

The territorial organization of countries and the challenges faced by local and regional governments

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- The territorial organization of governments in LAC
 - Territorial challenges: Urbanization and development gaps
 - Challenges of global trends: Climate change and digitalization
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- Origins and recent evolution of territorial organization



Key messages

1 Accumulated knowledge about the realities of subnational governments in Latin America and the Caribbean (LAC) is limited. To help address this gap, a public database has been developed alongside this report, containing information on all jurisdictions, their population, land area, and a range of indicators linked to the Sustainable Development Goals (SDGs).

2 The territorial organization of countries in the region is diverse and strongly correlated with territorial size: 13 countries, including all of South America, have two levels of subnational government; another 16 have only one level; and four Caribbean countries lack subnational governments.

3 Over the past four decades, many new local governments have been established, while the number of regional governments has remained relatively stable. The formation of local jurisdictions was especially pronounced during the 1980s and 1990s.

4

A small number of local governments serve a large portion of the population: one-fifth of these governments account for two-thirds of the population.

5

A high rate of urbanization and significant territorial development gaps are two defining features of the region. Consequently, urban management and policies to close these gaps represent central challenges for subnational governments.

6

Global phenomena also pose challenges to subnational governance. On one hand, there is a need to address climate change and biodiversity loss at the territorial level. On the other hand, it is essential to leverage digitalization and emerging technologies to build capacity in local and regional administrations.

The territorial organization of countries and the challenges faced by local and regional governments¹

Introduction

Local and regional governments in Latin America and the Caribbean (LAC) play a leading role in improving the well-being and quality of life for the region's inhabitants. Their importance has grown with the decentralization process, which intensified during the 1980s and 1990s and has since advanced more gradually. This decentralization process not only increased the number of subnational governments through territorial reforms but also granted many of them political autonomy and functional responsibilities.

Currently, these governments shoulder multiple responsibilities. They oversee territorial planning and urban management, regulate and administer public services, collect taxes, and execute investment projects. This positions them as key players in achieving the Sustainable Development Goals (SDGs). Some SDGs, such as those related

to water and sanitation, education, health, and security, are directly linked to the mandates of subnational governments. Others, such as those related to environmental objectives or gender equality, are more broadly influenced by the actions of these governments.

Decentralization brings several advantages that, if effectively leveraged, can improve public administration. First, proximity between decision-makers and citizens enhances the ability to identify local needs and tailor services accordingly. Second, closer citizen oversight encourages more efficient state management. Third, a greater number and diversity of subnational governments facilitate mutual learning and collaboration among these entities.

¹ This chapter was written by Guillermo Alves and Gustavo Fajardo, with the assistance of Facundo Lurgo.

Whether these advantages materialize depends on how the inherent challenges of decentralization are addressed—and there are several. One significant challenge is that smaller-scale government services may lead to higher provision costs. Additionally, resource disparities between regions within a country mean that decentralization can exacerbate inequalities in well-being. Lastly, shifting decision-making to the local level risks magnifying interjurisdictional externalities.

Among these challenges, significant gaps between regions stand out in LAC. As this chapter and the broader report will illustrate, countries in the region are characterized by substantial territorial inequalities. These include demographic disparities, with large population concentrations in a few areas, and economic imbalances, as productive activities

are also highly concentrated. These inequalities affect the ability of governments in poorer and more remote areas to access material and human resources.

Before delving into the report's content, it is essential to highlight the lack of information on subnational governments and their performance in the region. Compared to the abundance of studies on national governments, knowledge about the governance, responsibilities, finances, personnel, and infrastructure of subnational governments is limited. This knowledge gap is partly due to the relatively recent establishment of many of these governments and the region's centralist tradition, which has hindered their study and the extraction of valuable lessons. This year's Report on Economic Development (RED) seeks to close this gap by systematizing data, compiling existing evidence, and producing original knowledge.

Territorial organization of governments in LAC

Current territorial organization

The definition of subnational governments adopted in this report follows the framework outlined in the joint report by the Organisation for Economic Co-operation and Development and the global alliance United Cities and Local Governments (OECD and UCLG, 2016). This definition includes two criteria: the entities must have general competencies over their territory and autonomy in terms of their personnel, budget, and assets; and, their authorities must be elected by the residents of their jurisdiction.

