The Territorial Fiscal Gap in Colombia

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This paper presents an estimation of expenditure needs and fiscal capacity of Colombia's municipalities and departments in 2014. We use standard per capita norms to estimate the spending needs and data envelopment analysis for the local fiscal capacity. The results show that: (i) there are high horizontal fiscal disparities in Colombia, with greater incidence in municipalities than in departments; (ii) these disparities favor more developed territories; and (iii) there is evidence of a centerperiphery pattern in the horizontal fiscal disparities, causing central regions of the country to have a lower imbalance between expenditure needs and fiscal capacity. An equalization transfers system is an option for public policy to eliminate these disparities.