

Asymmetric decentralisation: Policy implications in Colombia

OECD Multi-Level Governance Studies

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The report aims to draw lessons from experiences with asymmetric decentralisation in the OECD countries and beyond, and provide guidance for Colombia on the design and implementation of asymmetric decentralisation policies.

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Introduction

The purpose of this paper is to shed light on the pros and cons of asymmetric decentralisation both from the economic research and policy practice points of view, and to contribute to the asymmetric decentralisation policy currently underway in Colombia.

Regional disparities within countries have been rising in recent decades and GDP per capita dispersion is now greater within countries than between countries (OECD, 2016^[1]). Even within the world's wealthiest countries there are substantial differences across regions. The age structure and service needs of population may vary a great deal between regions within a country. In some cases, there are important ethnic or political differences between regions. These are but a few examples of circumstances that challenge the ability of governments to maintain the unity and balanced development of the state.

Decentralisation has been extensively used to solve important challenges in society, such as “democratic deficit” or lack of efficient and effective public service delivery. Decentralisation however involves a number of trade-offs that need to be considered (OECD, 2017^[2]). OECD country experience shows that there is no optimal design of multi-level governance (MLG) systems and decentralisation frameworks (OECD, 2017^[2]; OECD, 2018^[3]). Decentralisation is not good or bad in itself. Its outcomes depend significantly on the way the process is designed and implemented, on adequate sub-national capacity, and on the quality of multi-level governance. Multi-level governance systems must be adapted to each country's specificities.

An alternative and perhaps more flexible way to approach at least some of the tradeoffs of decentralisation is the asymmetric treatment of subnational governments. There can be political, economic or administrative motives for this (Bird and Ebel, 2006^[4]). Political reasons for asymmetric arrangements are often associated with aims to alleviate tensions between regions and to weaken secessionist incentives. The economic motives for asymmetry are usually linked with efficiency considerations. Administrative asymmetry aims to advance government policies so that the different capacities of subnational governments are taken into account. In fiscal terms, asymmetric federalism or decentralisation means that subnational government units at the same level have different spending or revenue powers.

Recent research results show that asymmetric arrangements have been common since at least the 1950s and are still growing in popularity (Allain-Dupré, 2018^[5]; Hooghe et al., 2016^[6]). This development is not very surprising, considering the often large differences between regions within countries and the considerable costs of uniform application of decentralisation.

Trends in asymmetric decentralisation, however, are changing: whereas between the 1950s and the 1970s asymmetric arrangements occurred mostly at a regional level, the present trend seems to apply asymmetric decentralisation to major urban areas. Capital city districts in particular have experienced a growth in asymmetric decentralisation arrangements, perhaps because the benefits of urbanisation and agglomeration economies have become more widely understood and accepted.

Asymmetric decentralisation provides an interesting policy alternative especially for Colombia. This is because the capacities between the Colombian subnational governments

differ dramatically. Colombia's experience with asymmetric decentralisation arrangements date back to the 1990s. Since then, several new asymmetric policy tools and approaches have been developed to advance the decentralisation process.

The implementation of asymmetric decentralisation has not been without problems in Colombia however. For instance, many promising approaches such as metropolitan governance models, special treatment of indigenous territories or classifications of subnational governments, currently remain underutilised. This paper discusses these challenges. The paper aims also to present some alternative ways forward for Colombia using examples from other countries.

The report proceeds as follows. The first section provides a summary of main findings and policy options for Colombia. The second section discusses the rationale for asymmetric decentralisation, provides an overview of different forms and trends of asymmetric decentralisation and summarises what has been learned about asymmetric arrangements in terms of policy making. This section also discusses the challenges currently faced by Colombia in implementing the asymmetric policies and decentralisation in general. The third and final section discusses some policy options available for Colombia to better implement the asymmetric arrangements as part of decentralisation.

Summary and list of main policy options for Colombia

Colombia has the legal and the administrative framework in place to implement the country's decentralisation reforms. In addition, the Colombian decision-makers and civil servants are able to benefit from the support and advice by the NDP, a major expert organisation for decentralisation in Colombia. The current challenges of Colombian decentralisation are, therefore, not the lack of legal bases or the shortage of guidance for implementing the desired reforms. The focal areas for development comprise the capacity building of subnational governments and enhanced implementation of existing policy tools. For the next several years, Colombia should focus on making better use of the existing decentralisation instruments. In addition, efforts to create new policy tools should be continued. In below is a summary of the main policy alternatives discussed in this paper.

Making better use of existing instruments and strengthening the overall decentralisation framework

Regional inequality in terms of GDP per capita is comparatively high in Colombia. This together with large differences in service needs makes decentralisation challenging because the subnational governments' ability to provide public services is largely determined by the funding available for them. According to the OECD reports on education and health services, the financing and the outcomes of these services currently vary tremendously across Colombian territories (OECD, 2015^[7]; OECD, 2016^[8]). Without measures that strengthen subnational government fiscal and human resource capacities, including a mechanism that equalises the differences in tax bases and service needs between subnational governments, the subnational disparities in service outcomes are likely to stay at a high level.

The overall decentralisation framework in Colombia could be strengthened by improving the subnational government fiscal and human resource capacities and by gradually increasing the subnational government spending and revenue autonomy. Tax reform and reform of the intergovernmental transfer system would support these policies. High quality information on local fiscal capacity and service needs of local population will be needed to successfully implement such reforms. Therefore, efforts to improve the quality of territorial indicators and utilising ex ante and ex post analyses to study the impacts of the reforms should be continued and deepened.

Strengthening administrative and service delivery capacities

Training more service professionals and employing them in subnational governments is essential for building the local capacities. Colombia could consider creating special financial incentives for medical and teaching staff to work in the most remote regions. In addition, geographical targeting or selection of students and the location of education institutes that train medical and teaching professionals could contribute to availability of high quality workforce in regions. The methods of telemedicine and remote education could also be utilised (OECD, 2016^[9]).

Colombia could consider developing a comprehensive assessment (both quantitatively and qualitatively) of subnational public employees to get a clearer picture of the needs and gaps of territorial entities (OECD, 2016_[10]). The role of Departments for municipal capacity building and technical support could be enhanced.

Building fiscal capacities and allowing for greater autonomy

The capacity of Colombian subnational governments to raise own-source revenues and to enhance revenue autonomy should be strengthened. The alternative measures in this respect include: (i) continuing the efforts to update and modernise the cadastral and land registries in order to improve the performance of the municipal property tax; (ii) streamlining the portfolio of taxes levied by departments and municipalities; (iii) reducing the number of earmarked taxes; (iv) allowing instruments such as congestion charges or tolls; (v) promoting more flexibility in terms of user tariffs and local fees and optimising income from properties (rents, dividends) (OECD, 2016_[10]).

Borrowing could be further used by subnational governments as a financing mechanism within the limits of current fiscal rules. The fact that the level of subnational government debt has decreased gives some room for using borrowing for productive investments. New options to finance investments could also be explored in particular for large cities and metropolitan areas. Subnational governments need however be further assisted to improve their use and management of loans.

Reforming the transfer system

The reform of the transfer system (SGP) which has been discussed for several years should be put in place. An in-depth examination of the transfer system's (SGP) allocation criteria could be conducted to find ways to include new equalisation mechanisms and to simplify the system. The new criteria to be considered include indicators e.g. for territorial specificities (such as differences in service needs, circumstantial factors and revenue bases). Allowing subnational governments to re-use the unspent funds from one sector in another sector would make the system more flexible and adaptive to local needs.

Matching grants could be used to finance investment at the subnational government level. At the same time it should be ensured that differences in revenue bases do not affect too much the ability to invest in necessary local infrastructure. Earmarked investment grants could be established for specific projects and places, such as the City Fund (OECD, 2016_[10]).

Intensifying the use of Contratos plans

While the *Contratos Plans* have supported the capacity building and overall infrastructure development, there is still room for improvement. Special attention should be paid to the implementation of Contratos Plans in order to further improve the effectiveness of the investments (OECD 2016b). In general, the processes could be simplified, harmonised and standardised. Horizontal co-ordination across the national government is also important, especially to ensure that the key central government players involved in local projects listed in the Contratos Plans work together. In addition, the reporting of Contratos Plans should be improved. A more systematic and standardised reporting enables high quality impact evaluations, which facilitates timely decision-making.

Promoting inter-municipal cooperation

Colombia could consider stepping up inter-municipal co-operation in the spirit of the LOOT law, with special focus on regions where single municipalities are otherwise unlikely to be able to reach adequate competence or sufficient economies of scale. Grant funding could be used to incentivise cooperation, but in this case a priority should be given to projects where clear benefits can be predicted from internalised externalities. Departments could also take a more pro-active role to support critical projects with cross-jurisdictional cooperation, in particular vis-à-vis rural municipalities (OECD, 2016_[10]).

Further supporting horizontal cooperation across jurisdictions should be a priority especially at the metropolitan level, notably for Bogotá, Cali or Cartagena, which are not yet structured as metropolitan areas. Metropolitan areas should be given the status of “territorial entity”. Specific tax regimes for inter-municipal groupings or metropolitan areas could be developed. Some pilot experiments could be launched in this regard. Such measures should not however take resources away from the municipalities, because this would be a great disincentive for cooperation. Finally, specific contractual arrangements targeting specifically metropolitan areas could be promoted. Departments could also take a more pro-active role to support critical projects with cross-jurisdictional cooperation, in particular vis-à-vis rural municipalities (OECD, 2016_[10]).

Revising municipal classification

There is room for improvement in the classification of municipalities and departments. For instance, using more variables to define the classification, or increasing the number of groups used in classification, could be considered in order to get a better picture of the differences between the subnational governments.

The indicators that are currently produced separately should be better aligned to create more useful data for decision making. There are currently three municipal classifications/groupings: the municipal classification, the performance rankings (MDM and the separate evaluations carried out by line ministries) and the certifications. At present, each set of indicators have their own use and it is unclear how these indicators are used jointly to target and coordinate policies. A better co-ordination of the measuring and classifying the subnational governments could contribute building more efficient and useful database for policy purposes.

Experimenting with targeted municipalities and departments

In order to facilitate experimenting Colombia could consider setting up a “free municipality” experiment, by giving spending and revenue autonomy to a limited number of subnational governments for a fixed period of time. These kinds of experiments have been practiced especially in the Nordic countries (Denmark, Norway, Sweden and Finland)¹. Although the results in the Nordic countries have not led to immediate reforms, the experiments have nevertheless provided valuable information on the effects of reduced regulation at the subnational government level. Colombia may also consider simplifying reporting requirements for the municipalities with the lowest capacities to alleviate the administrative burden.

Colombia could consider setting a special program to strengthen the departments in a differentiated and experimental manner. While capacity building should cover all subnational

¹ Please see discussion on the Danish experiment in section 2.

government levels, the departments are often responsible for the most demanding tasks and their needs differ from those of municipalities.

Supporting the indigenous territories

Colombian government has recently made decisions to improve the autonomy of regions with indigenous populations. The focus should now be on implementing the policies that support the indigenous populations' efforts for self-determination, and making sure that they have adequate capacities to practice their extended rights. The policies concerning the indigenous populations should be regularly evaluated and if problems occur, policies should be strengthened. Indicators describing the indigenous regions should be developed to be able to target supportive policies.

While the policies that support the indigenous regions to take more responsibilities and increase their self-rule are a priority, it is important to simultaneously take into account the overall territorial planning and public finances aspects. It is also essential to coordinate properly these territories with the municipalities where they are located.

Monitoring performance

Colombia has recently made considerable efforts to create systematic guidance and online databases on regional statistics to facilitate reforms. A good example of this is the recently launched *TerriData* database, which comprises data on demographics, education, health, public services, public finances and security for the departments and the municipalities. The first results on Terridata are very promising. These efforts could still be continued and deepened, using examples of best practices from other countries such as the Norwegian KOSTRA system.

While collecting new more accurate and useful information is a positive development, it should also be ensured that the administrative burden at the local level is not increased too much. Therefore, the older procedures or reporting requirements that have become obsolete or are overlapping with new procedures ought to be eliminated.

Rethinking assignments

Colombia could consider preparing a nationwide plan on allocating spending and revenue assignments. Better clarified roles, tasks and powers within Colombian multilevel governance model would contribute to the efficiency and transparency of public service delivery. Reducing duplication and overlapping assignments between subnational government levels results in more efficient subnational tasks and eases co-ordination of the services. Reforming assignments across government levels should be done periodically, for example every five years.

Asymmetric decentralisation should support the overall decentralisation targets. Therefore also the services selected for piloting the decentralisation should be in line with the nationwide plan for decentralisation.

Summary of main policy alternatives suggested for implementing asymmetric decentralisation in Colombia

- Improve the subnational government spending and revenue autonomy. Reforming the transfer system (SGP) and the tax system (OECD, 2014^[11]; OECD, 2017^[2]) are among key measures in order to provide better financial basis for subnational governments and enabling subnational governments collect more own source revenues.
- Strengthen the subnational government capacity by raising the number of high quality professionals in municipalities and departments, in particular the teachers, doctors and nurses, who have a crucial role in building the local capacity (OECD, 2016^[8]; OECD, 2015^[7]).
- Continue efforts to improve the skills and competences of civil servants and public officials in subnational governments.
- Inter-municipal cooperation should be promoted in regions where single municipalities are unlikely to be able to reach adequate competence or sufficient economies of scale. Grant funding could be used to incentivise cooperation if benefits can be predicted from internalised externalities.
- Consider setting up a “free municipality” experiment, by giving considerable spending and revenue autonomy to a limited number of subnational governments for a fixed period of time, in order to gain experience of enhanced subnational autonomy.
- Specific tax regimes for inter-municipal groupings or metropolitan areas could be promoted. Some pilot experiments could be launched in this regard. Such tax regimes should not take resources away from the municipalities, however.
- Launching a special programme to strengthen the departments in a differentiated and experimental manner should be considered, because the departments are often responsible for the most demanding tasks and their needs differ from those of municipalities.
- Alter the certification of subnational governments to ensure right incentives are in place for efficient and effective service delivery. Use the new indicators, such as MDM, to provide useful information in this respect. In addition, systematise the evaluations currently performed by the line ministries to create service-specific performance indicators.
- Adjust the method to classify subnational governments, for example by using more characteristics and/or by increasing the number of groups to define the classification. Use this information for enhanced targeting of differentiated policy measures concerning subnational governments.
- Modify the criteria used to define the allocation of tasks for each level of government to ensure effective coordination and to allow for important externalities.
- Continue supporting the indigenous territories for self-determination by assisting their capacity building. Develop indicators describing the indigenous regions to be able to target supportive policies.
- Minimise the risk of increased inequity due to differentiated policies, by ensuring that positive spillover effects result from the differentiated arrangements between

subnational governments. For instance, encourage subnational governments to aid their weaker neighbors, create frameworks for cooperation between subnational governments and dissemination of best practices.

- Strengthen the implementation of *Contratos Plans* and enhance impact evaluation of the projects to enable timely interventions if problems should occur. High quality information also allows for rewarding good performance.
- Ensure that population censuses will be carried out on a regular basis, in order to maintain and improve the quality of territorial indicators.
- Utilise ex ante analyses to better anticipate and predict the likely outcomes of decentralisation reforms and differentiated assignments. Ex post analyses should be designed and implemented with the support of expert agencies, universities and research institutes.

Trends and diagnosis: Asymmetric decentralisation in Colombia and the OECD

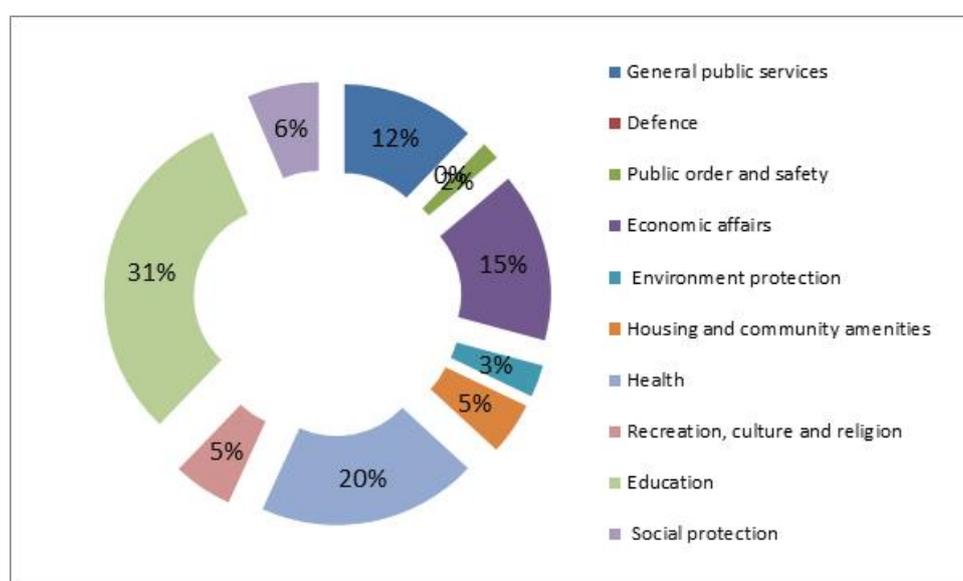
A. Multi-level governance and decentralisation in Colombia in international perspectives

Overall picture: multilevel governance in Colombia

Colombian public governance has undergone significant decentralisation reforms over the past four decades or so. As a result, Colombia is currently the most decentralised unitary country in the Latin America (Acosta and Bird, 2003^[12]; Bird, 2012^[13]; OECD, 2014^[11]; OECD, 2016^[10]). The adoption of a new Constitution in 1991 enhanced the process of decentralisation that started in 1980s. Currently, the Colombian two-tier subnational government consists of 32 departments (including the Capital District of Bogota) and 1 102 municipalities.