Several types of entities are excluded under this definition, and listing them helps clarify the report's scope. First, deconcentrated agencies of the national government that lack locally elected authorities are not considered subnational governments. For example, this applies to departments in Guatemala, where authorities are appointed by the national government. Second, entities with a specific purpose, such as school districts, are excluded because they, by definition, do not have general competencies. Third, sub-municipal entities, even those with locally

elected authorities in some countries, are excluded if they lack autonomy or do not exercise general competencies over their territory. For instance, this is the case of *corregimientos* in Panama.



In LAC, 29 countries have local governments and 13 have regional ones

In response to the knowledge gap identified in the previous section, this report developed a database of subnational jurisdictions in the 33 member countries of the Community of Latin American and Caribbean States (CELAC). Figure 1.1 describes the variables included in this database, which integrates demographic information and indicators aligned with the Sustainable Development Goals (SDGs). Additionally, it incorporates geographic data that enables visual representation on maps.

Both the database and the maps are accessible through an interactive public visualization platform,

enabling users to consult and analyze the information easily.

Figure 1.1
Available indicators in the Atlas of Local and Regional Governments of Latin America and the Caribbean

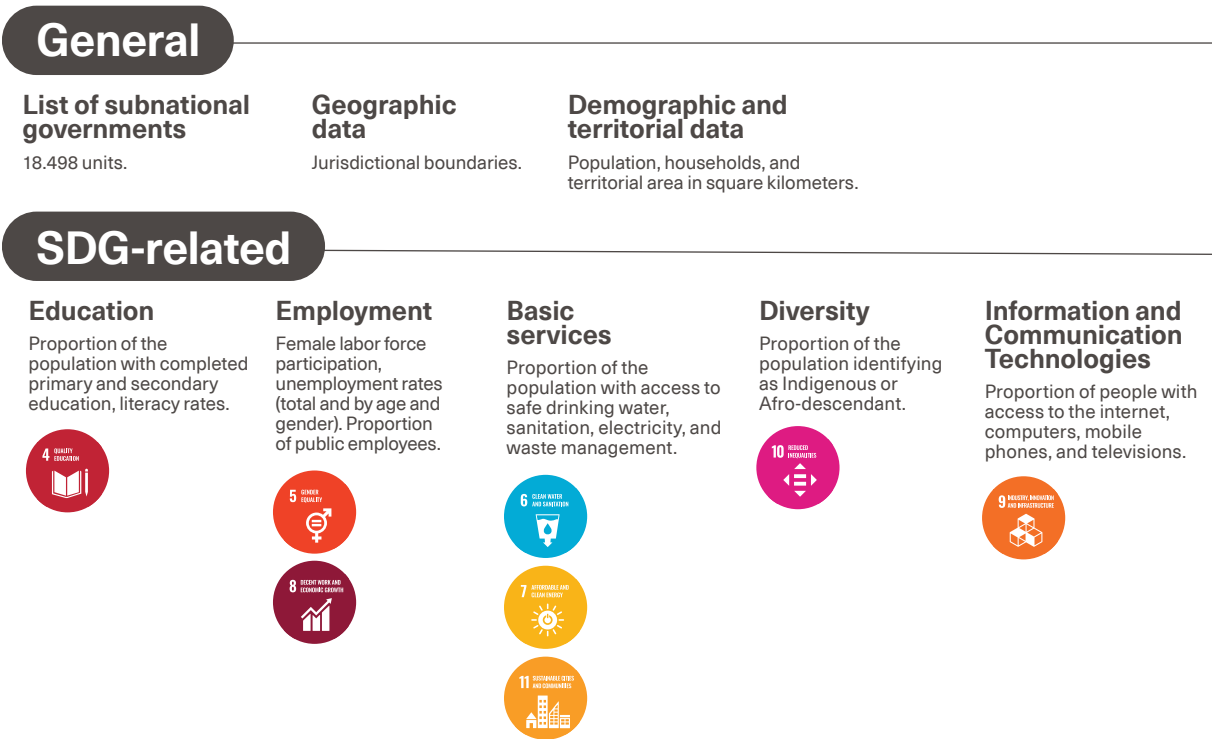


Table 1.1
Number and names of subnational governments by country and level

Country	Regional		Local	
	Number	Name	Number	Name
Antigua and Barbuda	-	-	1	Council
Argentina	24	Province	2,320	Municipality, commune, or governing board
Bahamas	-	-	32	District
Belize	-	-	217	Council or municipality
Bolivia	10	Department or autonomous region	341	Municipality
