definition, urban areas concentrate a large number of people within a small geographic space. While this density offers numerous advantages in terms of productivity and quality of life, it also introduces significant costs—primarily the rise in housing prices and increased commuting times. The effectiveness of urban policy is often measured by how well local governments mitigate these costs,

which largely depends on two key functions: urban planning and transportation management.

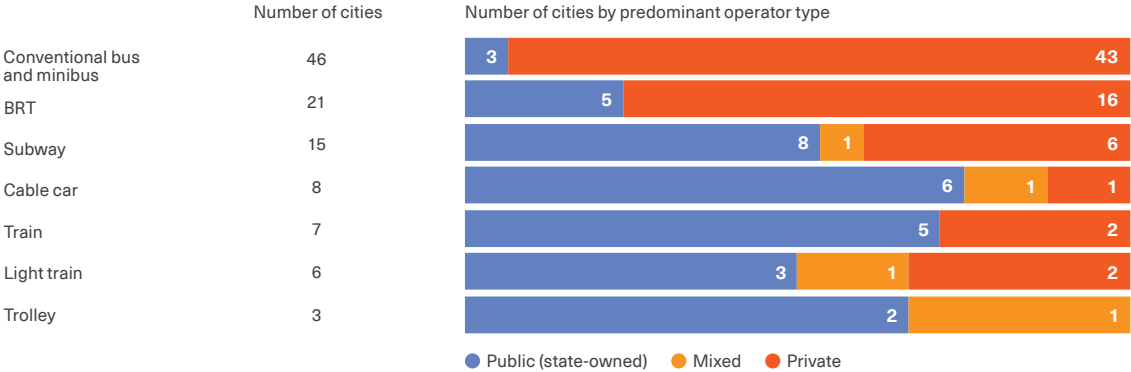
Urban planning influences housing affordability and commuting times in three ways. First, to keep housing affordable, land-use regulations within urban planning frameworks—such as height limits and minimum lot sizes—must not overly restrict construction. Second, residential zoning must ensure access to essential infrastructure (such as water and sanitation), as well as to schools, healthcare facilities, and recreational public spaces like parks and public squares. This requires aligning land-use planning with the provision of urban and social infrastructure. The third key role of urban planning is to ensure coordination between housing development and the location of transportation infrastructure.

Regarding urban transportation management, buses remain the only mode present in all major cities

and account for the highest share of trips, even in cities with alternative transport options. Local governments primarily engage in the regulation and planning of bus systems, with limited direct involvement in service provision (Graph 5).

Developing local government capacity in transportation management is essential for improving urban bus services, particularly in formalizing the widespread presence of informal and semi-formal transport providers. In modern, formalized systems, authorities play a highly active role in tasks such as designing contracts that define service parameters; selecting operators, ideally through competitive bidding processes; monitoring compliance with vehicle quality standards and service conditions; implementing centralized fare collection platforms; planning routes; and defining necessary investments

Graph 5
Predominant operator type by mode of transport in major cities in the region



Note: BRT refers to bus rapid transit. The graph shows the public passenger transport modes available in major cities in Latin America and the Caribbean in 2024. A total of 46 cities were analyzed, including all regional capitals and municipalities with over 1.5 million inhabitants (with a maximum of five additional municipalities per country). The full list of cities is available in the appendix to Chapter 6 in the online edition of RED.
Source: Authors based on websites of the Mobility and Transport Secretariats of the analyzed cities.

Developing this capacity requires substantial government investment in human and technical resources, along with infrastructure investments to support institutional reforms. Bus rapid transit (BRT) corridors have gained popularity in the region's largest cities and have been used as a tool to reorganize bus systems and advance their formalization. Notable examples include Bogotá, Mexico City, Lima, Quito, and Santiago de Chile.

Another area requiring significant investment in bus systems is fleet electrification. The sharp

decline in battery costs in recent years has made such investments increasingly cost-effective, with additional savings resulting from reduced air and noise pollution. The primary financial benefit comes from lower operating costs, as electric buses are cheaper to run; however, the initial investment required for vehicle replacement remains a significant challenge. Santiago de Chile, one of the region's leading cities in bus electrification, has addressed this issue with an innovative management model that separates vehicle ownership from operations.

The responsibilities of regional governments: A more diverse landscape

Unlike local governments, there are no tasks that inherently belong to regional or intermediate governments based purely on their scale. However, many responsibilities extend beyond the local level but become difficult to centrally manage in large, highly populated, or regionally diverse countries. This broad set of responsibilities includes, among the most significant, the administration of education and healthcare systems, public safety services, and the management of interurban road infrastructure.

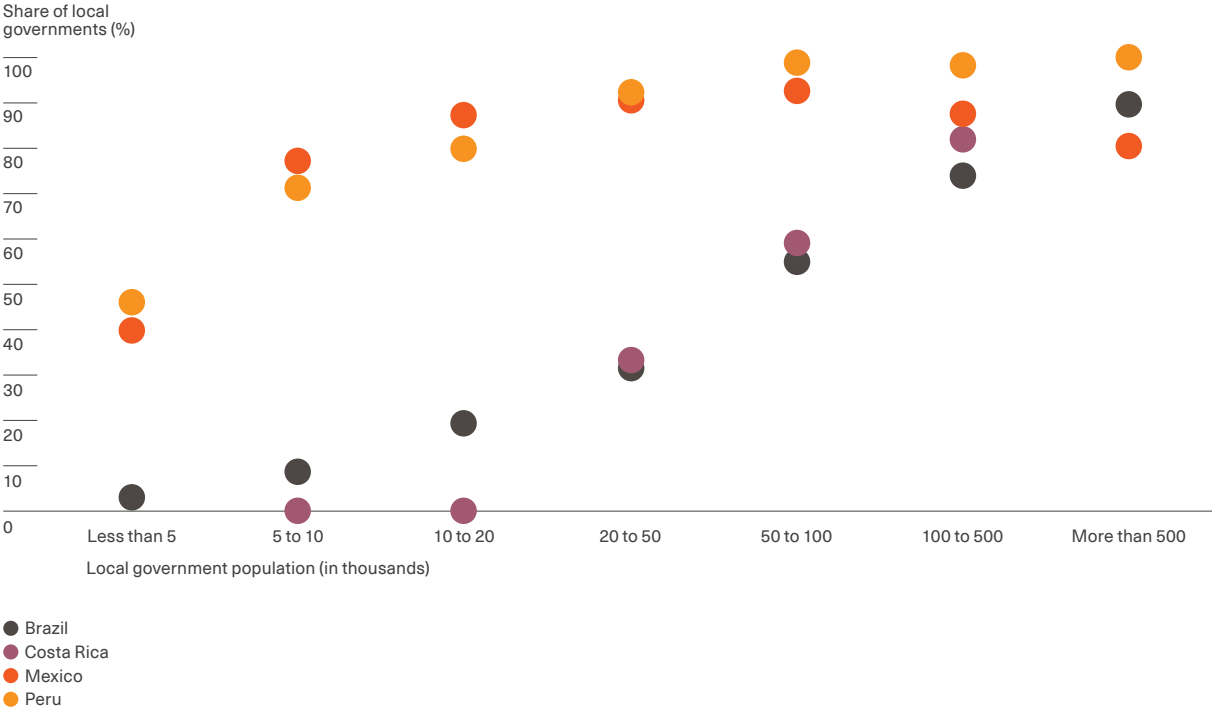
This division of responsibilities helps explain why local governments exist in nearly all countries in the region, whereas not all have a regional level of government. Territorial size is a key determinant of whether these intermediate levels of administration are present. Among the countries that do have regional governments, their roles vary significantly. In Chile, for instance, regional governments were only recently established and still play a limited role. At the other extreme, the federative units of Argentina, Brazil, and Mexico have broad authority and significant autonomy in all areas except those explicitly reserved for the central government, such as national defense or foreign trade. In fact, regional governments in federal countries have their own legal frameworks to regulate land use planning, intergovernmental finance, and the delegation of powers within their territories. For example, in Argentina, provincial governments set the criteria for establishing new municipalities or for leaving certain areas outside municipal jurisdiction.