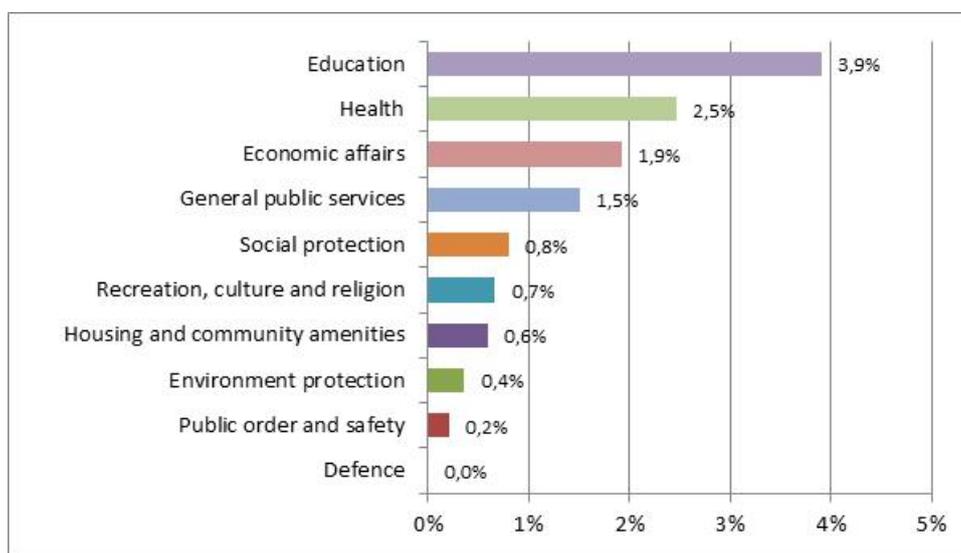
Colombia's subnational governments are the main providers of public services, especially in education, which represents 31% of total subnational government budget. Other important subnational government tasks include health services (20%), economic affairs and transport (Figure 1) (OECD and UCLG, 2017^[14]). Overall, subnational expenditure represented 27% of public expenditure and 13% of GDP in 2016 (compared to respectively 40% and 16% in the OECD on average) (Figure 2).

Figure 1. Breakdown of subnational government expenditure by area in Colombia in 2015



Source: OECD.

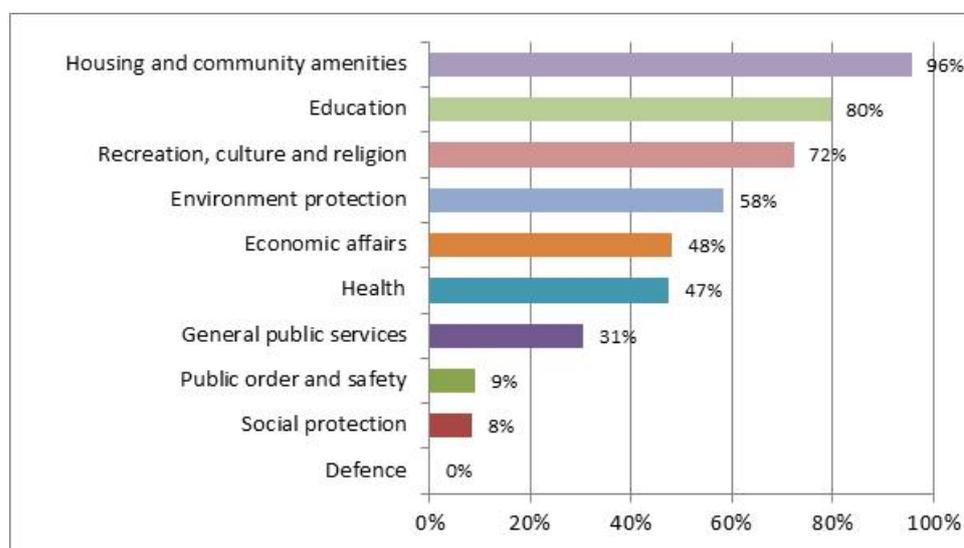
Figure 2. Colombian subnational government expenditure by spending area, % of GDP in 2015



Source: OECD calculations based on OECD national accounts (data extracted on 7 March 2018).

As a share of total public expenditure by area, subnational governments are responsible for the majority of expenditure in housing and community amenities (including potable water), education, recreation and culture and environmental protection (Figure 3).

Figure 3. Colombian subnational government expenditure by spending area, % of public expenditure in 2015



Source: OECD calculations based on OECD national accounts (data extracted on 7 March 2018).

However, as in many other countries, the percentage of public expenditure administered by departments and municipalities does not give a full picture of subnational government autonomy in Colombia. While the municipalities and departments manage a significant amount

of money, in practice they have limited authority over how expenses are allocated, since most sub-national taxes and transfers from the SGP are earmarked (OECD, 2014^[11]). The autonomy of subnational governments is also affected by the capacity evaluation (certification in the three basic services) done by central government authorities, this is discussed in more detail below.

The decentralised spending assignments between levels of Colombian government form a rather complex system. This is because the system includes both devolution and delegation of assignments and because there are many shared services between levels of government (Table 1). In addition, the subnational government autonomy in resource allocation is limited due to the central government's tight regulation on the use of transfers, especially in the education and health sectors. For example, transfers for health cannot be used to finance education and vice versa (OECD, 2014^[11]; Bird, 2012^[13]).

Table 1. Fiscal Responsibilities by Level of Government

Budget Category	Oversight Responsibility	Provision Responsibility
Defense	C	C
International Relations	C	C
External Trade	C	C
Monetary and Fiscal Policy	C	C
Social Security	C	C,D,M
Train Stations and Airports	C	C,M
Natural Resources	C,	C,D,M
Environmental Protection	C,D,M	C,D,M
Education	C,D,M	C,D,M
Health	C,D,M	C,D,M
Social Assistance	C,D,M	C,D,M
Police	C,M	C,M
Water and Sanitation	C,M	C,M
Protection against Fire	M	M
Parks and Recreation	C,D,M	C,D,M

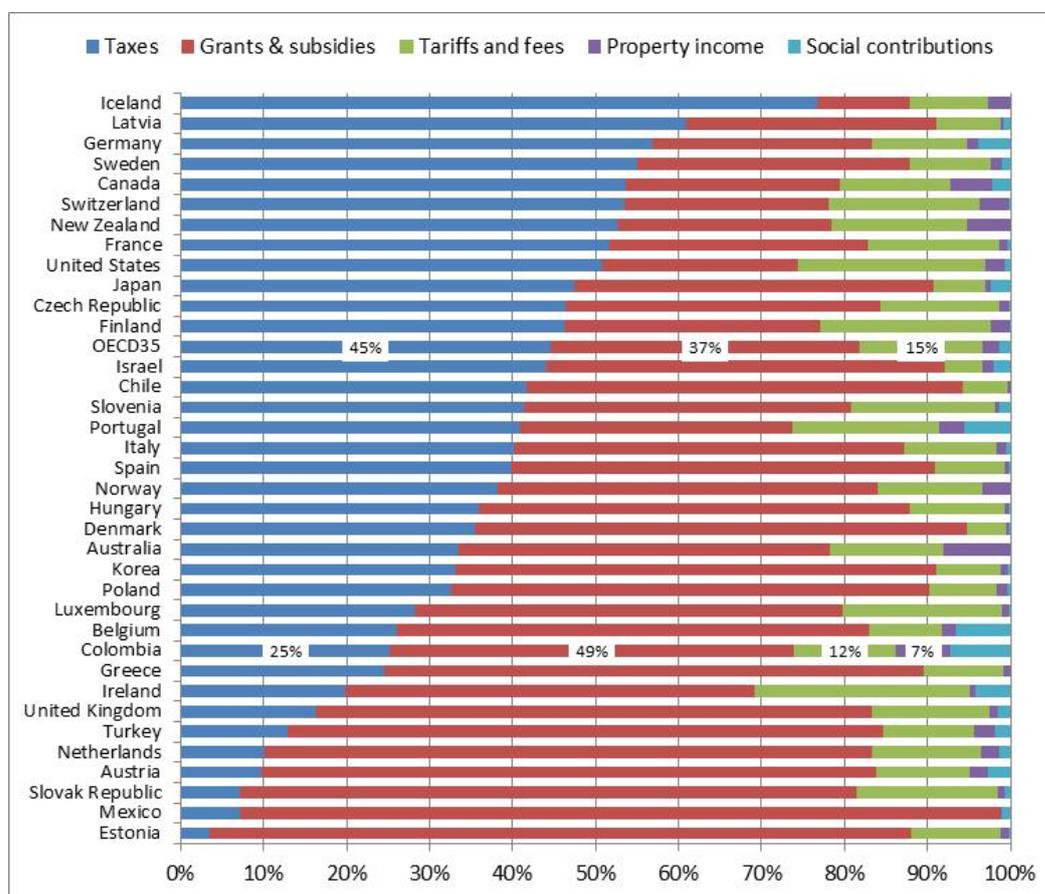
Note: C denotes central government, D denotes Departments and M is for municipalities.

Source: (Sánchez, Jannet and Gonzales, 2011^[15]).

As said, the provision of education, health, social assistance, water and sewage, and housing, is shared between departments and municipalities. The departments are specifically responsible for planning and promoting the economic and social development within their territory. Departments are also responsible for co-ordination with the municipalities and for giving technical assistance for them. Municipalities are responsible for providing electricity, urban transport, land registry (cadaster), local planning and municipal police. Municipalities are grouped into “certified” or “non-certified” units: the certified municipalities have more freedom to allocate the transfer funding and to operate the services than the non-certified subnational governments. The non-certified municipalities are either sharing the responsibility with departments or the department is solely responsible for service provision in these municipalities (OECD, 2016^[8]; Brutti and Sanchez, 2017^[16]).

Colombian subnational government revenues consist of transfers (around 50% of all revenue), tax revenues (25%), and other incomes including royalties (Figure 4). The share of transfers is clearly higher than the OECD average. Subnational government tax revenues amounted to only 3.7% of GDP in 2016, compared to 32% in the OECD.

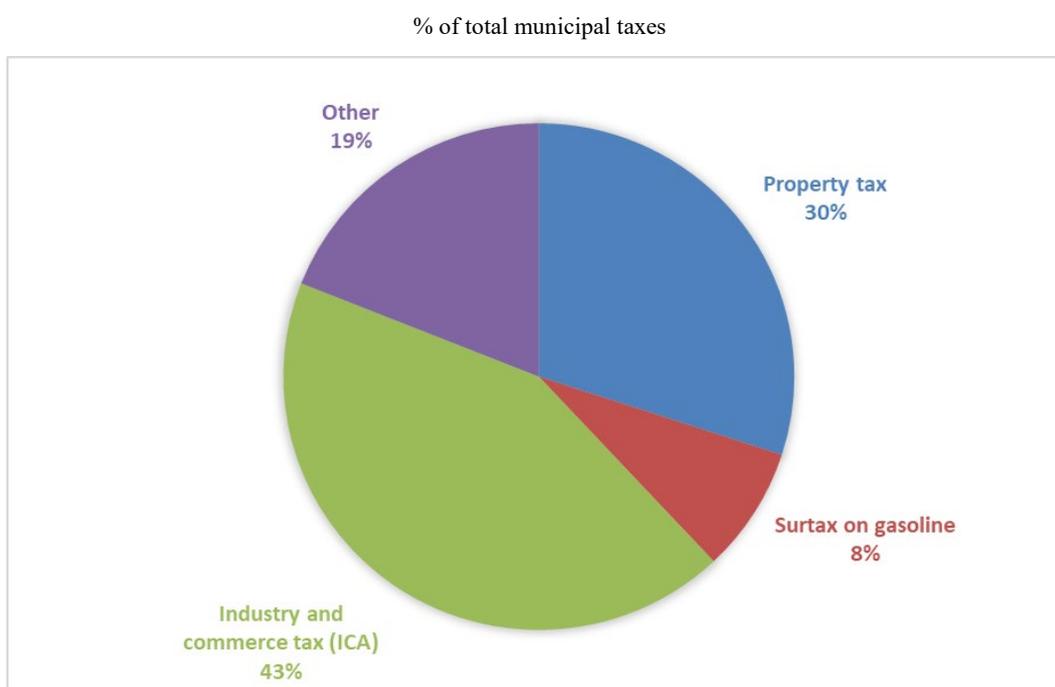
Figure 4. Categories of sub-national government revenues in OECD countries, 2016 per cent of total



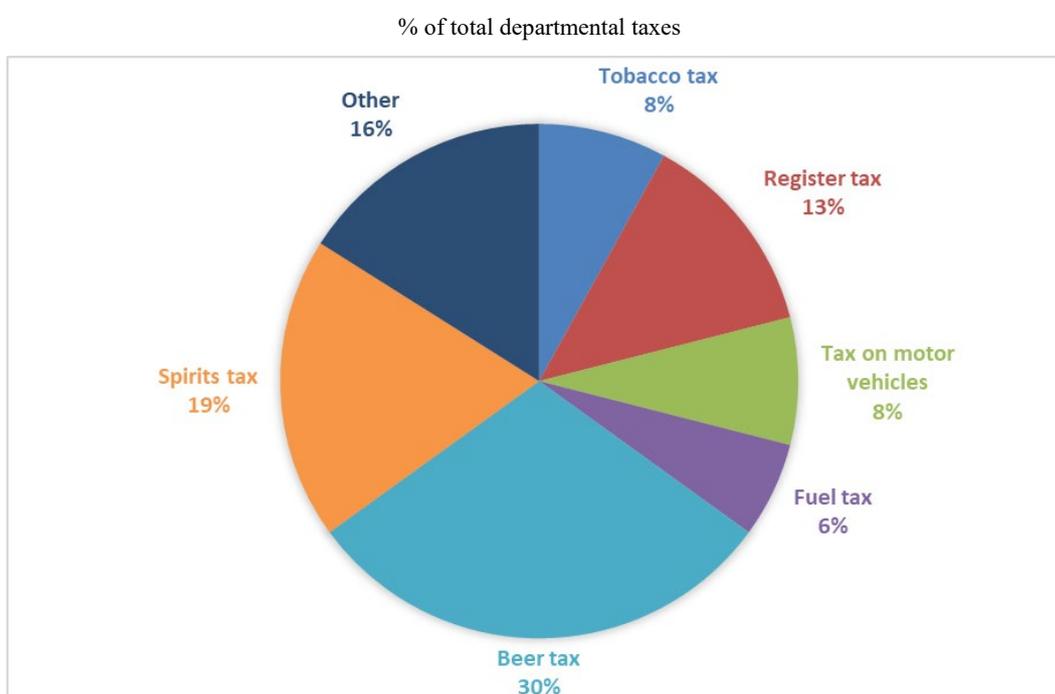
Source: OECD (2018) Subnational governments in OECD countries: key data (brochure); Authors' calculations for Colombia based on OECD national accounts (data extracted on 7 March 2018).

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 (33%) and gasoline surtax (7%) (OECD and UCLG, 2017^[14]; OECD, 2014^[11]) (Figure 5 and Figure 6).

Due to relatively low taxing powers, combined with tight fiscal rules and earmarked grants, the overall fiscal autonomy of the subnational tier in Colombia is lower than on average in the OECD countries (OECD, 2014^[11]). However, perhaps due to tight fiscal rules, the sub-national government debt has fallen during recent years.

Figure 5. Municipal tax revenues, 2012

Source: OECD (2014), OECD Territorial Reviews: Colombia 2014, OECD Publishing.
<http://dx.doi.org/10.1787/9789264224551>

Figure 6. Departmental tax revenues, 2012

Source: OECD (2014), OECD Territorial Reviews: Colombia 2014, OECD Publishing.
<http://dx.doi.org/10.1787/9789264224551>

The rapid shift in Colombia from a centralised country to a decentralised one has not been without its challenges. The 2014 OECD *Territorial Review of Colombia* identified three main areas where multi-level governance practices, particularly with respect to investment, could be further developed: i) the central government transfer system; ii) taxing powers of subnational governments; and iii) coordination of public investments. The OECD also recommended that the transfer system be altered for more autonomy, flexibility, responsibility and solidarity among sub-national governments.

As for the tax system, measures to intensify the subnational tax collection were recommended (OECD, 2014). In addition, the recommendation was to simplify the tax instruments available for Colombian subnational governments and to increase the role of tax sharing between the subnational and central levels. Updating the cadastral and land registry was also advised, as well as giving subnational governments more freedom to manage the tariffs and fees associated with local public service provision.

In order to improve coordination across the levels of government, the OECD study suggested strengthening sub-national budgeting/planning system (for multiannual periods). Adopting a “golden rule” in the subnational fiscal discipline framework would help boost public investment (OECD, 2014_[11]).