Brazil	27	State	5,569	Municipality
Chile	16	Region	345	Municipality
Colombia	33	Department	1,104	Municipality
Costa Rica	-	-	84	Canton
Cuba	-	-	168	Municipality
Dominica	-	-	42	Council
Ecuador	24	Province	221	Canton
El Salvador	-	-	306	Municipality or district
Guatemala	-	-	340	Municipality
Guyana	10	Regional democratic council	185	Municipality or council
Haiti	-	-	710	Commune or section
Honduras	-	-	298	Municipality
Jamaica	-	-	14	Parish
Mexico	32	State	2,475	Municipality
Nicaragua	2	Autonomous region	153	Municipality
Panama	-	-	82	District
Paraguay	17	Department	263	Municipality
Peru	25	Department	2,087	Province or district
Dominican Republic	-	-	393	Municipality or district
Saint Kitts and Nevis	-	-	1	Assembly
Suriname	-	-	10	District
Trinidad and Tobago	-	-	15	Assembly or municipal corporation
Uruguay	19	Department	125	Municipality
Venezuela	23	State	335	Municipality
Total	262		18,236	

Note: This table shows the number and most common names of subnational governments in 29 CELAC countries, distinguishing between regional and local levels. Haiti, El Salvador, Peru, and the Dominican Republic have two sublevels within the local government level, and the figures presented are the sum of both.

Source: Authors based on CAF data (2024).

Unlike in LAC, several of the world's most populous countries have more than two tiers of subnational government.² According to a UCLG study (OECD and

UCLG, 2016) covering over 100 countries, among the 15 most populous nations, the United States, the Philippines, India, and Vietnam have three tiers of

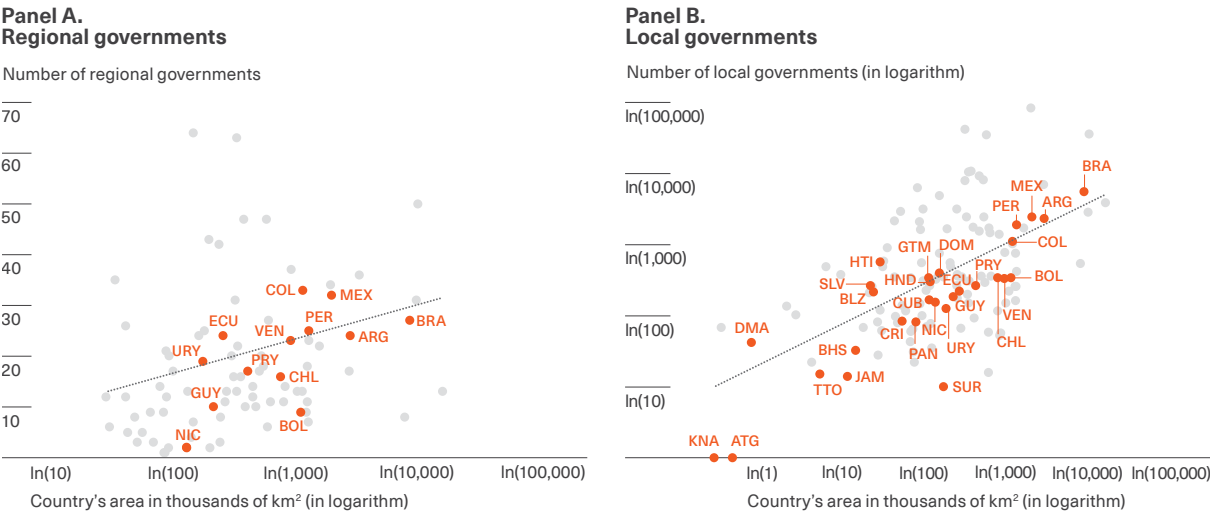
² Bolivia could be considered a case of governance at three levels of government, with the establishment of the Regional Government of Gran Chaco, which is situated between the department and the municipalities. This is discussed in more detail in the following section.

government. The same is true for the most populous countries in Western Europe, including Germany, Spain, France, Italy, and the United Kingdom.

