

Subnational Revenue Mobilization in Latin American and Caribbean Countries

A Research Network Project

(RG-K1194)

The devolution of spending responsibilities to subnational governments (SNGs) has proceeded at a rapid pace in most Latin America and Caribbean countries in recent years, but it has not been matched by a commensurate decentralization of revenue-raising responsibilities, resulting in large vertical imbalances (gaps between own revenues and spending responsibilities) that adversely affect both subnational accountability and, in most countries, the overall revenue mobilization effort. The purpose of this project is to identify, in light of both, theoretical considerations and empirical evidence, the main obstacles to subnational revenue mobilization in the region, and to propose options to increase SNGs' own revenues in a manner as efficient, equitable and administratively feasible as possible.

The papers undertaken as part of this project will address the following issues:

- The size of the vertical imbalance and how that gap is typically filled.
- The implications of these arrangements for overall revenue mobilization, fiscal balances, and medium-term public debt sustainability, as well as for the ability of a country's SNGs to provide common standards of service.
- Current subnational taxes and how they relate to each of the criteria outlined above.
- The political economy factors that underlie current arrangements and outcomes, and how likely they are to hamper future reform efforts.
- The main priorities for reform of subnational taxation in each country.
- Legal and/or political constraints to asymmetric approaches to the reform effort, and how reforms might be tailored to SNGs of varying economic circumstances and capacity levels.
- The potential role of technical assistance and multilateral financing in building national and subnational governments' consensus and capacity to carry out desired reforms.

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