Decentralisation in Colombia is based on long and medium-term plans, which are mostly laid out in the National Development Plans (NDP). National Planning Department (NPD) has a major role in both preparing the plans and supporting the stakeholders to participate and implement the agreed policies (OECD, 2014_[11]). The current National Development Plan is for years 2014-2018 and the next Plan will be prepared for years 2019-2023.

Rising decentralisation trends in developed economies

From international perspective, decentralisation has been an important trend in governance for more than seventy years, and it remains high in the political agenda in a number of countries. While the degree of decentralisation is difficult to measure and compare, the OECD Fiscal databases and other relevant sources have shown that decentralisation is still on rise in many countries. Data from the Regional Authority Index (RAI) also show that between 1950 and 2010 out of 81 countries covered by the database, 52 countries experienced a net increase in decentralisation and only nine experienced a net decline (Hooghe et al., 2016_[6]).

There are various political, economic and other reasons behind the popularity of decentralisation reforms. In practice, decentralisation is often a mix of fiscal, political and administrative measures. The outcomes of decentralisation depend on the way the process is designed and implemented, on sub-national capacity and on the quality of multi-level governance, including efficient co-ordination mechanisms across levels of government (OECD, 2018_[3]).

Pre-conditions for good decentralisation

The OECD has identified 10 pre-conditions for making decentralisation work (Box 1). Among these the focus on clarifying the responsibilities and functions assigned, as well as strengthening subnational capacities and coordination mechanisms, is fundamental. Other pre-conditions are linked to allowing some room for territorially-specific policies and the possibility for asymmetric decentralisation, with differentiated sets of responsibilities given to different types of regions/cities. Such mechanisms are critical to provide institutional and fiscal arrangements that better respond to local needs.

Box 1. Ten guiding principles for effective assignment of responsibilities

- 1) Clarify the sector responsibilities assigned to different government levels: while inevitably most responsibilities are shared across levels of government and spending responsibilities overlap in many policy areas, it is crucial to ensure adequate clarity and mutual understanding of the role of each level of government in the different policy areas to avoid duplication, waste, and loss of accountability.
- 2) Clarify the functions assigned to different government levels: equally important than the clarity in the assignment of policy areas, is the clarity in the different functions that are assigned – financing, regulating, strategic planning, implementing, or monitoring.
- 3) Ensure balance in the way different responsibilities and functions are decentralised: balanced decentralisation – i.e. when the various policy functions are decentralised to a similar extent – is conducive to growth. Ensuring balance in the way various policy functions are decentralised is essential to allow for complementarities across policies and integrated policy packages for effective territorial development approaches.
- 4) Align responsibilities and revenues and enhance subnational fiscal autonomy: the allocation of resources should be matched to the assignment of responsibilities assigned to SNGs. Subnational governments should control a portion of subnational resources in order to promote accountability of SNGs.
- 5) Actively support subnational capacity-building from the centre: more responsibilities at the subnational level need to be complemented with the human resources capable of managing them, and too often this dimension is under-estimated. Capacity development at the subnational level, particularly in poor or very small municipalities, must be actively supported with resources from the centre, and require long-term commitment. Capacity building must be tied into equalisation, public investment and regional development policies.
- 6) Build adequate co-ordination mechanisms across levels of government: since most responsibilities are shared, it is crucial to establish governance mechanisms to manage those joint responsibilities. Such tools for vertical co-ordination include for example platforms of dialogue, fiscal councils, contractual arrangements, conditionalities, standing commissions and intergovernmental consultation boards.
- 7) Support cross-jurisdictional co-operation through specific organisational arrangements or financial incentives, to increase efficiency through economies of scale.
- 8) Allow for pilot experiences and asymmetric arrangements: Allow the possibility for asymmetric decentralisation, in which differentiated sets of responsibilities are given to different types of regions/cities, based on population size, urban/rural classification or fiscal capacity criteria. Ensure flexibility in implementation, allowing for pilot experiences in specific places/regions – and permanent adjustments through learning-by-doing.
- 9) Effective decentralisation requires complementary reforms in the governance of land-use, regulatory frameworks, subnational public employment systems, and citizen participation.
- 10) Enhance data collection and strengthen performance monitoring: monitoring and data collection need to be carried out to monitor the effectiveness of subnational public service delivery and investments. Most countries need to develop effective monitoring systems of subnational spending and outcomes.

Source: Allain-Dupré (2018) Assigning responsibilities across levels of government: Trends, challenges and guiding principles for policy-makers, OECD Working Paper, Fiscal Federalism series and OECD (forthcoming) Making Decentralisation Work: a Handbook for Policy-Makers.

B. Colombia has instruments of asymmetric decentralisation, but does not yet exploit them to their full potential

What is asymmetric decentralisation?

Asymmetric decentralisation occurs if governments at the same subnational government level have different political, administrative or fiscal powers (Congleton, 2015^[17]) (Figure 7). *Political asymmetric decentralisation* refers to situations where some regions or subnational governments have been given political self-rule that deviates from norm or average assignment.

One common way to categorise asymmetric decentralisation has been to divide the policies into “de jure” or “de facto” arrangements (Martinez-Vazquez, 2007^[18]; Bird and Ebel, 2006^[4]). De jure asymmetric decentralisation is based on special legal status of a certain region. In some cases, the status is outlined in the constitution, but more often asymmetric treatments are established in the ordinary law (sometimes both)². The regions with special “de jure” status often enjoy considerably broader political autonomy than other regions. Politically motivated asymmetry usually leads to administrative and fiscal asymmetry as well.

Even if subnational governments belonging to same government tier were treated symmetrically in terms of the politico-legal system, there might still be “de facto” asymmetry in implementation. This *administrative asymmetry* often aims to take the different capacities of subnational governments into account. Administrative asymmetry may for example include sequencing a national policy so that the subnational governments that fulfil certain predetermined standards³ are given greater autonomy in spending and revenue. The rest of the subnational governments could then ‘grow into this role’ over time.

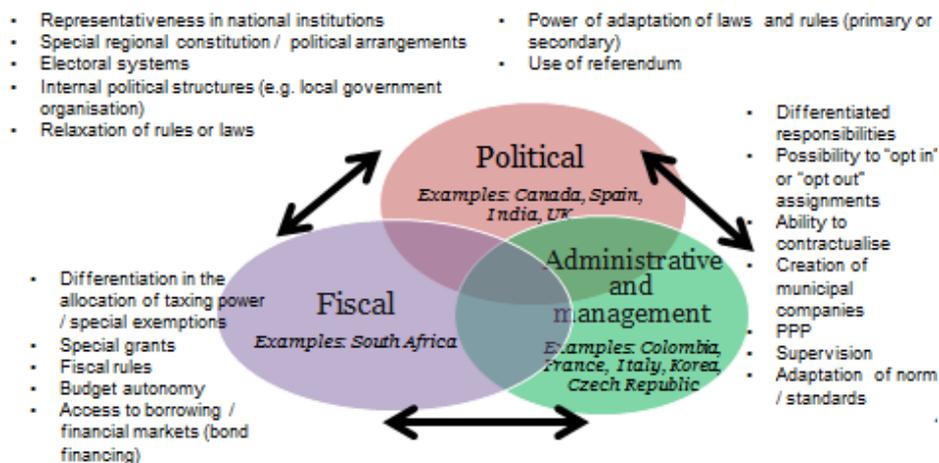
Asymmetric fiscal arrangements consist of wide variety of measures including special spending responsibilities, revenue bases or taxation rights and additional transfers. The main forms of asymmetric fiscal decentralisation can be summarised as follows:

- *Differential spending assignments.* For example, some regions or subnational governments may be assigned tasks in specific services, which are otherwise provided by central government or higher level of subnational governments.
- *Differential revenue autonomies.* The subnational governments with more capacity may be given more tax autonomy than usual. Asymmetric autonomy could be used also for collecting user fees or selling property.
- *Differential treatment in transfer system.* In this case, the regions with unique service needs or exceptional operating environment may justify the use of special purpose grants or use of certain criteria in formula-based grants. Specific transfers may be used as an alternative to differential revenue autonomies.
- *Differential fiscal rules.* Some subnational governments may be given more room for maneuver in borrowing for example. This could be the case if the subnational government has special needs for public investments and if it is capable to fulfill its obligations.

² The division of asymmetric arrangements (with legal basis) into ones that are based on constitutional status and others that are based on ordinary law, is of course a simplified description of reality. In many cases, like for example in Spain, the regions may have special status both by constitution and ordinary law (Garcia-Milà and McGuire, 2007^[38]).

³ Sometimes the asymmetric arrangement can be based on discretion also. This could be the case if, for example, specific rules would be difficult to define or costly to administer.

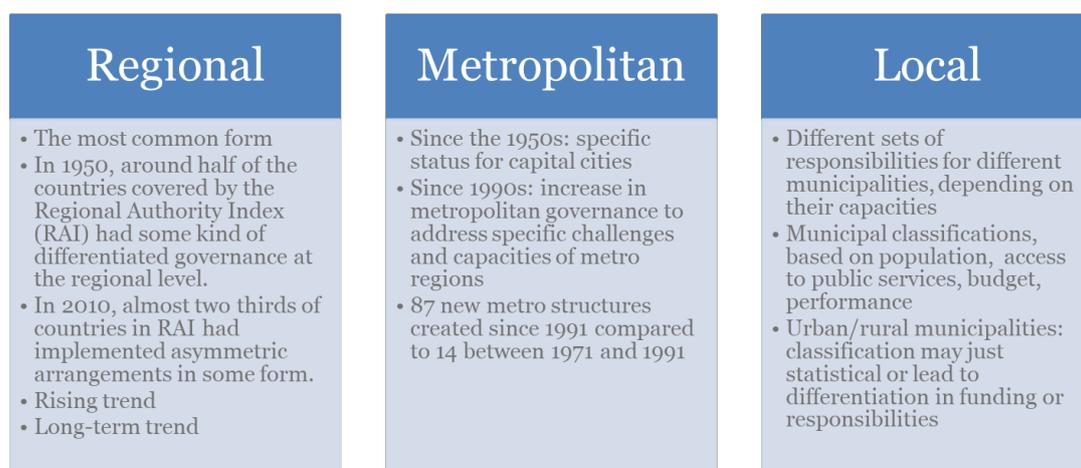
Figure 7. Three main types of asymmetric decentralisation



During the last seven decades or so, asymmetric arrangements have become more common especially among unitary countries. In 1950 some 45% of the countries covered by the Regional Authority Index (RAI) and with regions had some kind of differentiated governance (autonomy, asymmetry, or dependency). In 2010, this figure had increased to 62% (Hooghe et al., 2016_[6]).

Asymmetric decentralisation is often applied at three different scales: regional (state/province), metropolitan and local levels (Figure 8). Also in this respect asymmetric decentralisation trends are changing: whereas during the past decades the asymmetric arrangements occurred mostly at the regional level, the present trend seems to apply asymmetric decentralisation to large cities or for selected local governments. Large cities have experienced growth in asymmetric decentralisation arrangements perhaps because the benefits of urbanisation and agglomeration economies have become more widely understood and accepted. As a result, the number of metropolitan governance authorities has increased during the past decades. Currently, around two-thirds of the metropolitan areas in the OECD have a metropolitan governance body (Ahrend, Gamper and Schumann, 2014_[19]).

Figure 8. Different scales of asymmetric decentralisation



Source: OECD Making Decentralisation Work: A Handbook for Policy-Makers, 2018 forthcoming

Motives for different types of asymmetric decentralisation

This section provides a short overview of the various political, administrative and fiscal motives behind the asymmetric arrangements.

Political asymmetric decentralisation is usually a response to specific regional needs

There may be historical, cultural and/or ethnic reasons for the special political treatment of some regions or subnational governments. The aim can for example be to safeguard the unity of a nation-state by granting some regions a special status with more autonomy. Asymmetric arrangements sometimes date back to the formation of the country.

Political asymmetry is typical especially for federal countries. There are however different degrees of asymmetric federalism: some federal countries are highly asymmetric, such as Belgium, Canada, India, Russia, or Spain. Some federations tend to favor symmetry, like Australia, Austria, Germany, Switzerland and the US. However, even the most “symmetric federations” like the US and Switzerland have elements of asymmetry (Bird, 2003^[20]; Dafflon, 2006^[21]).

In unitary states, symmetry is often one of the basic principles of the state, motivated by equity and integration of different parts of the country, such as in Chile or France (“*une et indivisible*”). However, some unitary states have strong elements of asymmetry, in particular to recognise a different status of territories having a strong history/identity (Italy, UK) as well as peripheral territories such as outermost regions, islands, or outlying regions (Finland, France, Portugal) (Table 1).

Table 2. Asymmetric decentralisation/federalism

Federal countries	Unitary countries
<ul style="list-style-type: none"> • Asymmetry is often a basic characteristic of federation. There are however different degrees of asymmetry: <ul style="list-style-type: none"> • <i>Asymmetric:</i> Belgium, Canada, India, Russia, Spain • <i>More symmetric federations:</i> Australia, Austria, Germany, Switzerland, USA • However, even the most “symmetric federations” have elements of asymmetry e.g. USA. 	<ul style="list-style-type: none"> • Symmetry is often one of the leading principles of unitary state (with unity and integration) • However, some unitary states have strong elements of asymmetry, in particular to recognise a different status to territories having strong history/identity (Italy, UK) as well as peripheral territories such as outermost regions, islands, outlying regions (France, Portugal, Finland). • Asymmetric decentralisation is increasing, based on new motivations.
Greater convergence in recent years	

Source: OECD.

Practical implementation issues motivate administrative and fiscal asymmetry

Asymmetric administrative arrangements can be justified by *efficiency* considerations if the majority of subnational governments are too weak to take charge of service provision without substantial aid and support from the central government. For example, in order to initiate important policy measures and to utilise the efficiency benefits from decentralisation, the central government may decentralise responsibilities first to large urban areas, provided that they have the required fiscal and administrative capacity. Likewise, at the regional level, it may make sense to decentralise responsibilities first to a limited number of provinces or counties. At later stages, the other subnational governments could follow suit, provided that they have achieved the level of capacity needed to assume the responsibility of spending and revenue assignments. In this case, it is important that there is some kind of training system in place for subnational governments, and that the rules of eligibility are transparent.

Sometimes large-scale reforms, such as amalgamations of subnational governments or reforming the intergovernmental transfer system, are not feasible due to lack of resources or time, or political obstacles. Asymmetric approach can then provide a flexible alternative to simultaneous assignments. For instance, if the circumstances differ significantly between regions, and designing and operating a financial aid system and normative regulation is considered too burdensome, an approach that devolves tasks on a case by case basis might be more appropriate (Bird and Ebel, 2007^[22]; Bird, 2003^[20]).

Asymmetric arrangements among subnational governments may also help accommodate heterogeneous preferences about autonomy. While decentralisation is usually accepted by most stakeholders in principle – when responsibilities come along with resources – in practice the preparedness to receive new responsibilities or powers may vary considerably among regions and municipalities. If this is the case, a sequenced approach could ease the transition into new allocation of tasks between government levels (Bahl and Martinez-Vazquez, 2005^[23]).

Perhaps paradoxically, asymmetric decentralisation may help central governments promote national goals for *uniform service delivery*. Usually a unity in outcomes (such as guaranteeing a minimum service level) is the ultimate policy goal, not uniformity in production.

Reaping the benefits of asymmetric decentralisation

Utilising the varying strengths of subnational governments

Decentralisation can lead to substantial benefits in public service provision and decision-making, such as better responsiveness to local needs, innovativeness, transparency, accountability and administrative efficiency. Applying policies uniformly, i.e. in the same way to all subnational governments, however requires that all subnational governments are reasonably well equipped with administrative and service delivery capacities. If this is not the case, then asymmetric decentralisation can provide a real alternative to uniform implementation.

Asymmetric decentralisation can enable implementing decentralised policies even if the majority of subnational governments are not yet equipped with the capacity required for local service delivery.⁴ In this case the spending or revenue powers can be first assigned to the subnational governments that are best capable handling the new responsibilities. In this way

⁴ Asymmetric decentralisation can be Pareto improving if asymmetric treatment results in benefits in the favoured subnational governments without causing costs for the rest of the society. Even in case costs would occur, provided there are net benefits, at least in theory it is possible to compensate the “losers”.

asymmetric decentralisation can contribute to democratisation and efficiency of public service delivery. Since the asymmetric assignments are usually first applied in the biggest subnational governments, benefits can in fact be substantial from the outset. Asymmetric arrangements also avoid giving spending or revenue powers to jurisdictions that are “too small, too weak, or too poor” (Congleton, 2006^[24]).

On the other hand, in some cases the smallest and weakest subnational governments may just as well be the first to benefit from asymmetric arrangements. For instance, remote and rural municipalities may be given permission to tax special revenue bases in order to strengthen their economic position (a revenue from tax on natural resources could be such an example). Naturally, the equalising transfer systems will also have a similar effect. Central governments may also practice asymmetry in their policies, for example by providing extraordinary expert support and advice to the smallest, weakest and poorest subnational governments.

Tailoring solutions for special challenges

Differentiated institutional frameworks are often especially beneficial in major urban and metropolitan areas, or in the most remote rural regions. It is not practical to implement policies symmetrically if they are relevant only for a subset of subnational governments such as the main urban areas or the most remote rural regions. The economic growth in major urban areas benefits the economy in general. Therefore, the asymmetric policies that promote agglomeration economies and human capital spillovers in main metropolitan areas are highly valuable for society as a whole.

