Overview

Scope. The World Bank’s decentralization indicators are aimed at providing an overview of the political, fiscal, and administrative arrangements of countries. The indicators can be used to illustrate global, regional, and country trends in decentralization.

Indicators. These include a range of continuous and binary measures including: (i) Fiscal decentralization: subnational (second and third tiers) revenues and expenditures, intergovernmental transfers, and vertical gap, and (ii) Political decentralization: local elections and political divisions.

Coverage. The dataset includes indicators covering the years 1972 to 2010. However, due to limitations of some of the primary sources there are significant gaps in reporting both at the country level and over time.

Sources: (i) Fiscal indicators are based on data drawn from the International Monetary Fund’s Government Finance Statistics (GFS), which provides a breakdown of expenditures by for three tiers of government. (ii) Political indicators are drawn from the Database on Political Institutions 2010 and the International Organization for Standardization code ISO 3166-2 that classifies countries and their subdivisions.

Fiscal Decentralization Indicators

Sub-National Revenues

- Subnational Government Share of Revenue (% of Total Government Revenue)
- Subnational Government Share of Tax Revenue (% of Total Government Tax Revenue)
- Subnational Government Share of Property Tax Revenue (% of Total Government Property Tax Revenue)

Sub-National Expenditures

- Subnational Government Share of Expenditure (% of Total Government Expenditure)
- Subnational Government Share of Compensation of Employees Expenditure (% of Total Government Compensation of Employees Expenditure)

Sub-National Functional Expenditures

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1 This dataset has been prepared for the Intergovernmental Relations Thematic Group at the Poverty Reduction and Economic Management Network by Lorena Viñuela (Consultant, PRMPS, lvinue@worldbank.org).
- Subnational Government Share of Health Expenditures (% of Total Government Health Expenditure)
- Subnational Government Share of Education Expenditures (% of Total Government Education Expenditure)

**Vertical Imbalance**
- Subnational Government Own Source Revenue as a Share of Subnational Expenditures
- Subnational Government Tax Revenue as a Share of Total Subnational Government Expenditure
- Vertical Grants (Transfers) as Share of Subnational Government Revenue

**Political Decentralization Indicators**

**Local Elections**
- Municipal government locally elected
- State/province government locally elected

**Political Divisions**
- Federation
- Total Number of second tier governments
- Total Number of third tier governments
- Total Number of fourth tier governments

**Constructing Fiscal Decentralization Indicators from GFS Data**

**Levels of government.** The GFS framework distinguishes between central, state or provincial and local governments, an important distinction in the decentralization context.

- **The central government** is the one whose political authority extends over the entire territory of the country. The central government can impose taxes on all resident institutional units and on nonresident units engaged in economic activities within the country.
- **State government** is an intermediate level of government. A state may be described by other terms, such as a province or region. It is the government whose legislative, judicial, and executive authority extends over the entire territory of a state, which is the largest geographical area into which the country as a whole may be divided for political or administrative purposes.
- **Local government**’s legislative, judicial, and executive authority is restricted to the smallest geographic areas distinguished for administrative and political purposes.

The indicators for subnational revenues and expenditures combine the last two levels.

**Reporting systems.** Since 2001, GFS reports data on accrual and cash basis. Prior to that date only cash basis reporting was used. Accrual basis of recording is a system in which “the time assigned to flows is
when economic value is created, transformed, exchanged, transferred, or extinguished”. In cash basis recording the time assigned to flows is when cash is received or disbursed. Consequently, fiscal indicators after 2001 are distinguished by each reporting system.

**Coding system.** In the GFS, each observation is linked to a single code that concatenates the identifiers for the database (GF), the country code (three digit number), the reporting system (a stands for accrual, c for cash), a capital letter for the table to which the observation corresponds, the level of government for which it is reporting (SG stands for State Government, LG for Local Government, etc.), and the number of the classification code. GFS assigns a number from 1 to 7 to identify the types of transactions, economic flows, and stocks of assets and liabilities. For example, GF_111_aA_BA_1 refers to the accrual budgetary allocation for the central government total as revenue for the United States.