As mentioned above, education, healthcare, and security are among the key sectors where regional governments are typically involved. However, the way responsibilities are distributed across these sectors is highly complex and varies widely. A general trend is that decentralization tends to be greater for less complex and smaller-scale functions. For instance, primary schools are typically more decentralized than secondary schools, and primary healthcare services are more decentralized than hospital care. In Brazil, for example, local governments manage primary education, while regional governments oversee secondary education. A similar structure is found in Colombia, where municipalities handle primary healthcare, while hospitals fall under the jurisdiction of regional departments. Even within a given sector, some responsibilities are decentralized while others remain under national control. In education, for example, it is common for national governments to delegate teacher management to lower levels of government while retaining control over curriculum design.

The territorial organization of police services is particularly relevant given the significant security challenges faced by LAC countries. This organization varies widely across the region. On one hand, it follows the general pattern in which regional governments play a larger role in bigger countries. For example, in Argentina, Brazil, and Mexico, the primary police forces operate at the regional level. Conversely, in smaller countries, only national

police forces exist. On the other hand, the security sector also presents examples of asymmetric decentralization at the local level. In Brazil, Costa Rica, Mexico, and Peru, for instance, only the largest municipalities have their own local police forces (see Graph 6). These local police forces tend to focus more on prevention and surveillance rather than direct law enforcement.

Graph 6
 Proportion of local governments in Brazil, Costa Rica, Mexico, and Peru with police forces by population size



Note: The graph shows the percentage of local governments with police forces (also referred to as civil or urban guards), categorized by population size.
Source: Authors based on data from CAF (2025), IBGE (2021), INEGI (2023), INEI (2023), and UNGL (n.d.).

Overlapping functions and the costs of uncertainty

In some cases, the allocation of responsibilities for a specific function is unclear, leading to uncertainty and potential duplication of efforts across different levels of government. One example is Peru, where the decentralization process assigned responsibilities for primary education management to both local and regional governments, resulting in significant overlap and discrepancies between de jure and de facto governance (Apostolou et al., 2010). A lack of clarity regarding which authority is ultimately responsible can create inefficiencies and negatively impact service delivery quality.

The water and sanitation sector, which also falls within the intermediate category in Table 2, is another area where this issue frequently arises. A recent study found that legal uncertainty between local and regional governments in Brazil regarding ultimate responsibility led to underinvestment in network expansion and water connections (Kresch, 2020). Resolving this uncertainty through legislative reform improved infrastructure and resulted in a reduction in infant mortality rates. This case highlights the critical importance of clearly defining responsibilities between government levels to ensure effective service provision.

Management capacity in subnational governments

Organizational arrangements for service delivery: Lessons from the water and sanitation sector

Water and sanitation services are among the most significant tariff-based services influenced by subnational governments. In nine of the 22 countries for which data was collected, local governments are responsible for service provision, while in two others, the responsibility lies with regional administrations. In the remaining cases, it is managed at the national level.

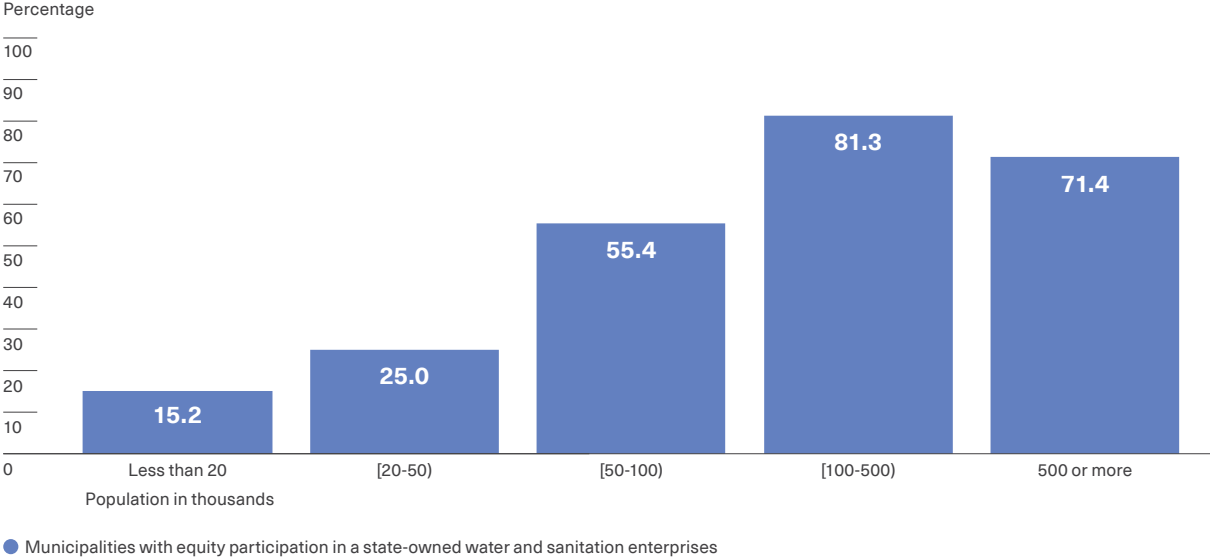
Over the past decades, significant progress has been made in expanding household access to drinking water across the region. However, service quality deficits persist, and sanitation coverage gaps remain substantial. As a result, improving operational efficiency in the sector continues to be a pressing challenge. A key recommendation in this regard is the adoption of more effective management models. In some cases, this may involve consolidating small-scale providers into larger entities, as existing assessments consistently indicate that the sector remains highly fragmented in several countries across the region.

Alongside this consolidation, strengthening the professionalization and autonomy of service providers is also crucial. Water and sanitation services are often managed by municipal administrations with limited technical and human resources. In such cases, state-owned enterprises can provide a more efficient management model, particularly for maintaining public control over service provision. Available data shows that public enterprises are more commonly involved in service provision in larger municipalities, as illustrated in Graph 7 for the case of Peru.

However, the efficiency of public enterprises is not guaranteed—it largely depends on the strength of their corporate governance, an area where significant improvements can still be made.

Graph 7

Percentage of Peruvian provincial municipalities with ownership in state-owned water and sanitation enterprises by population size



Source: Authors based on SUNASS (2022).

One of the risks associated with the lack of political autonomy in service providers is that tariff subsidies—common in this sector—may be implemented at the expense of financial sustainability. In various contexts and sectors, a pattern of delayed tariff adjustments and leniency toward non-payment has been observed, leading to operational deficits for service providers, reduced investment, and declining service quality (Burgess et al., 2020; McRae, 2015).

Sectoral tariff policies also play a key role in shaping adaptive responses to climate change, which directly impacts water availability. Tariffs can be used not only as a mechanism to signal resource scarcity during periods of water stress but also proactively by incorporating special charges to fund resilience and adaptation projects. Operators and regulators in several countries across the region have already begun integrating these considerations into their tariff structures.

Interjurisdictional coordination mechanisms

Coordination among subnational governments is essential in many contexts, both to mitigate inter-jurisdictional externalities and to gain efficiency through joint service provision and

policy harmonization. The value of coordination is particularly high in metropolitan areas, where administrative fragmentation is common. In the region, 53 cities have populations exceeding 1.5

million, and each is divided, on average, into 17 jurisdictions, with one core jurisdiction housing 52% of the population. While these levels of fragmentation are not unusual in comparative terms with other regions—indeed, they are lower than those observed in North America and Europe—they still pose challenges in land-use planning, operational coordination, and the financing of public services.