Asymmetric decentralisation also helps implement tailored governance frameworks and place-based regional policies. For example, the effects of major exogenous shocks such as natural disasters or climate change usually affects different regions differently (OECD, 2017^[25]).

Experimenting

Sequencing may also enable the governments – both central and subnational – to learn from successes and mistakes and take necessary steps to revise the reform if needed. In this way the asymmetric decentralisation can be seen as a form of *experimenting* and “menu federalism”, where the subnational governments choose voluntarily the tasks that best serve their own interests (Congleton, 2015^[17]).

Ex ante project evaluation is often difficult to carry out in practice, leading to considerable uncertainties about the eventual effects of a specific decentralisation policy. Uncertainty about the consequences of the policy may impede initiation of important decentralisation reforms. An asymmetric approach which would first devolve tasks or give revenue powers only to a limited number of subnational governments, could give the opportunity to collect information and better understand the effects of decentralisation. Only after gaining better understanding about the benefits and costs of decentralisation, the process could be extended to apply a wider range of subnational governments. In this way, asymmetric decentralisation can be seen as a form of experimenting, which enables innovative approaches and “learning by doing” both for local and central government.⁵ As decision-makers cannot predict all the effects and the future outcomes, they should be able to revisit their decision-making. Asymmetric decentralisation gives them this option.

⁵ A systematic experiment would include a careful planning and selecting a comparison group for the subnational governments that participate the program.

Diffusing regional tensions

Accommodating diverse preferences for political and fiscal autonomy across regions may mitigate separatist movements and help maintain political stability. While these events are perhaps the most well-known examples of asymmetric federalism, they are rare examples compared with the other forms of asymmetric decentralisation.

Addressing the challenges of asymmetric decentralisation

Successful outcomes of asymmetric decentralisation largely depend on implementation. Like any policy, asymmetric arrangements carry challenges and risks that must be addressed and mitigated. This section discusses ways to avoid unwelcome and unintended effects of asymmetric decentralisation. Table 3 summarises the main pros and cons of asymmetric decentralisation. Box 2 presents a summary of recommendations for implementing asymmetric decentralisation.

Finding balance between heterogeneity and equity aspects

Perhaps the most significant risk of asymmetric decentralisation relates to the fact that – by definition – asymmetric arrangements do not directly promote equal treatment of subnational governments and citizens. In some cases, asymmetric decentralisation may result in a perception that asymmetry means deviation from an overall objective of equality. Spending assignments with a clear redistributive function such as education, health and social services could be examples of such services. These considerations can be diminished if the participation in an asymmetric arrangement is kept voluntary and if the central government or other higher level of subnational government takes responsibility for service provision in non-participant areas.

Related to the previous argument, there may be a risk that asymmetric decentralisation is perceived as support for the wealthiest regions or subnational governments. The “favoured” governments may be able to attract citizens and business from other subnational governments, which could accelerate the differentiated economic and social development between regions. This could result in widening regional differences and horizontal fiscal gaps, and lead to demands that such asymmetries ought to be limited (Congleton, 2006^[24]).

Asymmetric decentralisation may diminish the central government's ability to pursue national objectives and engage in coordination of public policies. For example, national goals for universal service levels and quality standards may be difficult to reach in a very heterogeneous service provision system. These considerations are diminished if asymmetric decentralisation is not very widespread, however. One should also note that centralisation is not the only method of solving coordination problems or of realising economies of scale (Congleton, 2006^[24]).

Ensuring transparency and accountability

If widely applied, asymmetric arrangements may reduce the transparency and accountability of governance and result in complex administrative systems. This could in turn lead to inefficiency in public administration and service provision in both central and subnational levels of government (Bird, 2003^[20]; Bahl and Martinez-Vazquez, 2005^[23]). In addition, other negative effects such as increased corruption or favoritism could possibly result. These effects are mitigated, however, if asymmetric decentralisation is carried out as part of a carefully designed wider decentralisation policy (Congleton, 2006^[24]; Bahl and Martinez-Vazquez, 2005^[23]; Congleton, 2015^[17]).

In order to ensure the continuity and the predictability of government, there should not be frequent changes in asymmetric decentralisation policies. Once the asymmetric assignments have been decided and put in practice, it may not be politically easy to reverse the process. Because of this “path-dependency”, asymmetric decentralisation should be based on careful planning and agreements between all main stakeholders.

Table 3. Benefits and challenges for asymmetric decentralisation policies

Benefits	Challenges
<ul style="list-style-type: none"> • Accommodate diverse preferences for autonomy across regions • Adapting the institutional and fiscal frameworks to the capacities of subnational governments • Advanced form of place-based policies • Experimenting • Sequencing decentralisation • Providing the enabling institutional environment to design territorial development strategies more targeted to local needs • Tailoring solutions for special challenges 	<ul style="list-style-type: none"> • Lack of accountability and transparency • Complexity and coordination costs • Lack of clarity for citizens • Potential risks of increased disparities (in capacities) • Secession and autonomy

Source: OECD.

Box 2. Some recommendations for implementing asymmetric decentralisation

- Asymmetric decentralisation should be part of a **broader strategy of multi-level governance and territorial development**. Asymmetric decentralisation is not an end in itself, it is a means to achieve multi-level governance goals.
- Asymmetric decentralisation should be supported by effective **vertical and horizontal coordination** mechanisms.
- Asymmetric decentralisation needs to go hand-in-hand with an effective **equalisation system**.
- The **type of asymmetric decentralisation** should be well defined (political, administrative/management or/and fiscal) and have a clear rationale as the objectives and instruments will differ in each case.
- The **scale and scope** should be clear (large part of the territory vs. restricted, regional, metropolitan, local levels; permanent vs. transitory, timing, pilot/experimental).
- The way **asymmetric responsibilities are allocated should be explicit**, mutually understood and clear to all actors.
- Asymmetric decentralisation approach should be based on **dialogue, transparency and agreements** between all main stakeholders.
- To the extent possible, participation in an asymmetric arrangement should remain **voluntary**. The central government or other higher level of subnational government can take responsibility for service provision in non-participant areas.

- **A variety of incentives** (not just financial) should be used to foster participation in voluntary schemes or pilot experiences.
- **A well-defined and transparent approval system** for prospective participating subnational governments should be used.
- The **effects of asymmetric decentralisation** should be carefully monitored on a regular basis and the results of such evaluations should be used to revise the plans if needed (including the effects on equity and national cohesion).
- A system for **communicating good practices and lessons** learned from the asymmetric arrangements should be organised.
- **Keep a rational number of asymmetric arrangements** within the same country to limit coordination costs and complexity.

Asymmetric decentralisation in Colombia – mostly administrative and fiscal

This section aims to give a short description of asymmetric decentralisation arrangements currently practised or underway in Colombia. At the end of the subsection, Table 5 provides a summary of the asymmetric assignments in Colombia grouped into political, administrative and fiscal arrangements at regional, metropolitan and local government levels.

Political asymmetric decentralisation

There are currently a number of political asymmetric arrangements present in the Colombian multilevel governance model. At the *regional level*, a key asymmetric policy measure is the special right of indigenous peoples to manage their own territory. There are currently 811 indigenous territories in Colombia, and the indigenous population in Colombia is estimated at 1.5 million, which represents approximately 3,4% of the national population. The land area covered by indigenous territories (resguardos) is nearly 30% and in some departments about 70%. While already the 1991 Constitution recognised Colombia as a multi-ethnic nation, with special attention to indigenous populations, a landmark decision in the autonomy of indigenous regions was the Decree 1953 of 2014. The Decree enlarged the autonomy of the indigenous territories, allowing them manage directly the specific allocation of resources. However, the remaining regulatory gaps and prerequisites made it difficult for some indigenous reserves to comply, which limited implementation (United Nations High Commissioner, 2016^[26]). Furthermore, while the Amazon region was divided into political-administrative departments and municipalities, many indigenous territories remained as “non-municipalised areas”. As a result, approximately 38% of the Colombian Amazon did not have a formally recognised local government (Gaia Foundation, 2018^[27]). These problems were taken into account by the latest decision made in April 2018 (Decree 632), which further strengthens the autonomy of indigenous peoples of Guainía, Vaupés and Amazonas, which are departments of Colombia’s Amazon region. The Decree 632 allows indigenous communities to execute and administer state resources without intermediaries (Gaia Foundation, 2018^[27]).

Box 3. Recent reforms linked to indigenous territories in Colombia

Decree 1954 of 2014 and decree 632 of 2018 jointly define the legal framework for Indigenous Territories in Colombia. Decree 1953 defines the mechanisms through which the Indigenous Territories can administer sectoral SGP. Decree 632 defines the procedure to establish an Indigenous Territory. The request to establish an indigenous territory must be made by the local communities in the area. After establishing of the Indigenous Territory, these entities can request administration of central government transfers for investments in these Territories. As for health, education, water and sewage, the Indigenous Territories are treated as other Colombian subnational governments. In other words, the special treatment of Indigenous Territories concerns only the grant for capital spending and it is not applied in case of operating spending assignments.

At the *metropolitan level*, the special status of Bogotá forms another important example of political asymmetric decentralisation in Colombia. The 1991 Constitution and the organic statute in 1993 granted Bogotá more political, fiscal and administrative autonomy than the rest of the municipalities. Since then, Bogotá has been considered as an example of successful implementation of asymmetric decentralisation in Colombia. In particular, Bogotá has been able to improve revenue collection, curb excess spending and enhance the efficiency of service provision (Fedelino and Ter-Minassian, 2010_[28]). On the revenue side, Bogotá introduced new taxes, raised rates of existing taxes and enlarged the tax bases. The increased revenue was used to improve the key services and to balance the previously deficit budget. Bogotá also improved the management of public utilities and social services and allowed the private sector to participate in service production, which provided a useful benchmark for public provision (Fedelino and Ter-Minassian, 2010_[28]). Bogotá's current challenges are related to population growth not just in the city itself but also in the surrounding municipalities. However, perhaps as the larger Bogotá area consists of city of Bogotá and comparably small and economically weak municipalities, forming an area-wide metropolitan governance body in Bogotá area has not yet gained enough political support. As a result, the current legal system does not enable applying Metropolitan Area regulations to Bogotá (article 1, law 1625 de 2013).

At the *local level* an example of asymmetric political arrangement is the special “district” status of five municipalities (*distritos especiales*): Bogotá, Barranquilla, Buenaventura, Cartagena de Indias and Santa Marta (OECD, 2016_[10])⁶. These municipalities have been selected due to their particular political, commercial, historical, industrial, cultural or environmental characteristics. While the district-status allows these municipalities to enjoy certain prerogatives, the status however seems more symbolic than substantive.

Administrative asymmetric decentralisation

The special status of six metropolitan areas, or *áreas metropolitanas* (OECD and UCLG, 2017_[14]), is an example of administrative asymmetric decentralisation in Colombia. At present, the legally recognised metropolitan governance model is implemented in Valle de Aburrá, Bucaramanga, Barranquilla, Cúcuta, Centro Occidente and Valle del Cacicue Upar (OECD,

⁶ Bogotá, Distrito Capital; Cartagena de Indias, Distrito Turístico y Cultural; Santa Marta, Distrito Turístico, Cultural e Histórico; Barranquilla, Distrito Especial, Industrial y Portuario; Buenaventura, Distrito Especial, Industrial, Portuario, Biodiverso y Ecoturístico.

2014_[11])⁷. These metropolitan areas have more administrative and fiscal autonomy than other urban regions. According to law, the initiative for the metropolitan governance must come from the municipalities located in the areas, and the central government then makes a separate decision on the legal status of the arrangement. The arrangement allows municipalities to manage jointly some services of area-wide importance (e.g. transport) that require administrative agreements (Sanchez-Serra, 2016_[29]). The municipalities inside an established metropolitan area do not lose their autonomy. The Metropolitan areas have however faced some difficulties in the practical arrangements. This is partly because the laws regulating the “áreas metropolitanas” are unclear on how these administrative systems should work.

Another example of administrative asymmetric decentralisation is the inter-municipal co-operation. However, while the Colombian government has provided a new legal basis for intermunicipal cooperation with the 2011 Organic Law governing the Territorial Organisation (*Ley Orgánica de Ordenamiento Territorial*, LOOT), in 2016 there were only 11 cooperative structures at the municipal level that had directly followed the LOOT. Another 14 arrangements were waiting to be accepted (OECD, 2016_[10]). Lack of financial incentives, shortages of special organisational skills and low levels of trust between subnational governments may explain the small number of co-operative arrangements seen so far.

The system to classify municipalities and departments is an important administrative tool for the central government to organise differentiated policies concerning subnational governments⁸. The classification of municipalities into seven groups is based on their population and revenue base⁹. The categorisation includes a “special category” which consists of the largest cities and six other categories (see Table 4). Although the groups are updated annually, changes in the groups over time have been very small: the number of municipalities in each group in 2017 is almost the same as that in 2010.

Table 4. Classification of municipalities

Category	Population	Own (ICLD) ¹⁰ revenues	Number of municipalities 2010	Number of municipalities 2017
Special	> 500.000	> 400.000	6	5
First	100.001-500.000	100.000 – 400.000	16	27
Second	50.001-100.000	50.000 – 100.000	16	19
Third	30.001-50.000	30.000 – 50.000	20	16
Fourth	20.001-30.000	25.000 – 30.000	25	27
Fifth	10.001-20.000	15.000 – 25.000	24	36
Sixth	< 10.001	< 15.000	995	971

Source: Law 617 of 2000; General Accounting Office of the Nation of Colombia (CGN) spreadsheet (generated 21/11/2017); (Lozano and Martínez, 2013_[30]).

⁷ Only one metropolitan governance body has been created in Colombia since 1991: the Valle del Cacique Upar in 2005.

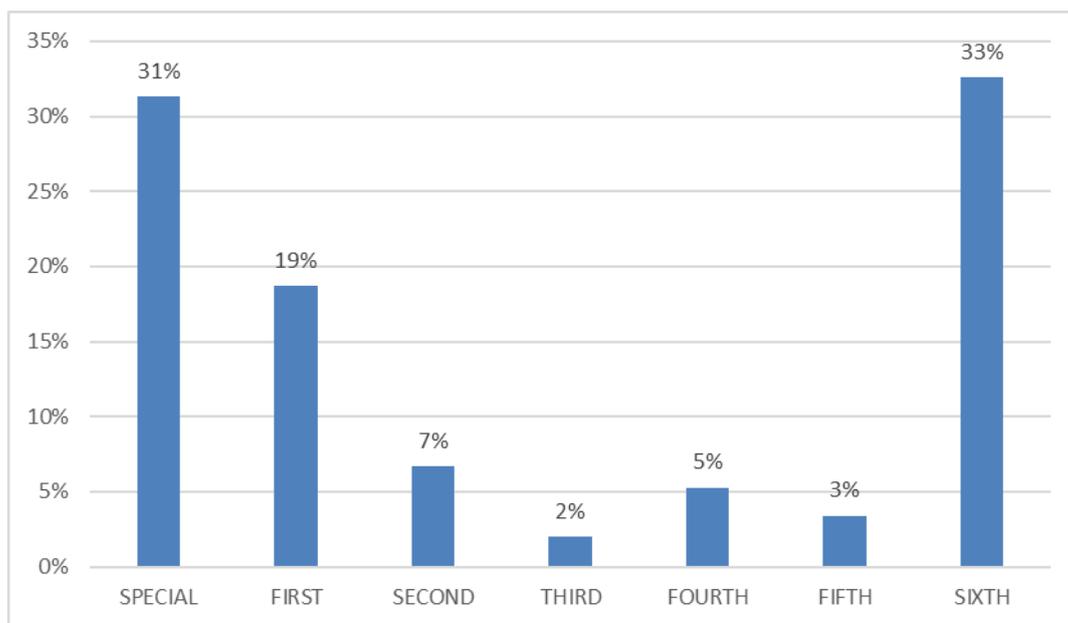
⁸ Classification is defined by Law 617 of 2000.

⁹ Tax revenues of “free destination”, i.e. without regulation on use.

¹⁰ Expressed in Minimum Legal Monthly Wages.

While 88% of Colombia's 1 102 municipalities are currently in the lowest category (class six), it should be noted that 50% of the population in Colombia lives in municipalities that are classified in the two highest classes (Figure 9). A similar observation (even stronger) can be made for departments¹¹.

Figure 9. Population shares of the categories defined according to Law 617



Source: General Accounting Office of the Nation of Colombia (CGN) spreadsheet (generated 21/11/2017); Authors' calculations (data extracted from CGN internet pages on 4 May 2018).

Fiscal asymmetric decentralisation

Since the capacities vary a great deal between subnational governments, the Colombian government uses a certification system to identify the subnational governments that are best capable to provide important public services. The certifications are mostly operated by line ministries and they are sector specific (education, health, water and sewage) so that a certification in one sector does not automatically lead to certification in another sector. The certified municipalities have more autonomy to allocate the central transfers and to organise service provision. The certified subnational governments are also in an advanced position to apply for special central government funding for projects, a policy which has also been criticised because it may maintain or even fuel inequality between subnational governments (OECD, 2016^[8]).

In general, the share of certified subnational governments has been low¹². As a result, most Colombian municipalities do not yet fulfil the requirements set by government for more

¹¹ Out of 32 departments, three belong to group 1, five to group 2, nine to group 3, five to group 4 and ten to group 4. The sum of population share of the first two groups is 53% while the population share of group 4 is just 7%.