**Figure: The Classification coding System**

**Table: Level of Government Reported**

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>BA</td>
<td>Budgetary Central Government</td>
</tr>
<tr>
<td>EA</td>
<td>Extra-Budgetary Units/Entities</td>
</tr>
<tr>
<td>SS</td>
<td>Social Security Funds</td>
</tr>
<tr>
<td>CG</td>
<td>Central Government (consolidated)</td>
</tr>
<tr>
<td>SG</td>
<td>State Governments</td>
</tr>
<tr>
<td>LG</td>
<td>Local Governments</td>
</tr>
<tr>
<td>GG</td>
<td>General Government (consolidated)</td>
</tr>
</tbody>
</table>


Codes beginning with 1 refer to revenue; codes beginning with 2 refer to expense; and codes beginning with 3 refer to transactions in nonfinancial assets, financial assets, and liabilities. For financial assets and liabilities, the code 3 signifies that they have been classified by financial instrument. Other economic flows are classified by the first digit of 4 or 5. Codes beginning with 4 refer to holding gains and codes beginning with 5 refer to other changes in the volume of assets and liabilities. The first digit of the classification code for a stock of a type of asset or liability is always 6. Expense transactions and transactions in nonfinancial assets can be also be classified using the Classification of Functions of Government (COFOG). All COFOG classification codes begin with 7. Transaction in financial assets and liabilities can be classified according to the sector of the other party to the financial instrument as well as according to the type of financial instrument. When classified by sector, the classification codes for these transactions begin with 8. For a full description of the variables, please see GFS Manual 2001 and GFS Glossary.

**Limitations in coverage and definitions.**
There are limitations with regards to the use of GFS for the purpose of analyzing decentralization: (i) The coverage is sparse and not necessarily even across tiers of government and across years, which can lead to sample selection bias. (ii) Sub-national data in the GFS are aggregated across all governments within the same tier and, therefore, the available data do not allow examining horizontal disparities across subnational governments. (iii) The indicators do not measure the extent of autonomy sub-national governments have over revenues and expenditures and do not distinguish between delegated and devolved functions. As a result, there could be an overestimation of decentralization.

Table 1 summarizes the number of countries with at least one observation and highlights differences in the availability of revenue and expenditure data. More detailed information for each indicator is included in the spreadsheet.

**Table 1 Reporting gaps in GFS, 1972-2010**

<table>
<thead>
<tr>
<th>GFS reporting on subnational codes</th>
<th>Countries reporting at least one observation for local and/or state government</th>
<th>Countries coded by GFS as having local and/or state governments</th>
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<tbody>
<tr>
<td></td>
<td>Revenues</td>
<td>Expenditures</td>
</tr>
<tr>
<td>Both</td>
<td>22</td>
<td>17</td>
</tr>
<tr>
<td>Only Local Government</td>
<td>53</td>
<td>72</td>
</tr>
<tr>
<td>Only State Government</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>75</td>
<td>91</td>
</tr>
<tr>
<td>GFS overall reporting</td>
<td>150</td>
<td>150</td>
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<tr>
<td>Member Countries of GFS</td>
<td>75</td>
<td>59</td>
</tr>
<tr>
<td>Global country gap:</td>
<td></td>
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</tr>
</tbody>
</table>

**Sources:**


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Variable Definitions

Fiscal Decentralization Indicators

<table>
<thead>
<tr>
<th>variable name</th>
<th>variable label</th>
</tr>
</thead>
<tbody>
<tr>
<td>identifying variables</td>
<td></td>
</tr>
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<td>ostartyy</td>
<td>Year</td>
</tr>
<tr>
<td>oid2</td>
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<tr>
<td>wb_countrycode</td>
<td>WB ID</td>
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<tr>
<td>country_name</td>
<td>Country name</td>
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</table>