The challenges associated with administrative fragmentation can be mitigated when formal cooperation mechanisms exist between jurisdictions. One approach is the creation of metropolitan authorities, which are relatively common in the region, particularly in countries with many large cities, such as Argentina, Brazil, Colombia, and Mexico. A widely recognized success story is the Aburrá Valley Metropolitan Area in Colombia. However, the broader regional landscape reveals that these institutions often have limited institutionalization and operational capacity, primarily due to their low functional and fiscal autonomy. Additionally, the political economy of metropolitan governance is complex, as expanding

their scope of action typically reduces the authority of existing jurisdictions.

Alternatively, jurisdictions can engage in sector-specific coordination agreements to manage certain government functions collaboratively. Transportation provides several examples of such arrangements, but similar cooperative efforts exist in solid waste management, healthcare, and public safety. For these partnerships to be effective, clear legal frameworks must be in place to reduce uncertainty and define the structure and scope of cooperation.

Interjurisdictional cooperation also plays a key role in aligning policy positions, facilitating mutual learning, and developing joint solutions. In most countries, municipal and regional government associations serve this purpose. There are also valuable international initiatives in this regard. For example, the BiodiverCities Network, led by CAF, promotes a model of urban governance that prioritizes biodiversity while strengthening local governments' capacity to implement it.

The challenge of building subnational bureaucracies

Bureaucracy is a crucial dimension of state capacity at any level of government. Decentralization brings the challenge of developing a public administration workforce capable of managing the increasingly complex responsibilities undertaken by local and regional governments.

As expected, the share of public sector employment at the subnational level is closely linked to a country's degree of decentralization. In Argentina, Brazil, and Mexico, more than 75% of public sector employees work at the subnational level, whereas in Costa Rica, the Dominican Republic, and Panama, the proportion is below 25%.

Unfortunately, there is limited systematic knowledge about the composition of subnational bureaucracies and the human resource

management processes within local and regional administrations. This knowledge gap is primarily due to the lack of comprehensive databases characterizing subnational public sector employees. Although few studies exist, available evidence suggests high staff turnover rates and widespread clientelistic hiring practices, both of which are characteristic of low levels of professionalization in the civil service.

Low professionalization does not necessarily stem from regulatory gaps but rather from two key challenges in building high-quality subnational bureaucracies. First, weaker democratic institutions at the local level make it easier to use public sector employment for political purposes. Local political systems tend to be less competitive than national ones, more vulnerable to elite capture and subject

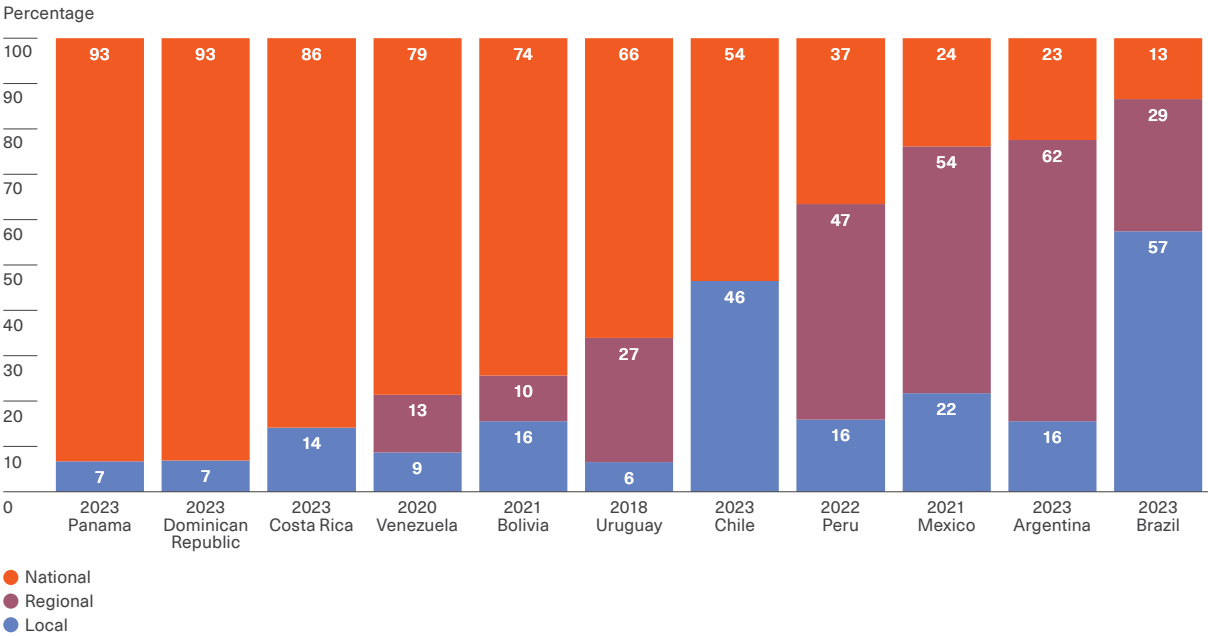
to less scrutiny from oversight bodies, the media, and the public. Second, a limited supply of skilled workers outside major cities poses an additional challenge, as public administrations rely heavily on qualified professionals. This makes it more difficult for subnational administrations to recruit talent, especially in remote areas.

To improve hiring practices, the use of competitive selection processes should be expanded, replacing discretionary appointment methods. These processes result in better-qualified workers and improved public services. Attracting highly qualified candidates also requires offering competitive salaries. In the four countries where comparisons are available (Bolivia, Brazil, Mexico, and Uruguay), subnational government salaries exceed private sector wages by 10% to 20% within the same

region. However, evidence suggests that this wage advantage disappears at higher-ranking positions, and salary levels remain a constraint in attracting high-quality candidates, particularly in remote areas.

Training programs also play a crucial role in developing the competencies of public sector employees. Many countries in the region have dedicated agencies for this purpose. For example, Chile, Colombia, and Mexico have national public administration schools that coordinate a wide range of training programs, including academic courses, for both national and subnational government employees. Strengthening training programs has also been a central component of CAF’s approach to strengthening subnational administration capacity.

Graph 8
Public sector employment by level of government in Latin American and Caribbean countries



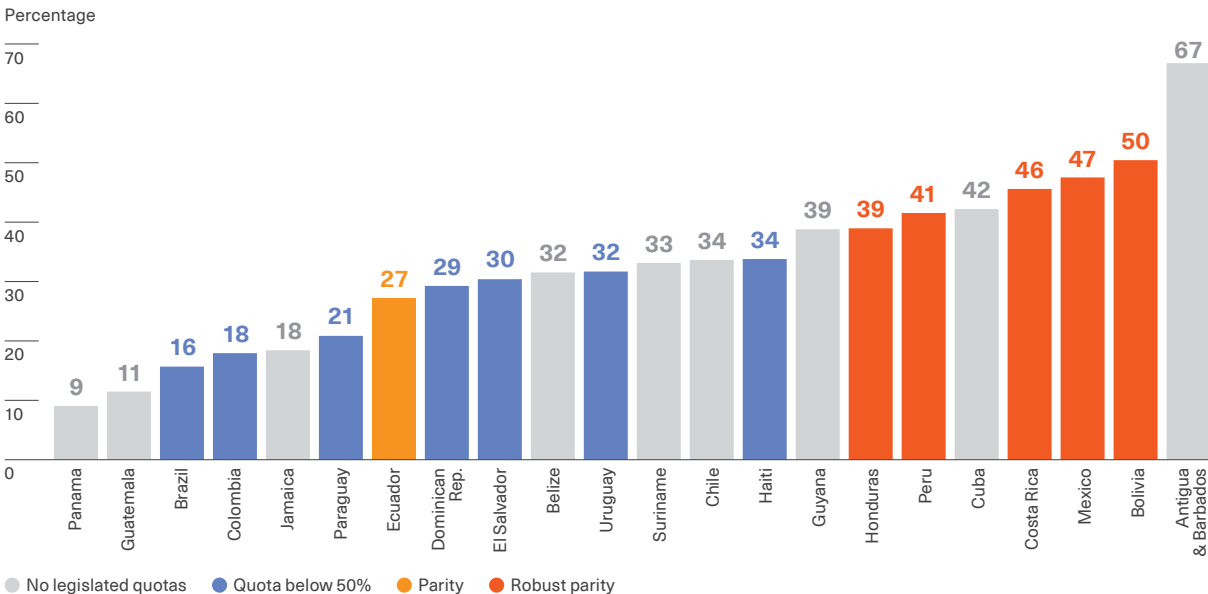
Note: Data from the International Labour Organization (ILO) is based on standard international definitions from the International Conference of Labour Statisticians (ICLS), 13th revision. These data include employment within general government (as defined in the 1993 System of National Accounts) at the central, regional, and local levels, excluding publicly owned enterprises and companies. In Brazil, Uruguay, and Venezuela, these figures include employment in social security, based on ILO criteria related to the administrative and financial integration of this sector with the corresponding government levels. For further details, refer to the descriptions in the Labour Force Statistics (LFS, STLFS, RURBAN Databases) provided by ILO (n.d. a).