¹² Only approximately 8% of subnational governments are certified in education (OECD, 2016^[10]), and 36% in health (Minsalud, 2018^[40]). In water services, 68% of municipalities have been certified.

autonomous decentralised service provision but rather are subject to relatively strict central government steering.

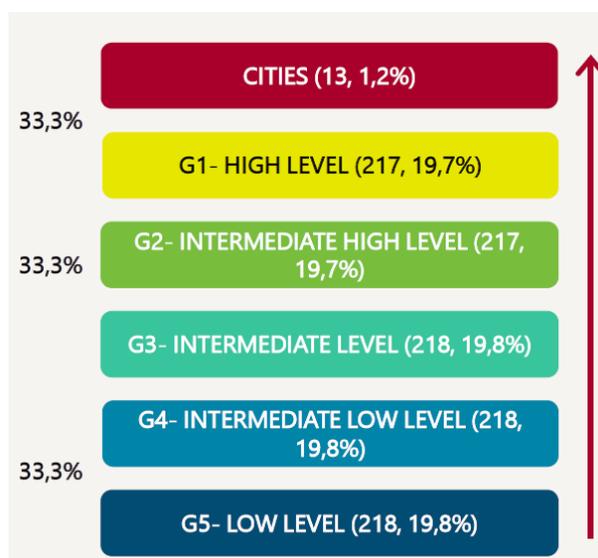
In order to improve coordination of investments among different levels of government and to create stronger incentives for subnational governments for effective co-operative activities, the Colombian government decided to launch a model of “Contratos Plans” in 2011. The Contratos Plans are in effect investment programmes in specific areas. The Plans are defined jointly by the national government, departments and municipalities and they are tailored to local needs. Once the agreement is made, the central government finances a large share – or most - of the programme. The latest Contrato Plans have focused on supporting areas that have been affected by the conflict, and on areas with low economic, social and environmental circumstances (OECD, 2016^[10]).

The system of royalties from mostly from the mining and oil industries provides another example of asymmetric fiscal decentralisation in Colombia. There is a notable differentiation present in the distribution of royalties in Colombia. For instance, in 2013-2014, about 30% of this funding was paid to the eight most important oil- and mining-producing departments, even though they represent only 17% of the national population (OECD, 2014^[11]).

Although not directly connected with implementation of asymmetric decentralisation, it is worth mentioning that the Colombian ministries and the National Planning Department (DNP) regularly measure the performance of municipalities and departments in service provision and administrative capacities. The previous performance and capacity measurement, the IDI measurement system (*Índice de Desempeño Integral*), covered subnational government administrative capacities. This model has recently been replaced by a new indicator system called MDM (*Medición de Desempeño Municipal*). The MDM indicator measures the management quality and results. Published online, the aim of the MDM indicator is to provide information for comparison and benchmarking purposes. MDM index ranks the municipalities within six predetermined groups¹³ according to their index value (values vary between zero and one). The first group consists of the main thirteen cities and the rest of the municipalities are divided into five equally sized groups (each group has 217 or 218 municipalities) (Figure 10). The MDM –ranking will be updated every four years.

¹³ The grouping used in MDM is not the same as in the classification defined by Law 617.

Figure 10. The classification of municipalities according to a new performance indicator MDM (Medición de Desempeño Municipal)



Source: A Power Point presentation by DNP (2018).

In order to extend the fiscal asymmetric decentralisation arrangements into new spending assignments, the Colombian government is launching several new pilot experiments, focusing on a series of specific responsibilities: protection and reinsertion and return of victims, transport (tertiary roads), early childhood, and agricultural and rural development. After preparation, it was decided that the first pilots would be carried out in three assignments: attention program focusing on victims, land registries and transport (tertiary roads).

Participation in the experiments will be voluntary. The applications sent in by the subnational governments and by Territorial partnerships schemes (TPS) will be evaluated by the line ministries responsible for each service area. The participating subnational governments will receive a grant that covers the costs of providing the service.

The first delegation in motion is the task of multi-purpose land registry. Thus far, the central government has received eleven applications from subnational governments, three of which have been selected to take part in the experiment: the municipality of Barranquilla, the metropolitan area of Centro Occidente, and the metropolitan area of Bucaramanga. Other responsibilities have not yet been transferred on an asymmetric basis.

Table 5. Summary of asymmetric decentralisation policies in Colombia by type and scale

	Political	Administrative	Fiscal
Regional	Special role of the 811 indigenous regions.		<ul style="list-style-type: none"> • Royalty revenues • Contratos Plans • Certification system • Pilot experiments
Metropolitan	The special legal status ¹⁴ of the capital city of Bogotá since 1991.	Special spending and revenue powers of six metropolitan areas defined in the organic law ¹⁵ , aiming for coordinated administration in the area.	
Local	The district-status granted by law ¹⁶ to five municipalities.	Targeted policy measures based on categorisation of subnational governments.	<ul style="list-style-type: none"> • Royalty revenues • Contratos Plans • Certification system • Pilot experiments

Source: Law 1421 of 1993, Law 1617 of 2013, Decree 632 of 2018, Law 1625 of 2013 (materials extracted from Colombian government internet pages on 4 May 2018).

Various asymmetric instruments are currently in place but remain largely underutilised

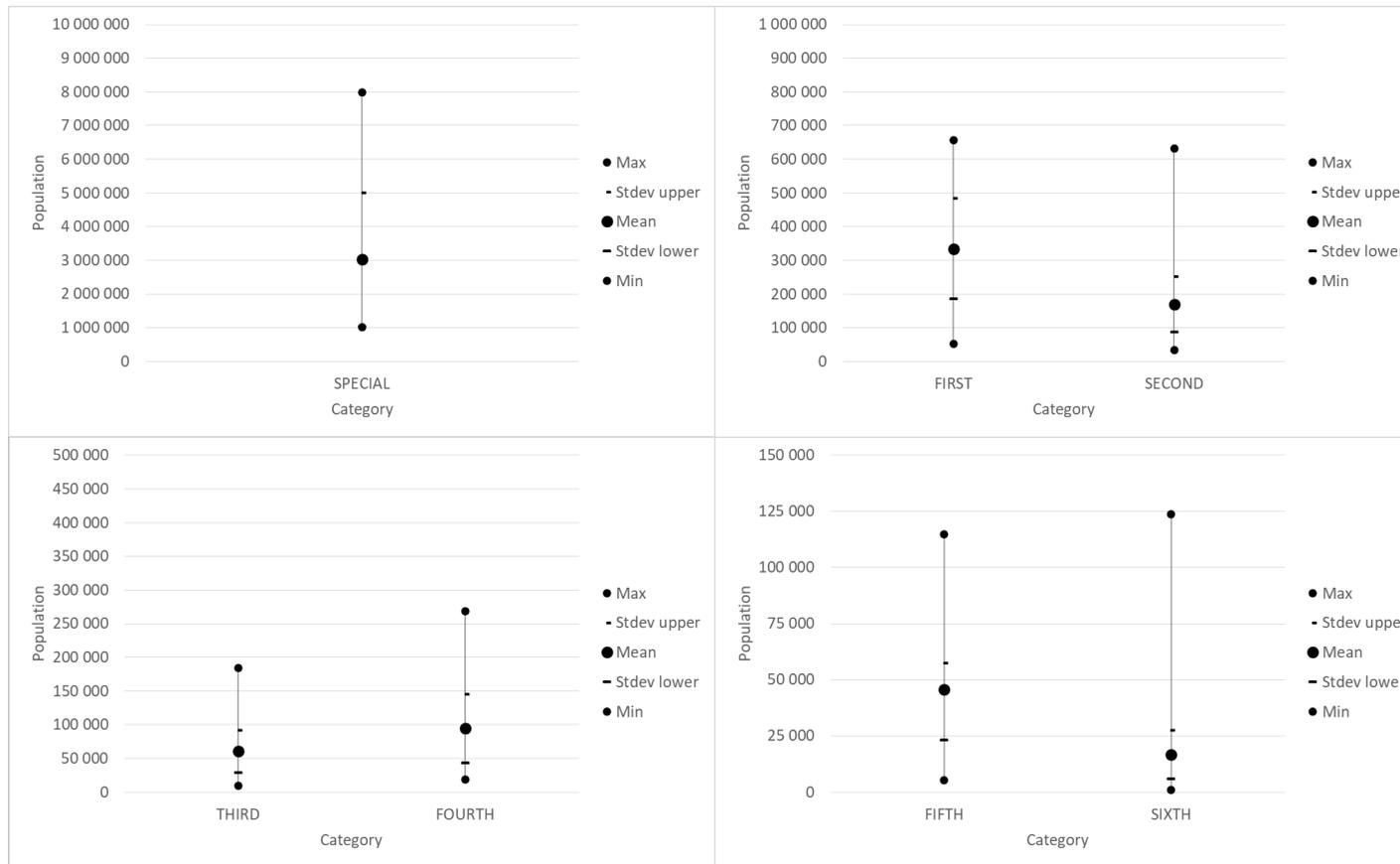
Colombia has established several tools and mechanisms of asymmetric decentralisation, but the practical implementation has not always followed suit. This section aims to briefly highlight some of the current challenges. Some examples of possible solutions are discussed in the last section of the paper.

Classification of municipalities

As was described above, Colombian municipalities are currently grouped into seven classes according to their revenues and population size. Classification is currently used as an administrative tool to target differentiated policies. It is for example used to as a criteria in the transfer system. While in principle the classification provides a simple instrument for the government to target differentiated measures to subnational governments, in its current form the classification seems problematic. From purely technical perspective the classification appears challenging because many groups in the classification clearly overlap and the sixth group of the classification currently covers most Colombian municipalities (see e.g. Figure 11). In its current form, the municipal classification seems not very useful for policy purposes, for

instance because it is unlikely that the municipalities in group six are homogenous. Therefore, some modifications could be considered. However, before altering the classification system, the overall indicator system formed by municipal classification, the various performance measures and certifications should be reconsidered in order to better utilise the information provided by the various indicators.

Figure 11. Variances of municipal population size in each classification group



Note: The population scales of the panels differ.

Source: General Accounting Office of the Nation of Colombia (CGN) spreadsheet (generated 21/11/2017); Authors' calculations (data extracted from CGN internet pages on 4 May 2018).

Metropolitan governance

Colombia has currently six urban areas with special metropolitan status but it is currently unclear how these areas actually utilise this governance model. The municipalities in major Colombian urban areas seem to lack the incentives to fully engage in the cooperation. Furthermore, some important urban areas such as Bogotá, Cali or Cartagena have not yet been defined as metropolitan areas. The legal status of metropolitan governance models seems to be unclear. This may result in confusion about the best way to organise the metropolitan area cooperation.

Indigenous territories

The autonomous local governance in communities inhabited by indigenous population has been a long-term policy goal for Colombia. While the legal foundation for indigenous regions has been developed several decades ago, the implementation has been slow at best. The recent decisions to further support the indigenous regions are therefore promising because they seem to clarify the right for indigenous communities to execute and administer state resources. The eventual results depend on the practical implementation.

Contratos plans

According to recent evaluations, the *Contratos Plans* have been effective in strengthening co-ordination, supporting capacity building and developing infrastructure. There have been however some problems enforcing the contracts, for example because there are no sanctions for failing to reach the set targets. In addition, monitoring the implementation of the Contracts has been challenging at times (OECD, 2016^[10]). It is also noteworthy that only a few new *Contratos Plans* have been signed after the first stage. Without further measures that incentivise subnational governments to engage in the Plans, there is a risk that the use of *Contratos Plans* will fade away.

Spending and revenue assignments

The fact that in Colombia the central government, the departments and the municipalities are often jointly responsible for the same tasks suggests an overlap in responsibilities. While some overlap is unavoidable in case of shared service responsibilities, a significant overlap in assignments would be problematic from co-ordination aspects and lead to inefficiency in service delivery. Moreover, overlapping assignments can incentivise subnational governments to avoid costs for example by transferring responsibilities to other levels of government (the “passing the buck”- behaviour).

In addition, the complex allocation of responsibilities across different levels of government can complicate the funding system. Lack of clarity may result in difficulties to assess if a specific service, whose management corresponds to different layers of the administration, is appropriately financed.

With a few exceptions, Colombia does not currently fully utilise the potential of asymmetric decentralisation in spending and revenue assignments. While the capacities differ considerably between subnational governments, the approach is mostly universal.

Co-operation between subnational governments

Inter-municipal cooperation since the LOOT law has not been very active. As a country with a large number of subnational governments and with no reforms underway for municipal

mergers, the inter-municipal co-operation could be a natural way to better utilise economies of scale. It seems that currently there are not enough incentives for inter-municipal co-operation.

Transfer system

The reform of the SGP system has been discussed for several years in Colombia but a final decision has not yet been made. A well-functioning transfer system is an essential part of modern multilevel governance and decentralisation. The overall reform on subnational government financing, including reform on own revenues sources, is clearly needed in Colombia.

Given the level of disparities and capacity challenges in Colombia, there is need to better use asymmetric arrangements and to develop further arrangements

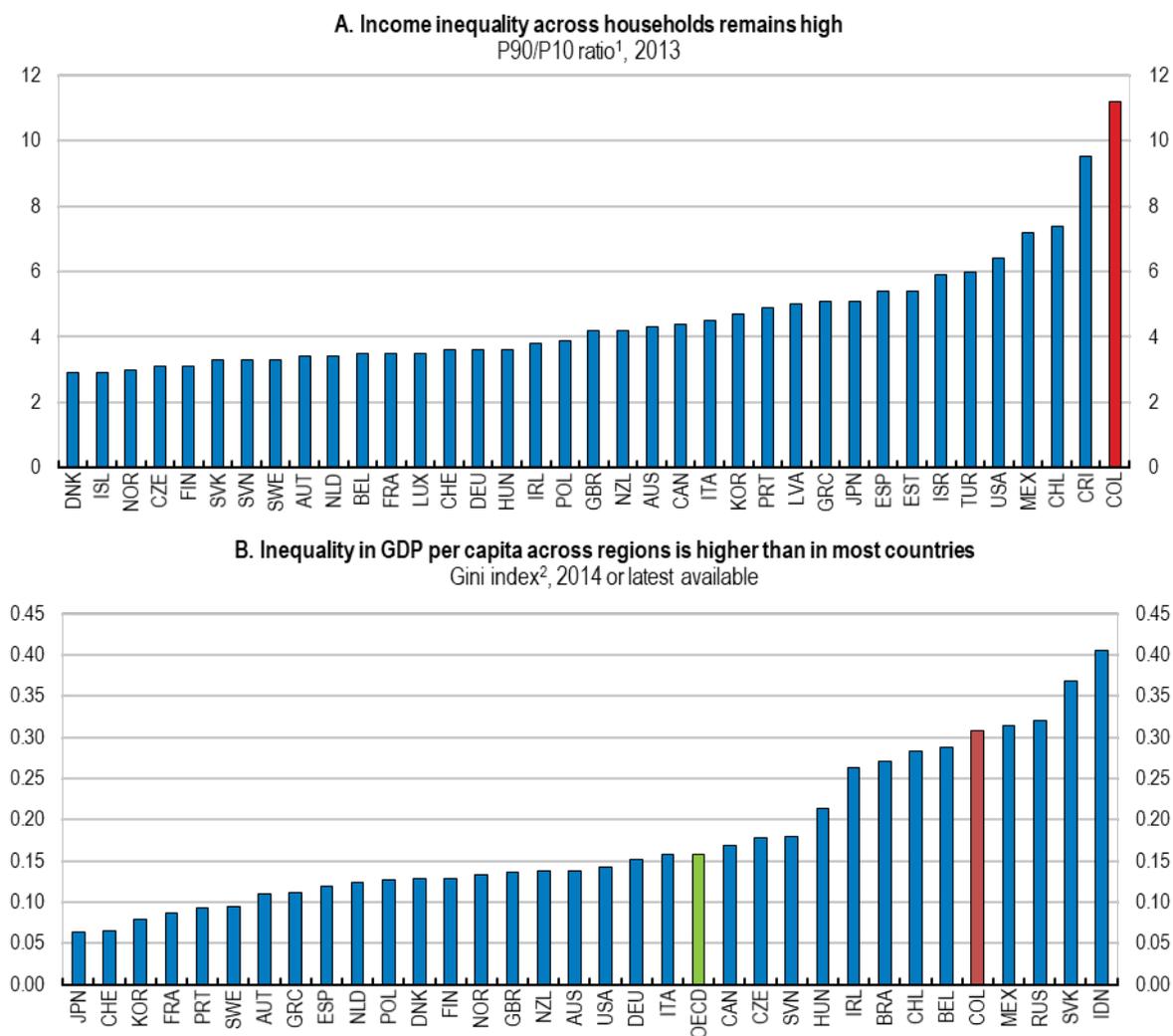
Capacity differences and weak incentives form the major challenges for subnational government service provision

Compared with the OECD economies and with many other countries, Colombia displays one of the highest levels of regional inequality in terms of GDP per capita (Figure 12). The regional capacities to provide public services are largely determined by the funding available for service provision. Since the transfer system does not equalise the differences in tax bases, the differences in economic wealth between regions have a major impact on the regional differences in service provision and thereby also the availability and quality of public services.