Revenue Measures

<table>
<thead>
<tr>
<th>variable name</th>
<th>variable label</th>
</tr>
</thead>
<tbody>
<tr>
<td>sn_rev_per_ac</td>
<td>Revenue 1-a: “Subnational Government Share of Revenue (% of Total Government Revenue), Accrual” Percentage of total revenues accounted for by subnational governments, measured as the sum of local and state total revenues minus grants from state to local government (ab11_SG + ab11_LG - ab263_SG), divided by the sum of local, state, and national revenues (ab11_CG + ab11_SG + ab11_LG).</td>
</tr>
<tr>
<td>sn_tax_per_ac</td>
<td>Revenue 2-a: “Subnational Government Share of Tax Revenue (% of Total Government Tax Revenue), Accrual” Percentage of tax revenues collected by subnational governments, measured as the sum of local and state tax revenues (ab111_SG + ab111_LG), divided by the sum of local, state, and national tax revenues (ab111_CG + ab111_SG + ab111_LG).</td>
</tr>
<tr>
<td>sn_ptax_per_ac</td>
<td>Revenue 3-a: “Subnational Government Share of Property Tax Revenue (% of Total Government Property Tax Revenue), Accrual” Percentage of property tax revenues collected by subnational governments, measured as the sum of local and state property tax revenues (ab113_SG + ab113_LG), divided by the sum of local, state, and national property tax revenues (ab113_CG + ab113_SG + ab113_LG).</td>
</tr>
<tr>
<td>sn_rev_per_c</td>
<td>Revenue 1-c: “Subnational Government Share of Revenue (% of Total Government Revenue), Cash” Percentage of total revenues accounted for by subnational governments, measured as the sum of local and state total revenues minus grants from state to local government (cb11_SG + cb11_LG - cb263), divided by the sum of local, state, and national revenues (cb11_CG + cb11_SG + cb11_LG).</td>
</tr>
<tr>
<td>sn_tax_per_c</td>
<td>Revenue 2-c: “Subnational Government Share of Tax Revenues (% of Total Government Tax Revenue), Cash” Percentage of tax revenues collected by subnational governments, measured as the sum of local and state tax revenues (cb111_SG + cb111_LG), divided by the sum of local, state, and national tax revenues (cb111_CG + cb111_SG + cb111_LG).</td>
</tr>
</tbody>
</table>
### Revenue Measures

| sn_ptax_per_c | Revenue 3-c: “Subnational Government Share of Property Tax Revenue (% of Total Government Property Tax Revenue), Cash”  
Percentage of property tax revenues collected by subnational governments, measured as the sum of local and state property tax revenues (cB113_SG + cB113_LG), divided by the sum of local, state, and national property tax revenues (cB113_CG + aB113_SG + aB113_LG). |

### Expenditure Measures

| sn_exp_per_ac | Expenditure 1-a: “Subnational Government Share of Expenditure (% of Total Government Expenditure), Accrual”  
Percentage of total expenditures accounted for by subnational governments, measured as the sum of local and state total expenditures minus grants from state to local government (aB2_SG + aB2_SG - aB263_LG), divided by the sum of national, state, and local expenditures (aB2_CG + aB2_SG + aB2_LG). |
| sn_hrexp_per_ac | Expenditure 2-a: “Subnational Government Share of Compensation of Employees Expenditure (% of Total Government Compensation of Employees Expenditure), Accrual”  
Percentage of total compensation of employees expenditures accounted for by subnational governments, measured as the sum of local and state expenditures on compensation of salaries (aB21_SG + aB21_LG +), divided by the total expenditures on compensation of employees (aB21_CG + aB21_SG + aB21_LG). |
| sn_hexp_per_ac | Expenditure 3-a: “Subnational Government Share of Health Expenditures (% of Total Government Health Expenditure), Accrual”  
Percentage of total health expenditures accounted for by sub-national governments, measured as the sum of local and state expenditures on health (aB707_SG + aB707_LG), divided by the total expenditures on health (aB707_CG + aB707_SG + aB707_LG). |
| sn_eexp_per_ac | Expenditure 4-c: “Subnational Government Share of Education Expenditures (% of Total Government Education Expenditure), Accrual”  
Percentage of total education expenditures accounted for by subnational governments, measured as the sum of local and state expenditures on education (aB709_SG + aB709_LG), divided by the total expenditures on education (aB709_CG + aB709_SG + aB709_LG). |
| sn_exp_per_c | Expenditure 1-c: “Subnational Government Share of Expenditure (% of Total Government Expenditure), Cash”  
Percentage of total expenditures accounted for by subnational governments, measured as the sum of local and state total expenditures minus grants from state to local government (cB2_SG + cB2_LG - aB263_SG), divided by the sum of national, state, and local expenditures (cB2_CG + cB2_SG + cB2_LG). |
| sn_hrexp_per_c | Expenditure 2-c: “Subnational Government Share of Compensation of Employees Expenditure (% of Total Government Compensation of Employees Expenditure), Accrual”  
Percentage of total compensation of employees expenditures accounted for by subnational governments, measured as the sum of local and state expenditures on compensation of salaries (cB21_SG + cB21_LG +), divided by the total expenditures on compensation of employees (cB21_CG + cB21_SG + cB21_LG). |
Employees Expenditure (% of Total Government Compensation of Employees Expenditure), Cash”
Percentage of total compensation of employees expenditures accounted for by subnational governments, measured as the sum of local and state expenditures on compensation of salaries (cB21_SG + cB21_LG +), divided by the total expenditures on compensation of employees (cB21_CG + cB21_SG + cB21_LG).

