

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - **HIGH INCOME: OECD** Local currency - **Chilean peso (CLP)**

#### POPULATION AND GEOGRAPHY

AREA: **740 243** km<sup>2</sup>

POPULATION: **17.83** million inhabitants (2014), an increase of 0.87% per year (2010-14)

DENSITY: **24** inhabitants/km<sup>2</sup>

URBAN POPULATION: **89.4%** of national population

CAPITAL CITY: **Santiago** (36.4% of national population)

Sources: OECD, World Bank, UNDP, ILO

#### ECONOMIC DATA

GDP: **392.0** billion (current PPP international dollars) i.e. 23 980 dollars per inhabitant (2014)

REAL GDP GROWTH: **1.9%** (2014 vs 2013)

UNEMPLOYMENT RATE: **6.4%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **22 002** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **21%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.832** (very high), **rank 42**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGs
<b>345</b>	-	<b>15</b>	<b>360</b>
<b>MUNICIPALITIES</b> (MUNICIPIOS) AVERAGE MUNICIPAL SIZE: <b>51 335 INHABITANTS</b>		<b>REGIONS</b> (REGIONES)	

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Chile has two tiers of SNGs, regions and municipalities. The 1992 Organic Law of Municipalities (Law n° 18.695) established municipal autonomy. The first universal suffrage elections for mayors and municipal councillors were held in 1992. A municipal reform has been ongoing since 2013 with the aim of modernising the municipal system providing municipalities with the tools, capacities, financial resources and legitimacy to improve their autonomy and performance. Administrative regions were created in 1974 based on previous 25 provinces (12 regions and the metropolitan region of Santiago in 1974, and 2 more regions in 2006 following the subdivision of existing regions). Since 1993, they have been progressively transformed into self-governing entities: the 1993 constitutional reform established a mixed regional system with a regional executive (the intendant - *Intendente*) appointed by the President of the Republic and a regional council (*consejo regional* or CORE) elected indirectly by the municipalities; the 2009 constitutional reform provided for the direct election of the regional council which took office in March 2014. Since 2013, a draft bill on decentralisation has been under discussion at the senate to allow direct election of the intendants. Chile is also divided into 346 communes and 54 provinces for administrative purposes.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** According to Law N°18.695, municipalities have many statutory competences, exercising exclusive functions (6) and non-exclusive responsibilities (shared with other levels of government in 13 areas). Own competences include the municipal zoning plan, local development, local transport regulation, hygiene services, urbanism and construction norms. Shared responsibilities include public health, primary and secondary education, culture, training and economic development, tourism, traffic regulations, social housing, sanitary infrastructure and citizen safety. Regional government responsibilities, defined in the Organic Constitutional Law No. 19.175 on Government and Regional Administration, are still limited, including regional development (approbation of the regional development plan and regional investments funded by the National Fund for Regional Development), social and cultural development, the promotion of productive activities, municipal advice, rural roads, land management, etc. An ongoing decentralisation process, initiated in 2013 (cf. Appointment of a Presidential Advisory Commission for Decentralisation and Regional Development to prepare a roadmap) plans to modernise and strengthen municipal functions and transfer new competences to the new self-governing regions in three areas: economic development, social development and infrastructure and housing.

### SUBNATIONAL GOVERNMENT FINANCE

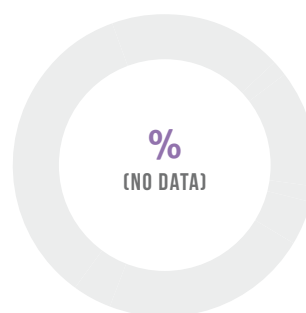
EXPENDITURE	% GDP	% GENERAL GOVERNMENT (same expenditure category)	% SUBNATIONAL GOVERNMENT
<b>TOTAL EXPENDITURE (2013)</b>	<b>3.0%</b>	<b>13.1%</b>	<b>100%</b>
<b>CURRENT EXPENDITURE</b>	2.8%	-	91.3%
<b>STAFF EXPENDITURE</b>	1.6%	27.4%	53.4%
<b>INVESTMENT</b>	0.3%	12.0%	8.7%

Chile ranks among OECD countries in which the weight of SNG spending in GDP and public expenditure is the lowest (alongside Greece and Ireland). Over half of expenditure is dedicated to employee remuneration while investment is very limited, in SNG expenditure, GDP as well as total public investment. Chile ranks last in the OECD as regards SNG involvement in public investment.

## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE

GENERAL PUBLIC SERVICES
DEFENCE
SECURITY AND PUBLIC ORDER
ECONOMIC AFFAIRS
ENVIRONMENTAL PROTECTION
HOUSING AND COMMUNITY AMENITIES
HEALTH
RECREATION, CULTURE AND RELIGION
EDUCATION
SOCIAL PROTECTION



REVENUE BY TYPE	% GDP	% GENERAL GOVERNMENT (same revenue category)	% SUBNATIONAL GOVERNMENT
TOTAL REVENUE (2012)	3.2%	14.0%	100%
TAX REVENUE	1.4%	7.6%	45.1%
GRANTS AND SUBSIDIES	1.5%	-	48.0%
OTHER REVENUES	0.2%	-	6.8%

Central government transfers and tax revenue are the main two sources of SNG revenue, with comparable weight.

**TAX REVENUE.** Although tax revenue represents a large share of SNG revenue, it is significantly lower than the OECD average both in terms of percentage of GDP and general government tax revenue (respectively 7.0% and 31.7% in 2013). In fact, only municipalities are allowed to receive tax revenue (this situation could change as the draft bill on decentralisation under discussion seeks to create a system of regional financing based on own-source revenues). The most important tax is property tax (41% of municipal tax revenue in 2013, i.e. 0.6% of GDP), applicable at a fixed rate of the fiscal value of rural and urban land and buildings. There is an extensive exemption structure associated with property tax. Other significant municipal taxes are business licences (26% of municipal tax revenue) paid on commercial activities undertaken in the municipal area, and vehicle tax (16%). Business tax is the only tax for which municipalities may vary the rate within a given range. Tax collection for business and vehicle tax is under the responsibility of the municipality, while property tax is taken care of by the central government (municipalities remain responsible for assessing property value).

**GRANTS AND SUBSIDIES.** Transfers to municipalities include a large horizontal equalisation scheme (the Municipal Common Fund, FCM) and vertical transfers from the central government:

- The FCM provides unconditional grants to all municipalities. The Fund is self-financed, as all municipalities allocate a share of their tax revenue to the scheme. Grants are distributed according to a formula, based on criteria such as the number of municipalities, population, exempt properties, poverty and local revenue.

- Vertical transfers from the central government include earmarked transfers for health and education (delegated functions), as well as access to specific funds mainly for social and investment programmes.

Transfers to regions include grants from the National Fund for Regional Development (Fondo Nacional de Desarrollo Regional, FNDR), which aims at financing municipal investment approved by the region.

**OTHER REVENUES.** Other revenues for municipalities include municipal rights income, hygiene rights, concessions, municipal property rents, etc. Other revenues for regions include donations, service fees, concession permits, etc.

OUTSTANDING DEBT	% GDP	% GENERAL GOVERNMENT
OUTSTANDING DEBT (2013)	-	-

SNG borrowing is prohibited for both current and capital financing: Chile is the only OECD country where this is the case. However, in practice, a few municipalities are allowed to generate debt, but with limitations. Others must apply to Congress for the ability to do so. In addition, SNGs hold a non-financial debt through their debt to suppliers (commercial debt), arrears and leasing contracts.

A joint- study of:



**Source of Statistics:** • OECD national accounts • OECD calculations based on IMF data • OECD (2015) Subnational governments in OECD countries: Key data (brochure and database) • F. Pacheco et al. (2014), A Longitudinal Parametric Approach to Estimate Local Government Efficiency, MPRA Paper No. 54918 • OECD (2013) Urban Policy Reviews, Chile 2013 • Bravo J. (2013) The Income Effect of Unconditional Grants: A Reduction in the Collection Effort of Municipalities, Documento de Trabajo IE-PUC, N° 437 • Leonardo Letelier S. (2010), Theory and evidence of municipal borrowing in Chile • C. A. Llanar Etcheverry (2009), Descentralización: La Experiencia Chilena, un Estudio Sobre los Gobiernos Regionales, Revista de Estudios Politécnicos Vol 7 • OECD (2009) Territorial Reviews, Chile 2009 • Letelier S. L. (2006) Local Government Organization and Finance in Chile, In: Shah, A. (ed.) Local Governance in Developing Countries. Public Sector Government and Accountability Series (Washington D. C.: World Bank).

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