It is therefore not surprising to note that the recent studies on Colombian decentralised health and education service delivery show major inequities between regions. Moreover, these problems are visible also among the certified units, which are supposed to have the best capacities to provide the services. According to recent OECD analyses on the Colombian education (OECD, 2016^[8]) and health systems (OECD, 2015^[7]), the capacity of certified subnational governments to carry out their functions varies considerably. For instance, a recent study by the Ministry of Education (MEN) concluded that out of the 95 certified subnational units (ETCs) as many as 48 lacked adequate capacity to provide quality services (OECD, 2016^[8]).

Lack of own source revenues may be linked with incentive problems and may eventually lead to problems in service quality. In education, the financing is mostly based on central government grants. Ministry of Education is responsible for channelling resources to departments, municipalities and schools through the System of General Participations (*Sistema General de Participaciones*, SGP). There has been a lot of discussion in Colombia whether the current levels of SGP can provide an adequate source for revenues for subnational governments. In recent years, the funding through SGP has been partly replaced to specific education policy financing (such as special projects). The share of public funding allocated through the SGP has decreased from 80% in 2002 to 60% in 2013 (OECD, 2016^[8]). The outcomes of this development depend largely on how well the specific funding is allocated to most effective projects.

Figure 12. Inequality in Colombia is high both across households (Panel A) and across regions (Panel B)



Source: OECD Economic Surveys: Colombia 2017.

Note 1: For Australia, Finland, Hungary, Israel, Korea, Mexico, Netherlands, United States, Colombia and Costa Rica, data refer to 2014. For Japan and New Zealand, data refer to 2012. The P90/P10 ratio is the ratio of income of the 10% of people with highest income to that of the poorest 10%.

Note 2: Gini indexes are calculated on the basis of GDP per capita in constant real prices, constant PPP, across regions defined at a Territorial Level 2. For OECD, data refer to the unweighted average of 29 member countries. For Indonesia and Norway, data refer to 2012. For Japan, New Zealand and Switzerland, data refer to 2013. For Australia, Canada, Chile, Colombia, and United States, data refer to 2015.

Box 4. Examples of effective decentralisation in education and competence building

The Department of Antioquia is located in the western part of Colombia. Its capital is Medellín, the second largest city in Colombia. Both Antioquia and Medellín have their own governance structure and operate their education system separately. Compared with other regions, Antioquia and Medellín have strong governance structures, large economies, public-private partnerships and high levels of human capital (DNP, 2015; Cortes, 2010). In 2012, enrolment rates for basic and upper secondary education were above the national average (MEN, 2015b). The 2014 SABER results indicate positive outcomes, with the percentage of low-performing students decreasing and the share of top-performing students increasing. However, as in other regions, academic participation and performance varies, particularly in parts of the region with high levels of marginalised communities. Decentralisation has allowed ETC s' (the units that have been certified in education) secretaries of education to implement initiatives which have served as examples for the national strategy. However, regions with higher capacities have more possibilities to experiment. For example, prior to the national initiative on public contracts for student placements in private schools, Antioquia had already implemented a strategy to subsidise private schooling for public school children in efforts to increase enrolment (Cortes, 2010). Medellín has also been able to drive successful policies and continue them despite political changes. For example, it introduced policies such as Good Start (*Buen Comienzo*) which served as an example for the national strategy, From Zero to Forever (*De Cero a Siempre*).

In 2010, the business sector partnered with the Ministry of Education and academics to create an innovative program, Transformative School Leaders (*Rectores Líderes Transformadores*), to foster the development of leadership skills in public schools. The programme clarifies the competences that school principals need to successfully perform their pedagogical, management, administrative and community responsibilities. It targets school principals and the whole leadership team. As part of the programme, school principals participate in four intensive courses over a period of 10 months for a total of 40 hours of training per week and 160 over the whole process. After the training, the leadership team prepares a report on the lessons learnt and their school transformation plans. During the following two years the team receives technical guidance and support as they implement the school transformation plan. In 2015, the initiative was present in five municipalities (8% Bogotá, 100% Itagüí, 28% Manizales, 35% Medellín, 75% Cali) and three departments (15% Cundinamarca, 38% Antioquia, 61% Atlántico).

Source: OECD (2016), Education in Colombia, OECD Publishing, Paris.

As for health care, the decentralisation reforms that were carried out in the 1990s largely delegated responsibility for purchasing and providing health care services for subnational governments, or *Entidades Territoriales* (ET). The number of services directly provided by ET varies considerably, however. The majority of ET's (around 75%) provide themselves between 11 and 40 services; 10% offer between 40 and 100 services; 4% offer between 100 and 200; and 0.4%, corresponding to the five main cities (Bogotá, Cali, Barranquilla, Medellín and Cartagena), offer more than 200 services. One percent (ten municipalities) offer no services because they have no providers (OECD, 2015^[7]). Therefore, it seems that a considerable share of subnational governments have opted out from health service provision, leaving the responsibility of health care provision to other actors. This may not always be a problem, since

the health care system is based on health insurance and there are private providers. The present state of affairs may nevertheless contribute to inequality in health service provision in Colombia. The current situation seems also to contradict the decree of 2001, which identified ET's as the principal bodies responsible for reaching the goals outlined in the Ten-Year Public Health Plans.

Box 5. Barranquilla's model of health service delivery

The city of Barranquilla has achieved 100% enrolment in health insurance for its 1.2 million population. The improvements in Barranquilla's health services was partly financed with an earmarked tax on households (equivalent to 0.5% of buildings value). The city has developed its own model of providing health care services, with an emphasis on integrated care and primary and preventive care. A single provider delivers all local health services, which comprise a network of one rehabilitation centre, nine hospitals (of which eight are smaller units, offering women and children's services only) and 33 are primary care centres. All citizens are within one kilometre of one of these centres, which are seen as the basis of the wider health care system and offer an integrated, multidisciplinary approach to prevention and primary care. A notable feature of this approach is Barranquilla's team of *caminantes* ("walkers"). These are health promotion specialists, each of whom works directly with approximately 200 assigned households. *Caminantes* assess personal and household health risks, advise on health promotion and monitor individuals with long-term health care needs. Each is equipped with a tablet computer, so that public health data can be stored and analysed electronically.

The city can point to a number of successes. 96% of local residents report being satisfied with local services. Emergency hospital attendances fell by 16% between 2012 and 2014. Around 60% of adults aged between 18 and 69 report daily physical activity. Persistent challenges include high rates of teenage pregnancy, for which the municipality has launched an intersectoral initiative involving both health and school services.

Source: OECD (2015), OECD Reviews of Health Systems: Colombia 2016, OECD Publishing, Paris.

Insights from international experience: Policy options for Colombia

This subsection discusses some alternative policies that could be considered to solve issues that were discussed in the previous parts of this report. The country examples presented in this section are compiled using previous or ongoing work of the OECD.

A. Making better use of existing instruments

Strengthening the overall decentralisation framework

Improving the subnational government capacity by increasing the number of high quality professionals in municipalities and departments

According to the recently published OECD reports on education and health services, the financing and the outcomes of these services vary tremendously across Colombian territories (OECD, 2015^[7]; OECD, 2016^[8]). In addition, the subnational government spending on education and health in Colombia remains low compared with OECD countries. For example, in 2011, the central government accounted for 84% of all public resources on education in Colombia, compared to the OECD average of 52% (OECD, 2014^[11]). The conclusion is then that despite the centralised financing of education and health care in Colombia, there seems to be problems with effective co-ordination of these services.

Subnational government capacity to provide the delegated and devolved services depends on the amount of money available for them and on the skills and quality of their administrative and service professionals. The OECD has previously recommended Colombia to reform the transfer system (SGP) and the tax system in order to provide better financial basis for subnational governments (OECD, 2014^[11]). The OECD has also recommended Colombia to focus on ways to increase the number of high quality professionals in municipalities and departments, in particular the teachers, doctors and nurses, who have a crucial role in building the local capacity. Therefore, training more service professionals and employing them in subnational governments is essential.

Several measures may be needed to improve and guarantee service levels in all parts of Colombia. These measures could include for example financial incentives for medical and teaching staff to work also in the most remote regions. In addition, geographical targeting or selection of students and the location of education institutes that train medical and teaching professionals could contribute to availability of high quality workforce in regions. The methods of telemedicine and remote education could also be considered (OECD, 2016^[9]).

Continuing efforts to improve the skills and competences of civil servants and public officials in subnational governments.

Colombia has used several methods to improve public employment at the subnational level. Since 2011, subnational governments have been able to use the Public Employment Management Information System (SIGEP), operated by central government, to compile information on public civil servants. There have also been a number of efforts to train more

local government officials and civil servants. Support has been provided to smaller governments in a variety of management capacities. These developments are very positive and they should be continued. As recommended by the OECD in 2016, Colombia should consider developing a comprehensive assessment (both quantitatively and qualitatively) of subnational public employees to get a clearer picture of the needs and gaps of territorial entities (OECD, 2016_[10]). The role of Departments for municipal capacity building and technical support should be supported.

Improving the subnational government spending and revenue autonomy

Unless the subnational governments are able to raise a considerable share of revenues from own sources and unless most subnational governments have sufficient autonomy to allocate the central government funding, many Colombian subnational governments may lack the commitment, capacity and incentive to improve their education and health results. Improving subnational government autonomy should therefore be a priority. Reforming the transfer system and enabling subnational governments collect more own source revenues are among key measures in this respect.

The capacity of Colombian subnational governments to raise own-source revenues and to enhance revenue autonomy could be enhanced by: (i) continuing the efforts to update and modernise the cadastral and land registries in order to improve the performance of the municipal property tax; (ii) streamlining the portfolio of taxes levied by departments and municipalities; (iii) reducing the number of earmarked taxes; (iv) allowing instruments such as congestion charges or tolls; (v) promoting more flexibility in terms of user tariffs and local fees and optimising income from properties (rents, dividends) (OECD, 2016_[10]).

Taking into account that subnational governments have significant tasks, property tax and the other current local tax and revenue bases cannot be expected to fund a major share of subnational spending. Therefore, if the aim to strengthen the subnational own revenue base would be accepted, Colombia could consider giving at least one important tax base to subnational government use. This would however involve a larger tax reform which is not the main focus of this paper.

Borrowing could be further used by subnational governments as a financing mechanism within the limits of current fiscal rules. While it is important to protect fiscal discipline, in a context of strong dependence on potentially volatile resource revenues, and the fact that level of debt (loans and bonds) has decreased measured both with share of GDP and with share of total public debt, gives some room for using borrowing for productive investments. New options to finance investments could also be explored in particular for local governments with higher capacities (including large cities and metropolitan areas). Subnational governments need however be further assisted to improve their use and management of loans. Innovative financing tools for investments could be explored for Colombia such as revolving funds. The development of local bonds could be encouraged for large subnational governments, taking advantage of the fact that all departments and large municipalities as well as metropolitan areas are rated by international rating agencies (OECD, 2016_[10]).

Reforming the transfer system (SGP)

The reform of the SGP system which has been discussed for several years should be put in place. An in-depth examination of the transfer system's (SGP) allocation criteria could be conducted to find ways to include new equalisation mechanisms and to simplify the system. The new criteria to be considered include indicators e.g. for territorial specificities (such as differences in service needs, circumstantial factors and revenue bases).

The current policy of earmarking grants to certain sectors may reduce the incentive for efficient and effective service provision. It is not clear whether earmarking grants is an effective way to steer subnational governments, as in any case they are able to adjust their own funding and efforts between sectors. Therefore Colombia could consider allowing subnational governments to re-use the unspent funds from one sector in another sector.

Colombia could also consider using more matching grants to finance investment at the subnational government level. At the same time it should however be ensured that differences in revenue bases do not affect too much the ability to invest in necessary local infrastructure. Investment grants could be established for specific projects and places, such as the City Fund (OECD, 2016^[10]).

There are several examples of intergovernmental grant reforms from the OECD countries and elsewhere that could be useful for Colombia. In **Australia**, a comprehensive grant reform was carried out in 2009. As a result of the reform, the old system which was largely based on specific grants, was replaced with formula based general grant system. In **Switzerland**, the fiscal equalisation system was reformed in 2007. After the reform, the system consists of three elements: i) horizontal tax revenue equalisation between cantons, ii) the federal aid to cantons with below-average tax-raising capacity, and iii) a federal equalisation fund for cantons with high geographic-topographic or socio-demographic spending. To compensate for the additional federal spending linked to the vertical equalisation fund, the federal government reduced the cantons' share in the federal income tax from 30% to 17% (Blöchliger and Vammalle, 2012^[31]). In **Sweden** the fiscal equalisation system has been based on general grants since 1990s and the Swedish government has put considerable effort on designing and implementing the transfer system (Box 6).

Box 6. Swedish fiscal equalisation is based on formulas

Income equalising formula

The income equalisation grant equalises calculatory tax revenues between municipalities and between counties. The calculatory tax revenue is defined using actual tax base per capita times the average tax rate. The local governments with a per capita tax revenue below 115% of the average tax receive a grant, and local governments with a tax above 115% of the average tax pay a fee according to a special formula. The formula can be written as follows (for receiving municipality/county):

$$Grant_i = tax\ rate_j \times (1,15 \times tax\ base_j - tax\ base_i) \times C_k$$

where $Grant_i$ is the tax equalising grant for municipality/county i , $tax\ rate_j$ is the country average municipal/county tax rate, $tax\ base_j$ is the average municipal/county tax base, and $tax\ base_i$ is the tax base of municipality/county i . The result is multiplied with compensation rate C_k , which is 0,95 for municipalities and 0,9 for counties.

The main purpose of the income equalisation grants is to equalise differences in the local tax base. In 2015, there were large differences in the municipal tax bases: from a minimum of SEK 191 500 *per capita* to a maximum of SEK 504 400 *per capita*. The majority of the municipal tax bases, however, are grouped near the mean tax base (which is 239 934 SEK per capita).

The municipalities/counties where the tax base is above 115% of the country average, have to pay a contribution to the equalisation system. If the tax base is between 115% and 125% of the country average, the compensation is 0,60 times the exceeding amount of tax base. For the part of the tax base that exceeds 125% of country average, the municipality pays 0.85 times the exceeding amount.

In 2015, altogether 38 municipalities out of the 290 municipalities had a tax base higher than 115% of the average tax base in the country, and that hence had to pay a fee to the system. Altogether 20 of these municipalities are located in the Stockholm County area.

Cost equalising formulas

The cost equalising grants are based on so called standard costs which are calculated using several formulas. The Swedish cost equalising system is very detailed as it includes a separate model for each mandatory subnational service (there are 10 sub-models). The formulas are based on research results on factors that affect subnational costs. The models include indicators describing different aspects of subnational costs, such as demographic structure, ethnicity, socio-economic situation and geography. The indicators used in the formulas are selected so that subnational governments themselves cannot affect the equalisation. In effect, only differences between estimated costs and the average standard cost are taken into account. Contrary to income equalisation, which is mostly centrally funded, the Swedish cost equalisation is strictly between municipalities/counties. There is a separate cost equalisation system for municipalities and counties.

Source: OECD Territorial Reviews: Sweden 2017: Monitoring Progress in Multilevel Governance and Rural Policy, OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264268883-en>

Maintaining and improving the quality of territorial indicators

Colombia has recently made considerable efforts to create systematic guidance and online databases on regional statistics to facilitate reforms. A good example of this is the recently launched *Terridata* database which comprises data on demographics, education, health, public services, public finances and security for the departments and the municipalities. The first results on Terridata are very promising. These efforts should be continued and deepened, using examples of best practices from other countries such as the Norwegian KOSTRA system (Box 7). In addition, the 2018 census – which is the first census since 2005 - will improve the quality of territorial statistics. Regular censuses are particularly important for territorial indicators. High quality information available to all is a crucial component in successful implementation of decentralisation and in capacity building. The National Planning Department deserves credit for its work in advancing these measures in Colombia, and the agency should get support from all stakeholders to continue its work also in this field.

While collecting new more accurate and useful information is a positive development, it should also be ensured that the administrative burden at the local level is not increased too much. Therefore, the older procedures or reporting requirements that have become obsolete or are overlapping with new procedures ought to be eliminated.

Box 7. Measuring subnational government performance in Norway

The Norwegian KOSTRA system has been widely recognised in the OECD area as a best practice. Used for performance monitoring of local services, it is an electronic reporting system for municipalities and counties. It can publish input and output indicators on local public services and finances and provide online publication of municipal priorities, productivity and needs. KOSTRA integrates information from local government accounts, service statistics and population statistics. It includes indicators of production, service coverage, needs, quality and efficiency. The information is easily accessible via the Internet and facilitates detailed comparison of the performance of local governments. The information is frequently used by local governments themselves and by the media and researchers. Although individual local governments could use KOSTRA more efficiently (e.g. by systematic benchmarking), the system has helped facilitate comparisons of municipalities, thereby promoting “bench-learning” or “bench-marketing”.

Source: OECD (2017b), Making Decentralisation Work in Chile: Towards Stronger Municipalities.

Utilising ex ante analyses to better anticipate and predict the likely outcomes of decentralisation reforms and differentiated assignments

The existing and planned *ex ante* evaluations should be supported in order to enable better anticipation and predictions of likely outcomes of decentralisation reforms and differentiated assignments. It should also be noted that while the indicator systems are a necessary requirement for understanding the current state of affairs, indicators alone cannot reveal the effects of specific policy changes. Therefore, the policy-makers should cooperate closely with expert agencies, universities and research institutes in preparing and performing *ex ante* and *ex post* evaluations.