Expenditure 3-c: “Subnational Government Share of Health Expenditures (% of Total Government Health Expenditure), Cash”
Percentage of total health expenditures accounted for by subnational governments, measured as the sum of local and state expenditures on health (cB707_SG + cB707_LG), divided by the total expenditures on health (cB707_CG + cB707_SG + cB707_LG).

Expenditure 4-c: “Subnational Government Share of Education Expenditures (% of Total Government Education Expenditure), Cash”
Percentage of total education expenditures accounted for by subnational governments, measured as the sum of local and state expenditures on education (cB709_SG + cB709_LG), divided by total expenditures on education (cB709_CG + cB709_SG + cB709_LG).

Degree of Fiscal Decentralization Measures
sn_owr_perexp_ac
Vertical Imbalance 1-a: “Subnational Government Own Source Revenue as a Share of Subnational Expenditures, Accrual”
Percentage of expenditures financed with subnational governments’ own source revenue, measured as the sum of local and state own source revenues minus grants received from grants or transfers from other levels of government (aB1_SG + aB1_LG – aB13_SG - aB13_LG), relative to total subnational expenditures (aB2_SG + aB2_LG).

sn_tax_perexp_ac
Vertical Imbalance 2-a: “Subnational Government Tax Revenue as a Share of Total Subnational Government Expenditure, Accrual”
Share of tax revenues accounted by subnational government, measured as the sum of local and state tax revenues (aB11_SG + aB11_LG), relative to total subnational expenditures (aB2_SG + aB2_LG).

sn_grants_perrev_ac
Vertical Imbalance 3-a: “Vertical Grants (Transfers) as Share of Subnational Government Revenue, Accrual”
Grants (transfers) from other levels of government received by local and state governments as a percentage of total subnational revenues, measured as the sum of state and local grant revenue minus state to local grants (aB133_SG + aB133_LG – aB263_SG), relative to total subnational revenues (aB1_SG + aB1_LG).

sn_owr_perexp_c
Vertical Imbalance 1-c: “Subnational Government Own Source Revenue as a Share of Subnational Expenditures, Cash”
Percentage of expenditures financed with subnational governments’ own source revenue, measured as the sum of local and state own source
revenues minus grants received from grants or transfers from other levels of government (cB1_SG + cB1_LG – cB13_SG - cB13_LG), relative to total subnational expenditures (cB2_SG + cB2_LG).

**sn_tax_perexp_c**

**Vertical Imbalance 2-c:** *Subnational Government Tax Revenue as a Share of Total Subnational Government Expenditure, Cash*

It is the share of tax revenues accounted by subnational government, measured as the sum of local and state tax revenues (cB11_SG + cB11_LG), relative to total subnational expenditures (cB2_SG + cB2_LG).

**sn_grants_perrev_c**

**Vertical Imbalance 3-c:** *Vertical Grants (Transfers) as Share of Subnational Government Revenue, Cash*

Grants (transfers) from other levels of government received by local and state governments as a percentage of total subnational revenues, measured as the sum of state and local grant revenue minus state to local grants (cB133_SG + cB133_LG – cB263_SG), relative to total subnational revenues (cB1_SG + cB1_LG).
## Political Decentralization Indicators

<table>
<thead>
<tr>
<th>variable name</th>
<th>variable label</th>
</tr>
</thead>
<tbody>
<tr>
<td>ostartyy</td>
<td>Year</td>
</tr>
<tr>
<td>wb_countrycode</td>
<td>WB id</td>
</tr>
<tr>
<td>country_name</td>
<td>Country name</td>
</tr>
</tbody>
</table>

### Identifying variables

- **muni**
  - "Municipal government locally elected"
  - 0 if neither local executive nor local legislature are locally elected. 1 if the executive is appointed, but the legislature elected. 2 if they are both locally elected. No information, or no evidence of municipal governments, is recorded as blank.

- **state**
  - "State/province government locally elected"
  - 0 if neither state/provincial executive nor state/provincial legislature are locally elected. 1 if the executive is appointed, but the legislature elected. 2 if they are both locally elected.

### Database of Political Institutions

- **federation**
  - "Federation"
  - 1 if federal state.

- **second_tier**
  - "Total Number of second tier governments"

- **second_tier_name**
  - "Name of second tier government"

- **third_tier**
  - "Total Number of third tier governments"

- **third_tier_name**
  - "Name of third tier government"

- **fourth_tier**
  - "Total Number of fourth tier governments"

- **fourth_tier_name**
  - "Name of fourth tier government"