The UCLG study also indicates that when there is only one level of subnational government, it is always at the local level. All Central American and Caribbean countries with subnational governments have only the local level, except for Nicaragua, which also has a regional level. In contrast, Mexico and nearly all South American countries, except Suriname, have two levels of government. This classification suggests that territorial size and population are key factors in determining the presence of a regional tier of government. In larger countries, the central government is often distant from significant portions of the territory. Moreover, given a certain land area, a larger population provides the necessary scale to sustain a regional or intermediate level of government.

The influence of country size on subnational government structures is evident in the strong correlation between the number of regional and local governments in LAC and national territorial size (Graph 1.1). This correlation remains significant even when controlling for population size and GDP per capita, and it is notably stronger in LAC than in other parts of the world.³ This pattern may be linked to the colonial legacy that shaped subnational governance structures in the region. In LAC, European colonizers—primarily from Spain—divided territories to facilitate administrative control, resulting in sections that were relatively homogeneous in terms of size. This contrasts with other regions, where historical local identities played a more prominent role in shaping territorial boundaries.

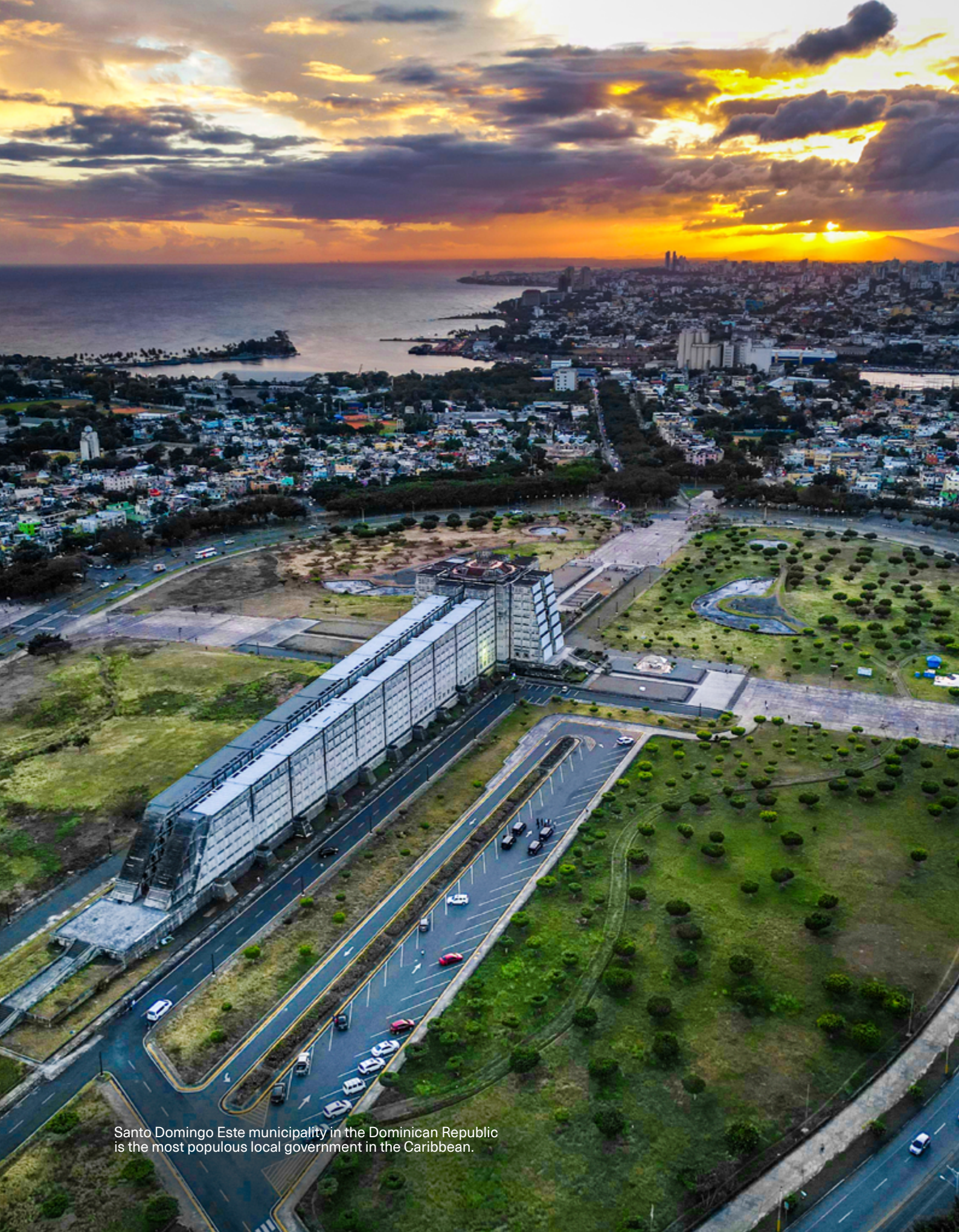
Graph 1.1
Relationship between the number of regional and local governments and the territorial size of countries