Source: ILO (n.d. b) for all countries except Argentina and Chile. For Argentina, Iacoviello et al. (2024), and for Chile, Applied Audit Unit (2024).

Finally, another important aspect of subnational bureaucracies is their level of inclusion and the extent to which they reflect the populations they serve. Only three countries (Bolivia, Brazil, and Uruguay) have surveys that allow for an analysis of the ethnic composition of public sector employees. The report shows that in these countries, the participation of different ethnic groups is similar in both national and subnational governments, though traditionally disadvantaged groups are more concentrated in lower-level occupations.

There are also significant gender gaps, both in terms of political participation and wages. Women account for between 40% and 50% of subnational public sector employment; however, their presence in elected positions is much lower (see Graph 9). In most countries, women hold less than 40% of seats in local deliberative bodies and less than 30% of municipal leadership positions. Although public sector gender wage gaps tend to be smaller than those in the private sector, they are generally larger in subnational bureaucracies than at the national level.

Graph 9
Elected seats held by women in deliberative bodies of local government in 2023



Note: The type of quota referred to is for candidates, which establishes the minimum proportion of women to be included on electoral lists. “Robust parity” refers to 50% participation goals for women, including classification or placement rules and strict sanctions, such as rejection of lists that fail to meet quota requirements. In Ecuador, parity quotas only apply to candidate lists for multi-member constituencies, and in Colombia, quotas apply only to deliberative bodies with more than five seats.

Source: Authors based on ECLAC (2021; 2023), UN Women & ECLAC (2023), and Urban et al. (2008).

Digital transformation at the subnational level

Another pillar of capacity building in public administration is the application of digital technologies and solutions in government management. Digital tools can help subnational governments improve their operations in three key areas: first, internal administrative processes; second, the administrative procedures carried out by citizens and businesses; and third, the management of urban services through the deployment of technology in the territory.

Some of the internal processes that can be improved through technology include cadastral management, financial administration, and public procurement. In the case of cadastres, the first step is converting them into an electronic format, a transition that most, but not all, local governments in Mexico and Brazil have completed. Among other advantages, this facilitates regular updates to cadastral information, which can result in better real estate tax collection, as evidenced in Colombia (Martínez, 2023).

Regarding interactions with citizens and businesses, digitalizing administrative procedures is essential to reducing processing times and transaction costs. The ideal approach is not just to digitalize procedures but also to simplify them in a broader sense, for example, by offering one-stop shops for traditionally complex processes such as business registration and construction permits. This remains an area where significant progress is needed. In Mexico, one of the countries with the most comprehensive data on this issue, only 10% of municipalities offer at least one online administrative procedure, and in most cases, these services are purely informational rather than transactional.

Another area of digital transformation for subnational governments involves the adoption of new technologies for urban service management. The deployment of technology such as sensors, cameras, and geolocation systems, combined with machine learning and artificial intelligence, enables faster response times and more comprehensive monitoring of issues such as traffic, public transportation, natural disasters, and security. To

centralize and process the high-frequency data collected from devices in the territory, sometimes combined with external data sources, monitoring centers are typically established. Although progress has been gradual, many local governments have begun adopting these systems. In Brazil, 11% of municipalities had an operational control center in 2019, including more than half of those with populations exceeding 100,000 inhabitants.

Despite the benefits of investing in data use and information technologies, adoption remains low and is primarily concentrated in more populous and wealthier jurisdictions. Several factors explain this pattern: high costs that do not justify investment in smaller municipalities, organizational barriers, and even political economy constraints.

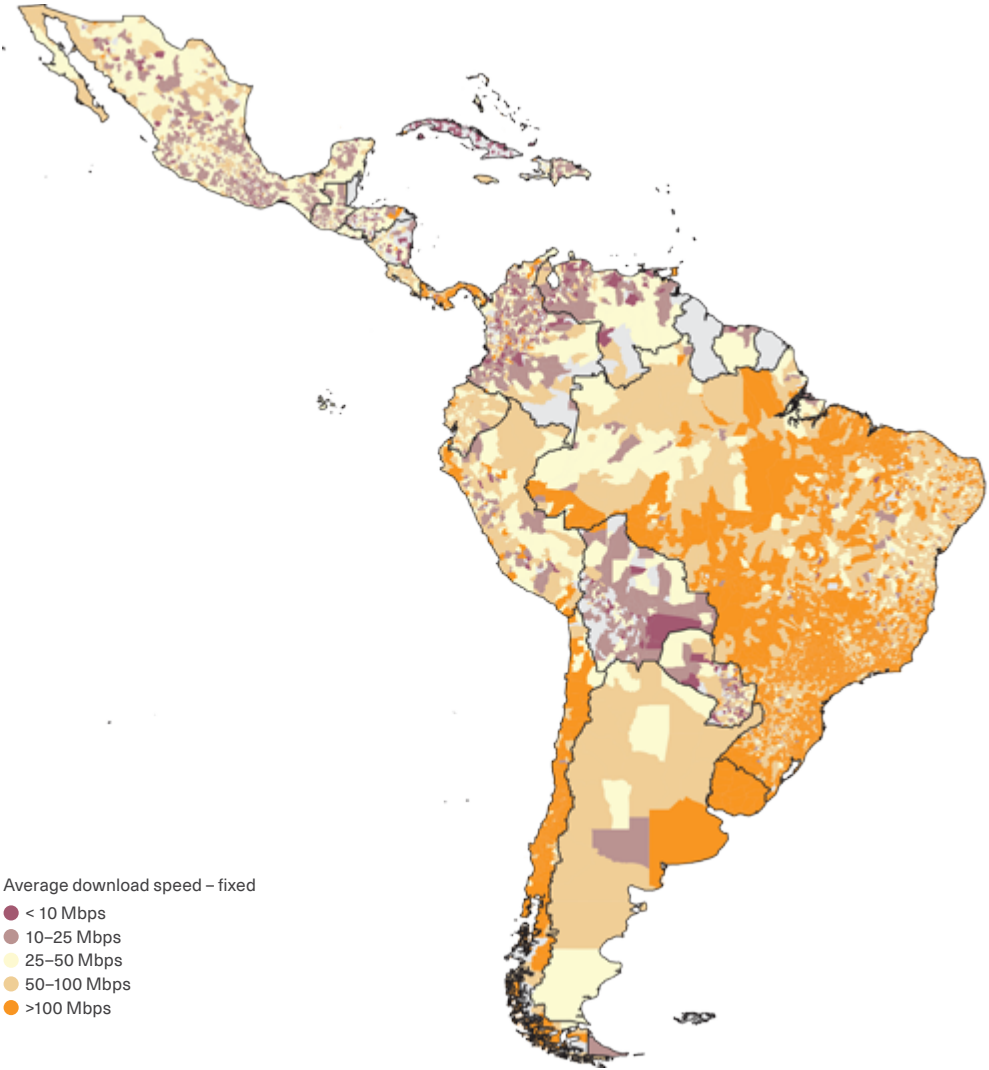
National governments play an important role in promoting the broader adoption of these technologies by developing regulatory frameworks and digital transformation strategies and offering standardized programs and templates. Central governments must also ensure that improvements in digital services for citizens are harmonized across different levels of government. This helps enhance user experience by eliminating the need to repeatedly input data across multiple platforms and ensures system compatibility. Certain cross-cutting services, such as digital identity and electronic signatures, are best provided centrally.

