

# COLOMBIA

UNITARY COUNTRY

LATIN AMERICA

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - UPPER MIDDLE INCOME Local currency - Colombian Peso (COP)

### POPULATION AND GEOGRAPHY

AREA: **1 141 748** km<sup>2</sup>

POPULATION: **47.791** million inhabitants (2014), an increase of 1.0% per year (2010-14)

DENSITY: **42** inhabitants/km<sup>2</sup>

URBAN POPULATION: **76.2%** of national population

CAPITAL CITY: **Bogotá** (19.5% of national population)

Sources: OECD, World Bank, UNDP, ILO

### ECONOMIC DATA

GDP: **638.4** billion (current PPP international dollars) i.e. 13 357 dollars per inhabitant (2014)

REAL GDP GROWTH: **4.6%** (2014 vs 2013)

UNEMPLOYMENT RATE: **10.1%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **16 151** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **26%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.720** (high), rank **97**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGs
<b>1101</b> MUNICIPALITIES (MUNICIPIOS) AVERAGE MUNICIPAL SIZE: <b>43 370</b> INHABITANTS	<b>-</b>	<b>33</b> 32 DEPARTMENTS (DEPARTAMENTOS) AND CAPITAL DISTRICT OF BOGOTA	<b>1134</b>

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Colombia has a two-tier local government structure enshrined in the 1991 Constitution. The upper level is made up of 32 departments and the Capital District of Bogota (which has its own status, giving the city similar power to those of departments). The second tier is made up of 1 101 municipalities. Among them, five are categorised as special districts (*distritos especiales*) due to their particular political, commercial, historical, industrial, cultural or environmental characteristics, among other important factors, which allows them enjoy certain prerogatives according to a new regime adopted in 2013. The 1991 Constitution also gives a special status for certain territories: 817 indigenous territories, home to 1.4 million inhabitants, and 6 metropolitan areas which are legislated territorial jurisdictions (*Áreas Metropolitanas*, Ley 1625 de 2013).

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Colombia has experienced rapid changes linked to decentralisation reforms over the past three decades. The decentralisation process started in 1986, and was strengthened by the 1991 Constitution. It has been further reinforced since 2010. Although the 2011 LOOT law contributed to clarifying the rules for decentralisation, distribution of competencies across levels of government remain complex. There is a dual system of decentralised and delegated responsibilities and the majority of competences are shared between all levels of government (education, health, water and sewerage, housing). The departments are responsible for planning and promoting the economic and social development of their territory. They exercise administrative functions of co-ordination and intermediation with the municipalities. Municipalities also provide services such as electricity, urban transport, cadastre, local planning and municipal police. They are classified as being "certified" or "non-certified" for the provision of certain competences (such as health, education, water and sanitation).

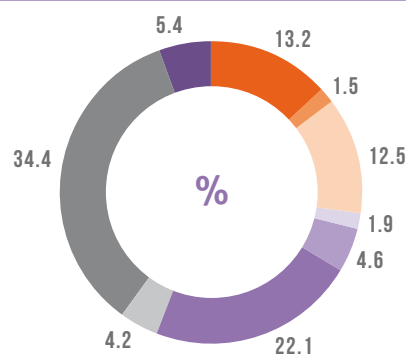
## SUBNATIONAL GOVERNMENT FINANCE

EXPENDITURE	% GDP	% GENERAL GOVERNMENT (same expenditure category)	% SUBNATIONAL GOVERNMENT
TOTAL EXPENDITURE (2013)	<b>12.8%</b>	<b>35.0%</b>	<b>100%</b>
CURRENT EXPENDITURE	10.9%	-	85.4%
STAFF EXPENDITURE	3.9%	47.6%	30.8%
INVESTMENT	1.9%	48.4%	14.6%

Colombia is one of the most decentralised unitary countries of Latin America. In 2013, SNG expenditure represented almost 13% of GDP (against 6.2% in 1994) and 35% of public expenditure. The high share of SNG in public staff expenditure results from the fact that SNGs are responsible for paying teachers and health employees. Within the subnational sector, municipalities represent around two-thirds of expenditure and revenues; departments represent one-third. SNGs are key investors, with a share in GDP equivalent to the OECD average. However, the SNG share in public investment is lower than in the OECD (approximately 59%).

## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



SNGs play a key role as public service providers, in particular in education (one-third of SNG budget in 2013) and health (22%), for which they receive earmarked funding. Other important spending items are general public services and economic affairs and transport.

REVENUE BY TYPE	% GDP	% GENERAL GOVERNMENT (same revenue category)	% SUBNATIONAL GOVERNMENT
TOTAL REVENUE (2012)	13.0%	38.0%	100%
TAX REVENUE	3.7%	20.7%	28.5%
GRANTS AND SUBSIDIES	6.8%	-	52.5%
OTHER REVENUES	2.5%	-	18.9%

SNG dependency on central government funding is high in Colombia, as transfers and grants represent over half of their resources (to be compared to 38% in the OECD), and tax revenue is less than 30%. Property income (royalties) are a major source of revenue for SNGs.

**TAX REVENUE.** Despite the power to levy their own taxes, SNGs have limited taxing autonomy and little room for manoeuvre over tax rates and bases. Several taxes are earmarked for specific use defined by the law. Taxes represent 30% of municipal revenues and around 20% for departments. Departmental tax revenues include receipts from the excise taxes (beer, tobacco, liquor i.e. around 60% of their tax revenues), vehicle tax (10%), register tax and gasoline tax. There are around twenty different municipal taxes but 80% of tax receipts come from only three of them: Industry and Commerce tax (ICA, around 40% of municipal tax revenues), property tax (Predial, around 33%) and gasoline surtax (7%).

**GRANTS AND SUBSIDIES.** The General System of Transfers (*Sistema General de Participaciones*, SGP) is the most important central government transfer. SGP funds are earmarked for the most part, and their distribution between key sectors (education, health and water supply and sewerage) is determined by law according to a formula based on a combination of population coverage, social equity and efficiency criteria. Approximately 10% of SGP is for municipal general purpose expenditure. Other grants, coming from co-financing schemes and ministerial subsidies, are also earmarked and conditional to projects funding in specific sectors (e.g. road or urban infrastructure).

**OTHER REVENUES.** Property income resulting from the extraction of non-renewable resources, mainly coal and oil (royalties), are collected by the central government, who then returns the funds to SNGs. A reform, adopted in 2012, substantially modified royalty allocations between SNGs making them no longer reserved exclusively for the SNGs located in the producing regions, but benefitting all SNGs through the General System of Royalties (*Sistema General de Regalías* or SGR). The SGR is composed of six sub-funds. The two regional funds and the Science, Technology and Innovation fund are earmarked for investment projects only. Other property income includes dividends from municipal enterprises and user tariffs and fees (especially for large municipalities).

OUTSTANDING DEBT	% GDP	% GENERAL GOVERNMENT
OUTSTANDING DEBT (2013)	7.5%	17.1%

Recourse to borrowing is regulated by strict prudential rules, established in 1997 ("Traffic Light Law" or *Ley de Semáforo 358/1997*), in 2000 and in 2003 (law on Fiscal Transparency and Responsibility) to curb the growing subnational government indebtedness observed during the 1990's. SNG debt levels are now fairly moderate, in particular financial debt, which amounted to 1.3% of GDP and 3.9% of public debt in 2013. In fact, loans and bonds accounted for respectively 14% and 2% of SNG debt, the main part being composed of insurance technical reserves (65%). Since 2003, departments and large municipalities must obtain satisfactory credit ratings from international rating agencies before they can borrow.

A joint study of:



Sources: OECD National Accounts Statistics • DANE (2013) *Gastos del Gobierno por finalidad 2012-2013* • OECD (2016), Making the most of public investments in Colombia: working effectively across levels of government • OECD (2014), Territorial Review Colombia • Juan Mauricio Ramirez et al. (2014) Decentralization in Colombia: Searching for social equity in a bumpy economic geography, ECINEQ Working Paper • Departamento Nacional de Planeación (2014) Desempeño fiscal de los departamentos y municipios 2013 • OECD (2013), Colombia: Implementing Good Governance, OECD Public Governance Reviews.