Making better use of asymmetric decentralisation instruments at the department level

In order to improve coordination of public investments among different levels of government and to create stronger incentives for subnational governments for effective activities, the Colombian government decided to launch a model of “Contratos Plans” in 2011. The Contratos Plans are in effect investment programmes in specific areas. The Plans are defined jointly by the national government, departments and municipalities. Once the agreement is made, the central government finances a large share – or most - of the programme. The latest Contrato Plans have focused on supporting areas that have been affected by the conflict, and on areas with low economic, social and environmental circumstances (OECD, 2016_[10]).

According to recent evaluations, the *Contratos Plans* have been effective in strengthening co-ordination, supporting capacity building and developing infrastructure. There have nevertheless been some problems enforcing the contracts, for example because there are no sanctions for failing to reach the set targets. In addition, monitoring the implementation of the Contracts has been challenging at times (OECD, 2016_[10]). It is also noteworthy that only a few Contratos Plans have been signed after the first stage.

Colombia could study ways to further incentivise subnational governments to engage in the Contratos Plans. The processes could also be simplified, harmonised and standardised. While horizontal co-ordination across the government levels is important, it is equally important to ensure that the key central government players involved in the Contratos Plans work together. It is also vital to ensure high quality reporting of the Contratos Plans. A systematic and standardised reporting allows impact evaluations, which could help strengthen the implementation of Contratos Plans, for example rewarding good performance. Correspondingly, Colombia could also consider developing systems that penalise for not reaching the goals or failing to fulfil the agreement.

In developing the Contratos Plans, Colombia could benefit studying the experiences of state-regions contracts implemented in other countries (see Box 8 for the French experiences).

Box 8. French Contrat de projets État-région (CPER)

In France, the state-region planning contracts (Contrat de plan État-région – CPER) have been in operation since 1982 and are important tools in regional policy in terms of planning, governance and co-ordination. They are characterised by their broad thematic coverage and cross-sectoral nature, with a territorial approach being applied across diverse policy fields including industrial, environmental, and rural issues. The DATAR functions as the main national partner of the regions in developing and implementing such planning documents. The President of the Regional Council and Prefect as the representative of the central government different ministries make the contract. The co-financing of interventions is seen as an important co-ordination mechanism.

2007-2013 planning contracts: a new generation of state-region contracts was introduced in 2007 alongside the 2007-13 Structural Funds programmes, in order to increase links between French and EU regional policies. The new contracts have the same timeframe as the EU operational programmes, are based on a joint territorial analysis, and have integrated systems for monitoring. Similar to the Structural Funds, regions can decide that funding be de-committed 18 months after approval for projects if no commitment has been made. Contracts increased their focus on the Lisbon and Gothenburg agendas. They reflect three priority areas: the promotion of territorial competitiveness and attractiveness, the environmental dimension of sustainable development, and social and territorial cohesion. The emphasis on sustainable development has grown, with a consultation process launched in 2007 (Grenelle de l'environnement). Priority is given to soft functions (e.g. education, research and development) as well as infrastructure other than roads.

2014-2020 planning contracts: A new generation of state-region planning contracts was launched covering 2014-2020. Five topics have been selected: Higher education, research and innovation; National coverage by very high speed broadband and development of digital technologies usages; innovation, promising niches and the factory of the future; multimodal mobility; the environmental and energy transition. Being a priority for the government, employment will be treated as a cross-cutting issue in the contracts. In order to ensure equality between territories within the regions, contracts will mobilise specific resources for priority areas: urban priority neighborhoods, vulnerable areas undergoing major economic restructuring, areas facing a deficit of public services (rural areas), metropolitan areas and the Seine Valley. Inter-regional contracts for mountainous and river basins will be renewed. The preparation of this new generation took place in two phases: a first phase of strategic thinking and co-preparation between the central government and the regions; a second phase of financial negotiations.

Source: OECD (2017), Making Decentralisation Work in Chile: Towards Stronger Municipalities. OECD Multi-level Governance Studies, OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264279049-en>

Making better use of asymmetric decentralisation instruments at the municipal level

Altering the certification of subnational governments to ensure right incentives are in place for efficient and effective service delivery

The certification methodologies used in education, health, water and sewerage vary markedly. In addition, there are currently considerable sectoral differences in the frequency of certification. In education, the units are certified only once, i.e. there is no mechanism to re-evaluate the competences. In health services, certifications are re-evaluated yearly and in water and sewerage the certification can be evaluated several times within a year.

It also seems that capacity building and certification has not been implemented “hand in hand”. One indication of this is that despite of several years of implementation, the number of certified subnational governments remain low: for the year 2017, only 8.3% of subnational governments were certified in education, 36% in health services and 68% in water and sewerage.

The current certification does not always seem to ensure quality services. For instance, according to a recent study only a half of the currently certified units in education have been found to have adequate capacity to provide quality services (OECD, 2016^[8]). Therefore, the system could be altered to guarantee that the subnational governments that are allowed greater freedoms to allocate central government funding are using the money in an efficient and effective way. The new indicators recently developed, such as MDM, are potentially useful in providing information in this respect. In addition, the evaluations currently performed by the line ministries could be systematised in order to create service-specific performance indicators.

Adjusting the method to classify subnational governments

There is still room for improvement in the classification of municipalities and departments. For instance, using more variables to define the classification or increasing the number of groups used in classification could be considered in order to get a better picture of the differences between the subnational governments.

The various indicators could be better aligned to create more useful data for decision making. There are currently three municipal classifications/groupings: the municipal classification, the performance rankings (MDM and the separate evaluations carried out by line ministries) and the certifications. At present, each set of indicators have their own use and it is unclear how these indicators are used jointly to target and coordinate policies. An enhanced co-ordination of measuring and classifying the subnational governments could contribute building more efficient and useful database for policy purposes. The Norwegian KOSTRA database provides a best practice example in this respect (Box 7 above). The experiences from South-Africa and Chile could also be useful in this respect (Box 9).

Box 9. Examples of other subnational government classifications

In **South Africa**, the 278 municipalities have different underlying characteristics and face different socio-economic and political challenges. They also have different capacities for dealing with these challenges. This requires a differentiated approach, in particular to municipal funding. In this regard, different departments use many classifications to group municipalities. The 1996 Constitution provides for three categories: A (metropolitan municipalities), B (local municipalities) and C (district municipalities). Other classifications exist in other areas, such as the Municipal Infrastructure Investment Framework Investment that defines seven categories based on, among others, spatial characteristics, size of institution and budget, and population variables. The National Treasury also classifies municipalities into six “performance groups” using economic, demographic and performance variables such as access to basic services, poverty rate, municipal viability, staff vacancy, municipal debt, population density and size of the municipality’s economy. As underlined by the Financial and Fiscal Commission, the different classification methodologies highlighted above recognise that municipalities need differentiated approaches that take into consideration their different characteristics and needs. However, the Financial and Fiscal Commission also seems to consider that differentiation approach is not always clear, and some classifications are not always useful for making decisions or allocating resources as categorisation often depends on the policy purpose and often detracts from looking at the linkages between rural and urban municipalities, for example. In addition, the large volume of classification methodologies may undermine co-ordinated decision-making and intervention strategies.

In **Chile**, there are currently 345 municipalities, which are currently treated more or less symmetrically. In a recent Territorial Review Chile report, the OECD (2017b) recommended Chile to reconsider the principle of uniformity which until now has been one of the key foundations upon which Chile is built. While some progress has recently been made in this regard, the OECD recommended Chile be more proactive in this field in order to design and implement more place-based and differentiated policies, programmes and tools. A particular attention in this regard should be given to development of tools that support the Secretariat for Regional Development and Administration to advance the differentiation process. These tools include for example the typology of municipalities (FIGEM) and National System of Municipal information (SINIM). Also, the OECD recommended Chile to experiment and utilise pilot projects for asymmetric decentralisation, in particular by assigning responsibilities to municipalities according to their characteristics, needs and capacity, based on “municipal categorisation”. Asymmetric decentralisation could also be an effective way of supporting the development and integration of indigenous communities.

Sources: OECD (2017b), Making Decentralisation Work in Chile: Towards Stronger Municipalities, OECD Multi-level Governance Studies, OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264279049-en>; South African Financial and Fiscal Commission (2012), Report on the Local Government Fiscal Framework Public Hearings Sustaining Municipal Finance: Making Local Government Work.

Clarifying delegated responsibilities to avoid pitfalls of asymmetric decentralisation

Colombia could consider clarifying the system for selecting delegated and devolved assignments. Not all services are suitable for decentralised provision. There may be important reasons, for example due to need for nationwide coordination, or important externalities, to delegate assignments to a higher level of government or keeping some services under central

control. For example, it is not immediately clear that the cadaster or the victim's rights are public services that should be delegated at the municipal level, even though some municipalities would be capable of providing these services. For example, in many countries land registries are operated by public bodies under central government.

While asymmetric decentralisation is nearly a necessity for a country like Colombia, there are also pitfalls to avoid. Often, the first to benefit from differentiated policies are the subnational governments that are subject to these measures. This creates a potential problem from the equity aspect. The strongest areas that have been granted greater autonomy may prosper, but the other areas may be lagged behind even more. At worst, the inequity between citizens and regions, an already existing problem in Colombia, could increase. Therefore, measures should be taken to ensure that that positive spillover effects result from the differentiated arrangements. For instance, the strongest subnational governments should be encouraged to aid their weaker neighbours, cooperation between subnational governments should be rewarded and best practices should be disseminated nationwide. Careful ex post analyses and follow ups should be implemented in order to facilitate learning at all government levels.

It is positive that the National Planning Department (NPD) has prepared formal frameworks and guidance to make informed decisions and preparations to implement decentralisation with the other ministries. The guidance helps the decision-makers and civil servants to identify sector by sector the tasks that are best suitable for delegation. While the guidance helps to identify the best assignments, it is currently unclear how well the eventual assignments follow the advice, as the final decision of delegation is usually made in the line ministries.¹⁷ Assignments are further discussed below in part B of this section.

Making better use of asymmetric decentralisation instruments at the metropolitan level

In order to reap more benefits from metropolitan governance, further supporting horizontal cooperation across jurisdictions should be a priority in Colombia. This concerns all main urban areas in Colombia, but is especially topical issue for Bogotá, Cali or Cartagena, which are not yet structured as metropolitan areas. Specific tax regimes for inter-municipal groupings or metropolitan areas could also be considered, and pilot experiments could be launched in this regard. The measures to encourage cooperation should however not take resources away from the participating municipalities, because this could be a great disincentive. Specific contractual arrangements targeting specifically metropolitan areas could also be used to support cooperation. Giving the current metropolitan areas the status of "territorial entity" should be considered.

Colombia could consider using the international examples to further develop the metropolitan governance models. Usually, the additional responsibilities given to metropolitan areas have been linked with infrastructure and planning tasks such as public transport, environment, spatial planning and services targeted at local business (Box 10).

¹⁷ Information provided in the internet pages of NDP: <https://www.dnp.gov.co/programas/desarrollo-territorial/Fortalecimiento-Gestion-y-Finanzas-Publicas-Territoriales/Paginas/competencias-de-las-entidades-territoriales.aspx>

Box 10. Asymmetric decentralisation and metropolitan governance in France and Italy

Some recent examples of metropolitan governance include the 2013 French Law on Metropolitan Areas which contemplated differentiated governance for Paris, Lyon and Aix-Marseille, to include governance structures with own taxing powers and the shift of competences from regions and departments (OECD, 2015a). In France, efforts were made by the central government already during the 2000s to encourage co-operation at an urban level (spatial planning directive, DATAR calls for metropolitan projects). However, apart from the creation of urban communities in 1966, they had little success. The 2010 "Law on the Creation of Metropolitan Areas" has led to the creation of only one metropolis (Nice Côte d'Azur), confirming once again that regulation is not sufficient to induce reform. A new step was achieved in 2013 with the first discussions on the new law on metropolitan areas. Government adopted a new approach, based on governance solutions tailored to territorial specificities and local needs. The 2014 "MAPTAM" law, on the modernisation of public territorial action and metropolises, introduced a degree of diversification across French territories. 14 metropolises (more than 400 000 inhabitants) will be granted greater responsibilities than "standard" municipalities or inter-municipalities, justified by their larger size and urban nature. Among them, the three largest metropolitan areas (Paris, Lyon and Aix-Marseille-Provence which already have a specific status since the 1982 PLM law) received ad hoc different governance structures - i.e. different organisation, responsibilities and resources.

The Métropole du Grand Lyon, operational since January 2015, has (unlike Paris and Aix-Marseille-Provence) a particular metropolitan status: it merged the responsibilities of the existing inter-municipal co-operation entity Grand Lyon and those of the département du Rhône, covering about 1.3 million people - the only one of its kind in France. Political representatives for the metropolis will be elected through direct suffrage from 2020 onwards. This innovative "asymmetrical" approach based on "recognising the diversity of territories within the unity of the Republic" is relatively new in France (OECD 2013), where past policies were uniform across territories (except for overseas territories). It aims at adapting organisational structures and policies to the distinctive characteristics of territories at an appropriate scale. Another innovation is the setting up of two transitory inter-ministerial "prefiguration" task forces for Grand Paris and Aix-Marseille-Provence. These task forces, headed by the prefect and composed of national and local civil servants and experts, prepared the reforms and then helped in the transition process. They also work to gain support from citizens, local authorities, the private sector, and civil society (OECD, 2013).

Finally, the French metropolitan reform is a good illustration (at least in the cases of Grand Paris and Aix-Marseille) of resistance from local mayors, and possibly from the regional level. The implementation process is as crucial as the nature of the reform itself: the adoption of a law is not sufficient as it may not, or partly, be implemented in practice.

In Italy, a 2014 reform ended two decades of gridlock over metropolitan governance reform and created the legal structure for the introduction of differentiated governance in ten major metro areas—Rome, Turin, Milan, Venice, Genoa,

Bologna, Florence, Bari, Naples, and Reggio Calabria—and four additional cities in special regions--Palermo, Messina, and Catania in Sicily, as well as Cagliari in Sardinia). (OECD, 2018: Assigning responsibilities across levels of government: Trends, challenges and guiding principles for policy-makers).

Sources: Ahrend, R., C. Gamper and A. Schumann (2014), “The OECD Metropolitan Governance Survey: A Quantitative Description of Governance Structures in large Urban Agglomerations”, OECD Regional Development Working Papers, 2014/04, OECD Publishing, Paris. <http://dx.doi.org/10.1787/5jz43zldh08p-en>; Slack E. and Côté, A. (2014): Comparative urban governance, Future of Cities Working paper, UK Government Office for Science; Glaeser, E. and Gottlieb, J (2008): The Economics of Place-Making Policies, NBER Working Paper No. 14373; OECD (2017a), Multi-level Governance Reforms: Overview of OECD Country Experiences, OECD Multi-level Governance Studies, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264272866-en>; Allain-Dupré, D. (2018)

Promoting horizontal and vertical co-operation

Colombia could consider stepping up inter-municipal co-operation in the spirit of the LOOT law, with special focus on regions where single municipalities are otherwise unlikely to be able to reach adequate competence or sufficient economies of scale. Grant funding could be used to incentivise cooperation, but in this case a priority should be given to areas where clear benefits can be predicted from internalised externalities. Departments could also take a more pro-active role to support critical projects with cross-jurisdictional cooperation, in particular vis-à-vis rural municipalities (OECD, 2016_[10]).

There are several examples from other countries for successfully implementing inter-municipal and inter-regional co-operation (see Box 11). Organising cooperation between subnational governments has been a relatively common method to solve capacity issues, especially at the municipal level. These arrangements have been popular in particular among the **Nordic countries** (Finland, Sweden, Norway and Denmark), but they have been practiced also for example in **Italy, France, Spain and Poland** (OECD, 2016_[10]; IEB, 2011_[32]). Inter-municipal cooperation is an appealing policy option mainly because cooperative arrangements offer a simple and flexible way to utilise economies of scale and to internalise externalities in local service provision. Inter-municipal cooperation is frequently seen as an alternative to municipal mergers, and usually the local decision-makers prefer cooperation to mergers.

The financing of subnational cooperative bodies varies considerably by country, over time and even by service sector. While for instance the Nordic countries have mostly relied on the member municipalities to fund the associations, other countries such as France have relied more on direct central government financing of subnational cooperation. In some cases, the French subnational cooperative units (EPCI or *établissement public de coopération intercommunale*) have been given taxation rights (OECD, 2017_[2]).

Sometimes there is no need to set up formal municipal associations, for instance if certain bigger municipalities are willing to provide the service for a larger area. In the **Czech Republic**, in the process of decentralisation, the responsibilities of the 76 abolished state districts were largely passed on to the 205 municipalities with extended powers (ORP's) in 2003. These municipalities perform central government delegated functions on behalf of smaller surrounding municipalities such as child protection and issuing passports. These functions are associated with additional funding. Smaller municipalities can also voluntarily delegate additional functions to the ORP's, for example if they lack adequate capacities (OECD, 2017_[2]).