Another key aspect of accelerating digital transformation is closing gaps in connectivity and digital skills among the population. With exceptions like Chile and Uruguay, most countries in the region exhibit significant geographic disparities in internet quality. Twenty-two percent of jurisdictions have fixed broadband speeds below 25 megabits per second (Mbps), making it difficult to perform basic online activities such as downloading files, emails, or conducting video calls (see Figure 3). Mobile connectivity, the most commonly used form of internet access, is typically worse: in the average jurisdiction, mobile download speeds are 50% lower than fixed broadband speeds, and in 37% of jurisdictions, they are below 25 Mbps.

Measurements of basic digital skills (such as copying or moving files or sending emails with attachments) show that only 28% of the population in Latin America and the Caribbean possesses these competencies, compared to 64% in OECD countries (Dalio et al., 2023). Moreover, digital skills vary

geographically and are correlated with education levels. In this context, digital inclusion policies and programs, as well as investments in internet connectivity infrastructure, are crucial. This has been one of the areas in which CAF has supported subnational governments in recent years.

Figure 3
Average download speeds of fixed connectivity in 2023 for local and regional governments in Latin America and the Caribbean



Note: The map presents average download speeds in 2023, measured in megabits per second (Mbps). Data comes from OOKLA (2023), which collects speed test results from users with GPS-enabled devices connected via Wi-Fi and Ethernet.

Source: Authors based on OOKLA (2023) and CAF (2025).

Subnational public finances

Decentralization of expenditures and investment

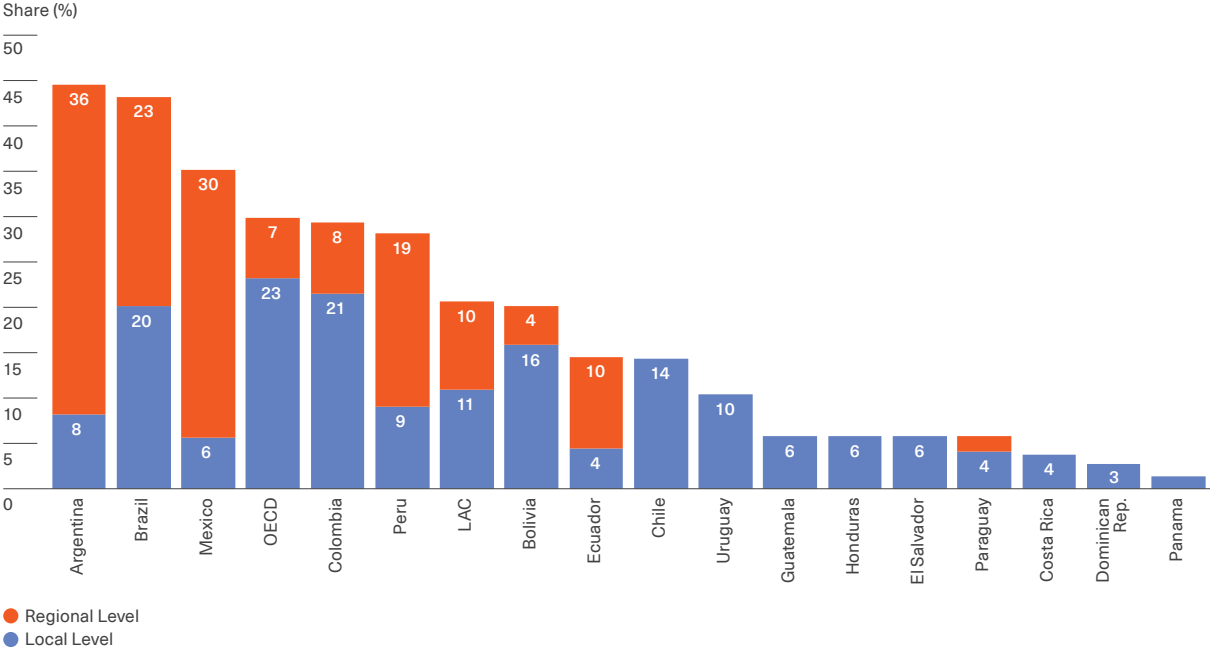
Decentralization in recent decades has been accompanied by an increase in spending executed by subnational governments. A comparison across countries reveals the same pattern observed in previous sections: the share of total public spending at the subnational level ranges from 30% to 40% in federal countries, around 20% in Colombia and Peru (large unitary states), and falls below 5% in smaller countries (see Graph 10). As a percentage of GDP, subnational spending varies from approximately 20% in Argentina and Brazil to less than 5% in Chile, Ecuador, Uruguay, and most Central American and Caribbean countries. Using either measure, the average level of subnational spending in the region remains below that of the OECD.

A significant share of total public spending consists of current expenditures. This means that when subnational governments execute a large proportion of spending, it is often because they bear major current expenditure responsibilities, particularly in education, healthcare, and security, which involve managing large payrolls. In fact, in the most decentralized countries, these three sectors account for nearly 50% of subnational spending, much of which occurs at the regional level.

While capital expenditures represent a smaller share of total spending, they tend to be more decentralized than current expenditures. In highly decentralized countries such as Argentina, Brazil, and Peru, subnational governments are responsible for more than 50% of public investment. However, even in countries with lower overall decentralization, regional and local governments still execute a considerable share of public investment—over 50% in Bolivia and more than 20% in Guatemala and Honduras.

The prominent role of subnational governments in capital spending is significant because, although limited, evidence suggests that the efficiency of the projects they implement tends to be lower than that of national governments. These quality deficits are linked to greater challenges in the design and planning stages of subnational projects, indicating that investing in the development of these capacities could be highly beneficial.

Graph 10
 Composition of aggregate public spending by level of government, 2022



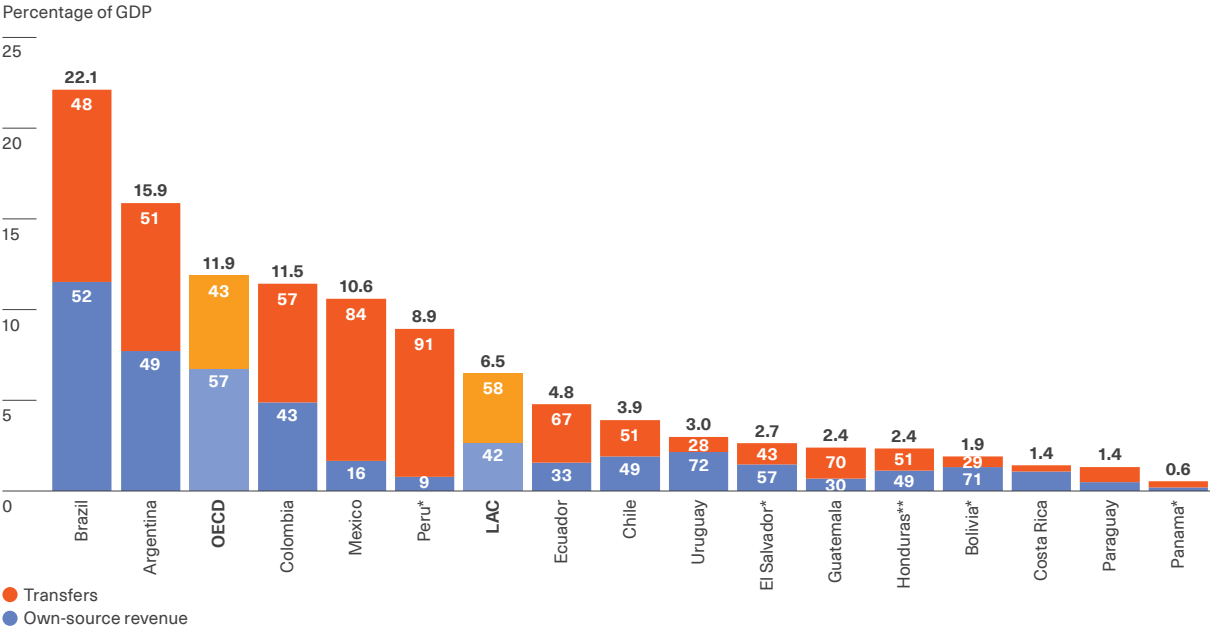
Note: Data corresponds to 2021 for Peru and Panama and 2020 for Honduras.
Source: Authors based on national sources for Argentina (MECON, 2023), Bolivia (UDAPE, 2023), the Dominican Republic (DIGEPRES, 2023), Ecuador (BCE, 2023) and Uruguay (MEF of Uruguay, 2023; OTU, 2023a), and IMF (2024a) for the remaining countries.

Determinants of expenditures and the role of transfers in subnational revenues

It is important to emphasize that subnational governments do not have full autonomy over their spending. Various mechanisms place constraints on their expenditures, including fiscal rules, expenditure floors and ceilings for specific functions or budget categories, and earmarked transfers. Fiscal rules primarily aim to limit spending and borrowing to prevent chronic deficits and fiscal crises. Centrally imposed spending floors are designed to ensure that certain sectors receive a guaranteed level of investment; for example, states and municipalities have minimum spending thresholds (as a proportion of their revenues) for education and healthcare.

Earmarked transfers also constrain subnational fiscal autonomy by providing funds that must be used for specific purposes. These transfers are also significant in quantitative terms, as they represent, on average, 58% of subnational government revenues in the region (see Graph 11). By comparison, in the OECD, the share is 49%, a level similar to that of Argentina, Brazil, and Chile. However, other countries in the region rely much more heavily on transfers, particularly Mexico and Peru, where own-source revenues account for less than 20% of subnational resources.

Graph 11
 Fiscal revenues of subnational governments in LAC countries, 2022



Note: The graph reports the total revenues of subnational public sectors as a percentage of national GDP. Following the IMF manual (2014), “own-source revenues” include tax revenue and non-tax revenue, such as property income; sales of goods and services; fines, penalties, and forfeits; and premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes. “Transfers” include grants and transfers not elsewhere classified. Social security contributions and other social contributions are excluded. Data for Argentina, Brazil, Colombia, Mexico, Paraguay, and Peru pertains to subnational governments (regional and local). Data for Bolivia, Ecuador, and Uruguay covers regional governments. For Chile, Costa Rica, El Salvador, Guatemala, Honduras, and Panama, data pertains to local governments. * Indicates the latest available data is from 2021. ** Indicates the latest available data is from 2020.

Source: Authors based on national sources for Argentina (MECON, 2023), Bolivia (MEFP, 2023), and Uruguay (OTU, 2023b) and IMF (2024c) for the other countries.

The report analyzes 38 transfer schemes from national to subnational governments in 15 countries across the region. On average, 62% of these transferred funds are subject to spending conditions. As expected, earmarked transfers play a larger role in unitary states than in federal countries. While education and healthcare frequently appear as designated sectors, investment-targeted transfers are the most significant. These represent 24% of the transfers received by regional governments and 41% of those received by local governments.

Revenues from non-renewable natural resources (NRNR) are typically among the resources earmarked for investment spending. While they do

not exist in all countries, these revenues are critical for some jurisdictions: over 50% of total revenues in Bolivia’s regional governments; more than 30% of total revenues in Peru’s local governments; and nearly 10% of total revenues in Colombia’s regional governments.

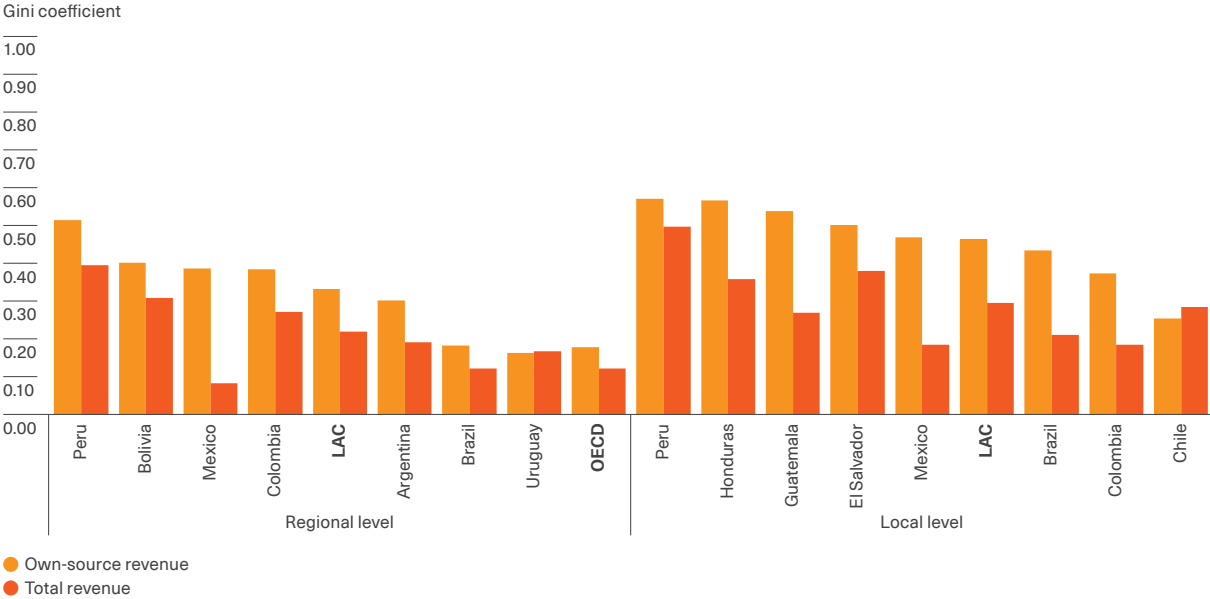
The rules governing the distribution of royalties and NRNR governance frameworks can create inter-jurisdictional tensions. To capitalize on the opportunities presented by the energy transition, it is crucial to balance these tensions while establishing conditions that encourage production in areas with deposits of critical minerals for electrification (such as copper and lithium) and natural gas (Álvarez et al., 2024).

Transfers and subnational governments' own revenues

Transfers as a means of financing subnational governments have both advantages and disadvantages. Their main advantage is that they help reduce disparities in own-source revenue collection across jurisdictions. The Gini index of per capita own revenues within a country averages 0.33 for regional governments and 0.46 for local governments (see Graph 12). When total revenues—including transfers—are considered, these values

drop to 0.22 and 0.30, respectively, indicating that transfers reduce the Gini index by about one-third. Intergovernmental transfer systems in OECD countries achieve a similar proportional reduction in inequality. However, final inequalities in fiscal revenues between jurisdictions are much greater in LAC because they originate from wider initial gaps in own-source revenue.