Box 11. Inter-municipal co-operation in the OECD countries

Co-operation is well developed but extremely diverse in the OECD countries

Inter-municipal co-operation allows to internalise externalities in the management of the services and to benefit from economies of scale for utility services (water, waste, energy, etc.), transport infrastructure and telecommunication. Services may be shared as well: back office and administrative functions (e.g. payroll, finance, compliance and control activities, etc.), telecommunications and information technology, environmental services and parks maintenance, joint procurement, frontline services such as customer services, etc. At the same time, inter-municipal co-operation allows municipalities to retain their identity and those functions that either do not require a larger scale of production or do not affect neighbouring municipalities.

Inter-municipal co-operation arrangements are well developed in the OECD and also extremely diverse, varying in the degree of co-operation, from the softest (single or multi-purpose cooperative agreements) to the strongest form of integration (supra-municipal authorities with delegated functions and even taxing powers). For instance in France, public establishments for inter-communal co-operation (*EPCI à fiscalité propre*) have their own sources of tax revenue. Other shared services arrangements are common in countries such as the United Kingdom, Australia, New Zealand or Ireland (shared services programmes). In addition, it is frequent that one municipality adheres to several intermunicipal groupings, and the size of these groupings may vary from two to dozens of municipalities, covering regional scales.

Co-operation of subnational governments in Poland

The Polish Constitution of 1997 authorises sub-national governments to join forces to carry out their missions. Specific regulations were set out in the different Local Government Acts. As a result, subnational governments can work together in one of three ways:

- i) By setting up a syndicate (*związek*). Syndicates are the most frequently used form of co-operation. They are established to fulfill sub-national governments' tasks such as water provision and treatment, public transport, gas distribution, telecommunications and environmental protection. A syndicate must adopt a statute, established by the participating sub-national government councils, and be registered by the Ministry of Interior and Public Administration. It is a legal entity with its own right. Syndicates are financed by fees or grants from its members, and by revenues from its activity. In 2006, there were 280 municipal syndicates and 1 county syndicate.
- ii) By signing an agreement (*porozumienie*). Municipalities decide to give one of them the right to fulfill a particular task.
- iii) By creating an association (*stowarzyszenie*). The association operates under the Act on Association adopted in 1989 and it is mainly financed from members' fees. The 1990 Municipal Act allows sub-national governments to co-operate and create an association (*stowarzyszenia*) "to provide backing for a local government project or protect and promote common interests". There must be at least three participating sub-national authorities.

Sources: OECD (2017), Multi-level Governance Reforms: Overview of OECD Country Experiences, OECD Multi-level Governance Studies, OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264272866-en>; OECD (2008), Territorial Reviews: Poland; Dexia (2008), Sub-national governments in the European Union: Responsibilities, organization and finances.

In addition to horizontal co-operation, also co-operation between government levels could be further supported in Colombia. Many OECD countries have established vertical co-operation and co-ordination mechanisms, especially between central and subnational governments. The experience from several countries show that such arrangements can ease the planning and

implementation of multilevel governance reforms. The instruments can be both formal and informal and they generally aim to promote dialogue and co-ordination across levels of government. A systematic dialogue between subnational governments and central government can lead to better understanding of the needs and problems at different levels of government and consultation in the design, implementation and monitoring of reforms (see Box 12 for some examples).

Box 12. Co-ordination platforms for regional development and subnational investment

In order to ensure that various levels of government take a more co-ordinated approach to regional development and public investment, many OECD countries use vertical and horizontal co-ordination platforms. These can include institutional mechanisms, co-financing arrangements, formalised consultation of subnational governments, and platforms for regular intergovernmental dialogue. Practices in Australia, the Netherlands, New Zealand, Portugal and the United Kingdom provide relevant examples.

Infrastructure Australia (IA) was established in 2008 by Australia's federal government to co-ordinate investments of national importance with Australian states and territories. IA advises the national government on investment priorities in the transport, communication, energy and water sectors, and helps states identify infrastructure projects that align with national priorities. Infrastructure Australia assesses individual state or territory applications for funding under the Building Australia Fund, which is the country's main mechanism for financing critical infrastructure projects.

In the Netherlands, the various levels of government establish their own vision documents: the SVIR at the national level, the Provincial Structural Vision (provincial level), and zoning plans (municipal level). These documents serve as input to Area Agendas, which help all levels of government discuss and align their questions and projects in the physical domain (i.e. housing, industry, infrastructure, public transport, environment and water). Within the multi-year investment programme (MIRT) each region has its own, collective Area Agenda, containing the co-ordinated vision, goals, questions and projects of the various government levels in the specific MIRT region. Aligning the visions, goals and projects of each level of government in an MIRT area leads to better solutions, greater efficiency, and ultimately greater effectiveness. While formal discussions take place multiples times per year, decision making on the content of Area Agendas occurs at an annual meeting at the political level (BO MIRT), with the outcome discussed in Parliament.

New Zealand's Government Policy Statement establishes high-level priorities for transport investment, which are then implemented through the New Zealand Transport Agency (NZTA) in collaboration with subnational governments. NZTA officials work with each local authority to determine co-funding arrangements for the maintenance and renewal of the country's regional and local roads (approximately 90% of all roads). Vertical co-ordination is largely confined to investment in Auckland. Auckland Council's special plan sets out long-term priorities for public investment, and is designed to guide the investment decisions of central and local government, particularly in transport, and also in social infrastructure (e.g. schools and hospitals).

Portugal's Comissão de Coordenação e Desenvolvimento Regional (CCDR) was created in 1979 for planning. Currently, the CCDR activities cover: spatial planning; promoting strategic and integrated regional development planning; monitoring the design and implementation of deconcentrated policies; providing an opinion on the national government's public investment expenditure programme (PIDDAC) at the regional level. Under the EU Cohesion Policy, each region was requested to draft its own Regional Strategy 2020 under the direction of the CCDR

in order to improve collaboration among the CCDR, municipalities and the regional directorates of various ministries operating in the regions.

To improve local level horizontal co-ordination, the UK government is encouraging the development of Combined Authorities, wherein cities and surrounding districts combine to create a representative entity with a legal status. The entity may share transport and economic development functions, as well as any other functions that their constituent authorities agree to share. To establish a combined authority, local authorities must develop a governance review that includes a recommendation for establishing such a legal structure for their area. The Greater Manchester Combined Authority, for example was established in 2011. Other Combined Authorities were established in the Northeast, West Yorkshire, Sheffield and Liverpool in April 2014. The Authorities in Greater Manchester, Sheffield and West Yorkshire were offered additional powers via “devolution deals” in late 2014 and early 2015.

Source: OECD (2017), OECD Territorial Reviews: Sweden 2017: Monitoring Progress in Multi-level Governance and Rural Policy, OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264268883-en>.

Making better use of asymmetric decentralisation instruments for indigenous territories

Indigenous communities are quite common in the OECD countries (OECD, 2017^[25])¹⁸, and while the policies involving the indigenous populations differ considerably, indigenous populations have lately been recognised to an increasing extent in several countries. These policies involve in general an enhanced overall recognition of multiculturalism, but also more specific measures such as devolving responsibilities to indigenous groups or settlements in order to improve their ability for self-determination. In countries such as Denmark (Greenland and the Faroe Islands) and France (New Caledonia and Polynesia) the policies include also asymmetric decentralisation arrangements at regional or municipal level.

In Colombia, the government has recently made decisions to improve the autonomy of regions with indigenous populations. The focus should now be on implementing the policies that support the indigenous populations’ efforts for self-determination, and making sure that they have adequate capacities to practice their extended rights. The policies concerning the indigenous populations should be regularly evaluated and if problems occur, policies should be strengthened. Indicators describing the indigenous regions should be developed to be able to target supportive policies.

While the policies that support the indigenous regions to take more responsibilities and increase their self-rule are a priority, it is important to simultaneously take into account the overall territorial planning and public finances aspects. It is also essential to coordinate properly these territories with the municipalities where they are located.

¹⁸ Altogether twelve OECD member countries - Australia, Canada, Chile, Denmark (Greenland), Finland, France (New Caledonia), Japan, Mexico, New Zealand, Norway, Sweden, and the United States - report having indigenous populations. Indigenous populations account for around 24.5 million people, 2,0% of OECD total population (OECD 2017b).

B. Creating new tools

Department level

Launching a special programme to strengthen the departments in a differentiated and experimental manner

Departments are often responsible for the most demanding tasks and their needs differ from those of municipalities. Colombia could consider setting up a programme to strengthen the capacities of departments and to implement asymmetric policies. There are several examples of practices that Colombia could use as benchmark, such as regional reforms in Sweden, Chile and France.

Sweden has recently implemented a bottom-up territorial reform as a gradual and experimental process (a laboratory of regionalisation). Unlike in many countries, the Swedish government did not impose a single decentralisation model, but instead gave each region freedom to experiment. The process took place in waves since 1997/1998 and led to asymmetric decentralisation at the regional level. Some “pilot regions” tested the efficacy of a differentiated institutional structure and the exercise of some new responsibilities, serving as both an example and a benchmark for other regions (OECD, 2017^[33]). The underlying idea was that decentralised policy making leads to more innovation in governance. The experiment led later in more comprehensive reforming of the dual model of regional governance.

In order to prepare regional governments to assume new responsibilities and enable stakeholders to successfully roll out decentralisation in the near future, **Chile** is conducting pilot projects to “test” new competencies assigned to regions. Pilot experiences are also being conducted in metropolitan areas. For example, regions can now administer one or more metropolitan areas in their jurisdiction by creating a specialised unit within the regional authority to manage responsibilities linked to transport, housing, environment and public works, or waste management at the metropolitan level (OECD, 2017^[2]).

Very recently, **France** has announced that a constitutional reform will be launched in order to allow differentiated assignments of responsibilities by subnational governments. Moreover, the President announced his willingness to give communities more rights by allowing the communities of the same category to exercise different skills, or exercise the same competence in a different way. This would represent a significant move which could fundamentally change the relationship between the French subnational and the central governments as well as between subnational governments themselves. Until now, the central government could grant derogations provided that they were generalised after five years in the country, or abandoned, in order to maintain territorial equality. The government is now considering changing this, stating that “uniformity is no longer the condition of our unity”. The exact schedule of the reform is still unclear, but some directions could be given during 2018.

Modifying the criteria used to define the allocation of tasks for each level of government to ensure effective coordination and to allow for important externalities.

Asymmetric decentralisation ought to be a clearly defined and targeted policy tool, not an end or objective of itself. It is therefore important to design a comprehensive and concrete general plan for decentralisation before launching an asymmetric decentralisation scheme (OECD, 2017^[2]). Most importantly, asymmetric decentralisation should support the overall policy targets. Therefore, Colombia could consider preparing a nationwide plan on allocating spending and revenue assignments. Better clarified roles, tasks and powers within Colombian

multilevel governance model would contribute to the efficiency and transparency of public service delivery.

The optimal assignment of responsibilities within each public service area depends largely on the type of the service. While the economic theory on fiscal federalism cannot give a precise answer to choose the optimal fiscal assignment, some inferences can however be made. For instance, it is usually recommended that the so-called local public services (e.g. streetlights, local schools and child daycare) be provided at the lowest level of government. This is because local decision-makers are often best informed on local preferences and factors that affect cost of service production. However, also the economies of scale in service production should be taken into account here. For example, in some cases a higher level government may be able to invest in technology that enables more efficient service provision.

Public services with important redistributive features (e.g. specialised health care, secondary and higher education) are often best suited for higher levels of government, mainly because redistribution at the local level would be inefficient. In the same vein, public services with considerable positive externalities or spillovers (such as major roads or main water pipelines) are also usually better provided by higher levels of government.

In practice, the decision on “best” division of fiscal responsibilities between central, intermediate and local governments varies from country to country and depends on the institutional setting, history and politics. The experience from practices adopted in various countries suggests however that the basic principles set out in the theoretical literature have in general been applied (Table 6).

Reforming assignments across government levels should be a continuous process. Reducing duplication and overlapping assignments between subnational government levels results in more efficient subnational tasks and eases co-ordination of the services. While a full elimination of overlapping assignments is hardly possible, several country examples show that successful multilevel governance reforms on spending assignments are possible (see Box 13).

Table 6. Assignment of responsibilities across subnational governments: a general scheme

Municipal level	Intermediary level	Regional level
<ul style="list-style-type: none"> • A wide range of responsibilities: <ul style="list-style-type: none"> – General clause of competence – Eventually, additional allocations by the law • Community services: <ul style="list-style-type: none"> – Education (nursery schools, preelementary and primary education) – Urban planning & management – Local utility networks (water, sewerage, waste, hygiene, etc.) – Local roads and city public transport – Social affairs (support for families and children, elderly, disabled, poverty, social benefits, etc.) – Primary and preventive healthcare – Recreation (sport) and culture – Public order and safety (municipal police, fire brigades) – Local economic development, tourism, trade fairs – Environment (green areas) – Social housing – Administrative and permit services 	<ul style="list-style-type: none"> • Specialised and more limited responsibilities of supra-municipal interest • An important role of assistance towards small municipalities • May exercise responsibilities delegated by the regions and central government • Responsibilities determined by the functional level and the geographic area: <ul style="list-style-type: none"> – Secondary or specialised education – Supra-municipal social and youth welfare – Secondary hospitals – Waste collection and treatment – Secondary roads and public transport – Environment 	<ul style="list-style-type: none"> • Heterogeneous and more or less extensive responsibilities depending on countries (in particular, federal vs unitary) • Services of regional interest: <ul style="list-style-type: none"> – Secondary / higher education and professional training – Spatial planning – Regional economic development and innovation – Health (secondary care and hospitals) – Social affairs e.g. employment services, training, inclusion, support to special groups, etc. – Regional roads and public transport – Culture, heritage and tourism – Environmental protection – Social housing – Public order and safety (e.g. regional police, civil protection) – Local government supervision (in federal countries)

Sources: OECD (2016) Regions at a Glance; OECD (2017): Multilevel Governance reforms in the OECD countries.

Box 13. Examples of reforms on shared responsibilities

Denmark reformed its subnational government in 2007. The reform reassigned the tasks between levels of government, merged municipalities and reduced the number of the intermediate governments (counties). As a result of the reform, counties were granted responsibility for most demanding healthcare services including hospital services. Municipalities gained responsibilities for health promotion, social welfare and education. One of the aims of the structural reform was to reduce the degree of shared assignments and reduce incentives for cost shifting between government levels. In order to tackle the latter problem, the municipalities were obliged to co-finance the rehabilitation services and training facilities provided by the counties.

Spain reformed the multilevel administrative structures in 2013 aiming to clarify municipal competences and preventing duplication. The principle of the reform was called “One Administration, one competence”. The reform reduced competences which were not attributed by law or delegated by other administrations without adequate resources (known as “improper competences”). The Local Reform intended to improve the definition of local competences. To do so, a list of core competences was established. Competences which were not included in this list were referred to as “non-core competences”. In any event, whenever competences are delegated from upper levels of government to lower levels of government, it is compulsory to provide corresponding resources earmarked for financing the services involved.

In Japan, the 1988 Municipal Government Act (*loi communale*) provides a reference framework for the distribution of responsibilities across levels of government, making a distinction between mandatory responsibilities (including some which are shared with central government or delegated) and optional responsibilities. The 1999 decentralisation law eliminated opaque central decision-making on local responsibilities and clarified competences more generally. Subsequent waves of reform have continued to develop the goals of greater municipal autonomy, clear delineation of responsibilities, and proper financing.

In the Netherlands, the Dutch decentralisation reform aims to reallocate competences between the different levels of government, in particular by re-enforcing provincial and municipal responsibilities and by establishing simpler and clearer division of responsibilities between the different public actors, avoiding the overlapping of functions.

Sources: Allain-Dupré, Dorothee (2018), Assigning responsibilities across levels of government: Trends, challenges and guiding principles for policy-makers, OECD Working Paper, Fiscal Federalism Series; Healthcare in Denmark - An Overview, Danish Ministry of Health.

Municipal level

Setting up a “free municipality” experiment in order to gain experience of enhanced subnational autonomy

Colombia could consider setting up an experiment on widened autonomy at the municipal level. The experiment could be implemented by giving considerable spending and revenue autonomy to a limited number of subnational governments for a fixed period of time. Such experiment could give useful information on the pros and cons of decentralisation in Colombian governance model, and help plan later reforms.

In this respect, **Denmark** could provide an interesting benchmark to Colombia. In Denmark, between 2012 and 2015, nine local municipalities were granted exemptions from government rules and documentation requirements in order to test new ways of carrying out their tasks, in

a policy experiment known as the “Free Municipality” initiative. The main focus was on simplification, innovation, quality and a more inclusive approach to the individual citizen, with many of the experiments focusing on employment. The Free Municipality experiment is currently being evaluated in order to form the basis for potential future legislation on de-bureaucratisation for all municipalities. The concept of Free Municipalities continues in an adjusted form until 2019, and is currently extended to more municipalities. (OECD, 2017^[2]).¹⁹

¹⁹ In fact, the tradition of experimenting using the “Free municipality” initiatives began in several Nordic countries already in the 1980s. The first free municipality trials were implemented in Sweden in 1984, Denmark in 1985, Norway in 1987, and Finland in 1989 (Swedish Government, 1991). In Norway, there has been a law for continuous experimenting since 1993. The law allows voluntary experimenting in municipalities, counties and central government.

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