Graph 12
Gini coefficient of per capita fiscal revenues for subnational governments in Latin America and the Caribbean, 2022



Note: Data for Bolivia correspond to 2021. The averages for LAC and OECD are simple averages of the countries with available data for the most recent year. Mexico and Colombia are excluded from the OECD average calculation. Gini coefficients were calculated by weighting each jurisdiction's population.
Source: Authors based on OECD (2024) and national sources (see Table A.5.1 in the appendix to Chapter 5, available in the online edition of the RED report).

Although transfer-based financing reduces territorial inequalities, it also has downsides. The most significant drawback is that strong evidence indicates that transfer-based funding lowers spending quality and weakens accountability to citizens, compared to revenue raised directly by subnational governments. This is a key argument for promoting own-source revenue generation, particularly in jurisdictions with high vertical fiscal imbalances.

However, there are limits to what subnational governments can do to generate own revenues. In addition to weak tax collection capacities, they have low tax autonomy. Several factors explain this, including political incentives at both national and subnational levels. For national administrations, maintaining a high reliance on transfers serves as a political bargaining tool and a channel of influence. At the same time, subnational authorities benefit from avoiding the responsibility of designing and implementing unpopular tax reforms that could have electoral costs.

Own revenue

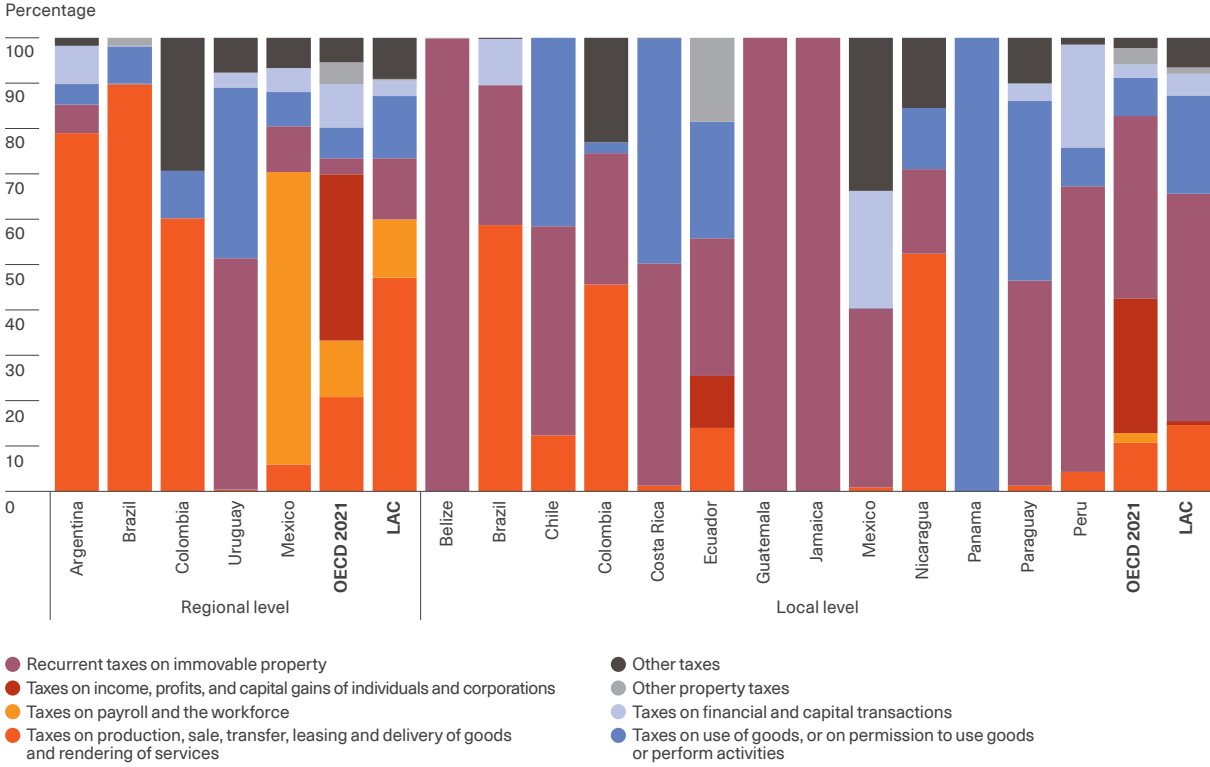
There are notable differences between the taxes collected at the subnational level in LAC and the OECD (see Graph 13). The main difference is that personal income tax collection at the subnational level is almost nonexistent in LAC, whereas in the OECD, it accounts for 30% of local tax revenues and 37% of regional tax revenues.

Income tax is costly to administer because it requires collecting individual tax returns from a large number of taxpayers and often involves complex deduction schemes. For this reason, it is common in the OECD for subnational governments to leave tax collection to the central tax authority while imposing an additional rate on the national tax base (Bird, 2010). This approach is limited in Latin America and the Caribbean due to the traditionally weak administration of the national income tax. As a result, expanding subnational income tax collection requires first strengthening national tax systems.

In contrast, immovable property taxes account for a larger share of local government own revenues in LAC (50%) than in the OECD (40%). This tax has the advantage of being less distortive to economic decisions since it is levied on an immobile productive asset. However, while real estate taxes represent a greater share of own-source revenues in LAC, local governments in OECD countries generate more tax revenue relative to GDP, including from real estate taxes. This suggests there is room to increase tax revenues in Latin American and Caribbean countries.

Despite its advantages, successfully implementing real estate tax involves overcoming significant challenges. One major difficulty is the cost of updating the tax base, which is tied to property valuations, though advances in digital technologies have helped lower these costs. Additionally, the design of this tax must account for liquidity constraints, as some households may struggle to afford the payments. Another challenge is that real estate taxes are highly visible, making them particularly unpopular among taxpayers. Establishing stable and transparent update mechanisms can help make revenue increases from this tax more politically feasible.

Graph 13
Composition of main tax revenue categories in total tax revenues, 2022



Note: The average in Latin America and the Caribbean is calculated as the simple average of percentages across countries. The OECD average represents the simple average of member countries. In the local government panel, Bolivia, El Salvador, and Honduras are excluded because the “other taxes” category accounts for over 50% of their revenues.

Source: Authors based on OECD (2023).

The lower reliance on income tax in LAC, particularly at the regional government level, has been offset by a greater use of tax instruments that are more distortionary to economic activity. This includes gross receipts taxes on sales of goods and services, which are widely used in Argentina and Colombia, as well as Brazil’s Tax on the Circulation of Goods and Services (ICMS). By design, these taxes hinder the traditional efficiency gains associated with the fragmentation of production processes across different entities and jurisdictions. Another example of a distortionary tax is the payroll tax, which serves as the primary source of tax revenue for Mexico’s state governments. While this tax also exists in OECD countries, taxing

formal employment carries significant costs in LAC, particularly by discouraging formalization. This issue is especially relevant in Mexico, where informality levels are high relative to GDP per capita (Álvarez et al., 2020).

Despite their distortive effects, taxes like gross receipts and payroll taxes are not directly perceived by the public. Their low visibility helps explain their continued use by authorities.

In addition to strengthening real estate tax collection and exploring the possibility of advancing subnational income taxation, there are opportunities to expand the role of taxes that target socially costly behaviors. Examples include excise taxes on

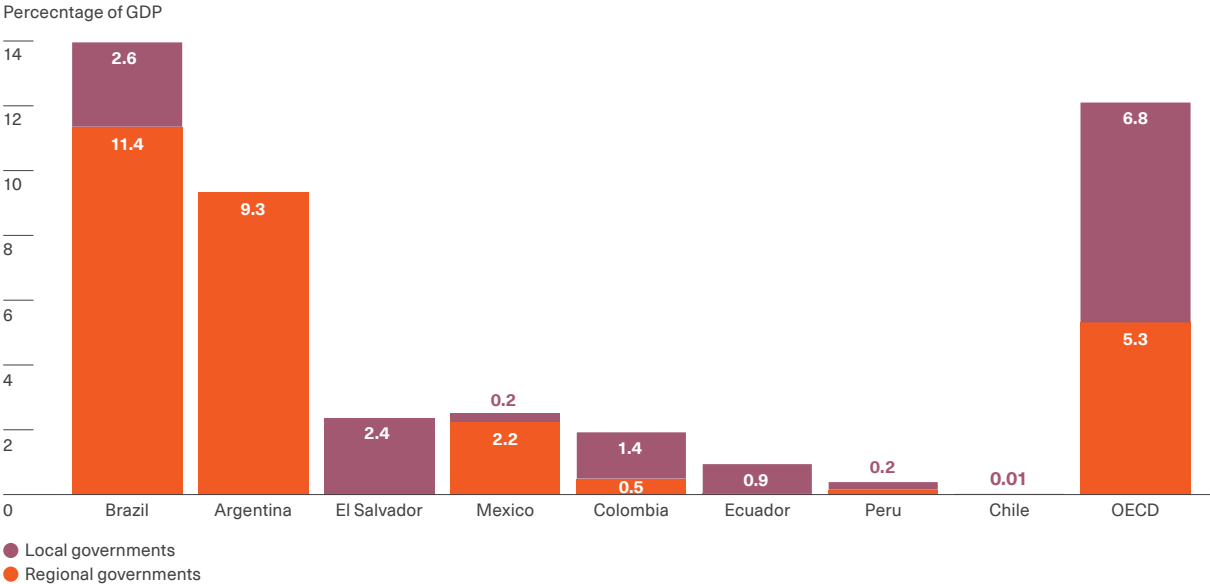
alcoholic beverages, which play a significant role in Colombia, and taxes designed to discourage private car use, which have already been implemented in several countries through vehicle ownership taxes.

Borrowing

The critical role of subnational governments in public investment has important implications for their financing needs. Large investment projects—particularly in infrastructure and urban transport—cannot be financed solely through revenues from a single fiscal period, making borrowing a prerequisite for ensuring adequate subnational infrastructure.

As shown in Panel B of Graph 3, subnational governments in the region have low autonomy in borrowing capacity. Graph 14 further illustrates how these greater restrictions result in relatively low levels of subnational debt in most countries, except for Argentina and Brazil, and significantly lower levels compared to the OECD average.

Graph 14
Subnational public debt by government level



Note: OECD represents the average for member countries. The measure is the debt stock as a percentage of GDP for 2023 in all countries. The data for Bogotá D.C. is included at the local level, following the original source.

Source: Authors based on IMF (2024b) and national sources (see Table A.4.1 in the appendix to Chapter 4, available in the online edition of the RED report).

In terms of composition, nearly all subnational debt is domestic. The main creditors vary by country but generally include national governments, private financial institutions, and bondholders.

External borrowing accounts for less than 10% of total subnational debt in nearly all countries and levels of government and is often subject to specific restrictions. For example, in Mexico, subnational governments are prohibited from borrowing in international credit markets or issuing debt denominated in foreign currency.

Even in countries without explicit prohibitions, other factors may effectively limit access to external financing—such as national governments' reluctance to authorize or guarantee such operations.

Although still uncommon, there have been recent innovations in this area. For instance, CAF recently approved non-sovereign-guaranteed loans for some Colombian cities, representing a new financing mechanism that could expand access to external resources for local and regional administrations.

Financial innovation in project structuring creates new opportunities for accessing resources, though its use also presents challenges. Green and social bonds allow subnational governments to raise funds specifically for two key areas within their mandates: environmental and social initiatives. Likewise, the use of public-private partnerships (PPPs) and instruments such as trust funds enables the leveraging of future revenues to finance projects, while also reducing the risk borne by creditors. However, the novelty and complexity of these instruments pose challenges in terms of oversight and monitoring.

Fiscal institutions

The primary objective of spending and borrowing restrictions for subnational governments is to mitigate the risk of excessive borrowing. Much of the existing regulations in this area have been developed in response to past subnational fiscal crises. Successful frameworks for containing debt growth typically include a combination of quantitative limits on borrowing and expenditure composition, forward-looking information systems to enable early corrective actions, and resolution mechanisms for financially distressed subnational governments, such as Colombia's Law 550, which establishes provisions for territorial entity debt restructuring.

Beyond containing debt through sound fiscal rules, it is essential to improve both the functioning and the trust in the fiscal ecosystem of local and regional governments to expand their spending and financing autonomy. Achieving this requires progress in at least three areas: first, enhancing transparency, harmonization, and the updating of fiscal data to facilitate oversight by creditors and other stakeholders; second, strengthening tax systems to improve own-revenue collection, prioritizing less distortionary instruments; and finally, increasing revenue predictability, both for own revenues and intergovernmental transfers, while also exploring countercyclical mechanisms to stabilize subnational finances.

The role of development banks

Multilateral banks can be key allies for subnational governments. CAF, for example, has allocated over USD 5 billion to operations with regional and local governments in the past six years. The sectoral diversity of these investments reflects the broad scope of responsibilities that subnational governments manage, including projects in road infrastructure, urban development, water and sanitation, digital connectivity, and education, as this report shows. A key lesson for multilateral banks is the need to adapt to the legal and administrative conditions of each country, given the variations in subnational financing regulations.

However, the role of these institutions extends beyond credit operations. Through various channels, they also contribute to capacity building and the generation of knowledge on best practices for strengthening subnational governance. One such channel is technical cooperation programs, through which CAF allocated over USD 20 million in 2024 to initiatives focused on subnational management and governance. Other key areas of support from multilateral banks include knowledge products, training programs for public officials, and the creation of collaboration and peer-learning networks among local governments. Throughout this report, multiple concrete examples of these initiatives are reviewed.

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Report on Economic Development

Nearby solutions: The role of regional and local governments in Latin America and the Caribbean

The preparation of the Report on Economic Development (RED) is the responsibility of the Directorate of Socioeconomic Research of CAF's Knowledge Management. Guillermo Alves and Gustavo Fajardo—with the support of Carla Calá. Ana Gerez conducted the editorial review and style corrections.

The report was drafted by the following researchers:

Chapters 1 and 2 Guillermo Alves and Gustavo Fajardo

Chapter 3 Pablo Brassiolo and Rodrigo Cifuentes

Chapter 4 Pablo Brassiolo

Chapter 5 Carolina Camacho and Ricardo Estrada

Chapter 6 Guillermo Alves and Gustavo Fajardo

Chapter 7 Ricardo Estrada

Chapter 8 Florencia Buccari and Gustavo Fajardo

Over the past four decades, many countries in Latin America and the Caribbean have undergone significant decentralization. During this process, local and regional governments expanded in number, strengthened their political autonomy, and took on new responsibilities. Today, more than 18,000 subnational governments are engaged in delivering essential services across a wide range of areas, including education, health, citizen security, and infrastructure for roads, water, and sanitation.

These government units are undergoing a continuous process of learning and development. While they offer fertile ground for innovation and institutional strengthening, there is still limited accumulated knowledge about how they operate, the resources at their disposal, and the practices they employ. This report seeks to address that gap by pursuing two main objectives: to provide a detailed account of the actions and challenges of these administrations, and to outline an agenda for strengthening their governance capacities.

The report identifies several reasons why strengthening the capacities of local and regional governments is essential—three of which stand out. First, to help close territorial gaps in well-being indicators within countries. Second, to improve the planning and delivery of urban services, a critical issue in such a highly urbanized region. And third, to enable local-level responses to the governance challenges posed by the digital, green, and energy transitions.