Note: The graph presents a scatterplot illustrating the relationship between the number of local and regional governments (with the latter expressed in natural logarithms) and the logarithm of total land area. The analysis is divided into two panels, A and B. Panel A includes 86 countries, 13 of which belong to LAC. Panel B analyzes 129 countries (29 of which are from LAC). Kosovo was excluded due to a lack of data on land area. For El Salvador, Haiti, Peru, and the Dominican Republic, which have two types of local governments, the lower tier was used in the analysis. In Panel A, the correlation coefficient between the two variables is 0.24, and the R² value from the regression line (represented by a dotted line, calculated only for LAC countries) is 0.06. In Panel B, these values increase to 0.57 and 0.32, respectively.

Source: Authors based on data from the World Bank (2024c), CAF (2025), and OECD-UCLG (2016)

3 Tables A.1.1 and A.1.2 in the chapter appendix, available in the online edition of the RED, illustrate these differences.



Santo Domingo Este municipality in the Dominican Republic is the most populous local government in the Caribbean.

Special arrangements in subnational territorial organization

Indigenous autonomies

Most LAC countries have indigenous and Afro-descendant populations (De la Mata et al., 2022). The Andean countries, Central America, and Mexico have the highest proportions of indigenous populations, while Afro-descendant populations are more concentrated in Brazil, Cuba, Colombia, Panama, Trinidad and Tobago, and Suriname. Box 1.1 highlights the significant spatial concentration or segregation of both groups (Albina et al., 2024).

At least seven countries in the region have institutional arrangements granting varying degrees of autonomy to indigenous populations over their territories. In some cases, these arrangements allow local authorities to be elected by residents without national government involvement, thereby qualifying them as autonomous governments under the framework used in this report; in other cases, such provisions are not included. Typically, indigenous autonomies include special rights regarding territorial management, such as land ownership rights.



At least seven countries in the region have institutional arrangements that provide specific degrees of autonomy for Indigenous populations over their territories

In Bolivia, Dominica, Guyana, and Nicaragua, autonomous indigenous governments are part of the foundational levels of territorial organization described earlier. Bolivia has established the region's most advanced framework for indigenous autonomy through its 2009 constitutional reform, which introduced the Indigenous Originary Peasant Autonomy (AIOC). This reform allows municipalities to transition into these autonomous entities, enabling them to restructure their authorities and governance based on a self-drafted statute, which must be approved by residents

through a referendum (Political Constitution of the State, 2009). Since the implementation of the AIOC framework, three such autonomies have been established: Charagua Iyambae in Santa Cruz, Uru Chipaya in Oruro, and Raqaypampa in Cochabamba (Niedzwiecki and Pietro, 2020). In Dominica and Guyana, indigenous autonomies function as local governments. Dominica has a single indigenous government, the Carib Council (CLGF, 2018). In Guyana, the 75 Amerindian village councils constitute more than half of the country's local governments. Lastly, in Nicaragua, the only two regional-level governments are autonomous indigenous territories, officially recognized in 1988: the North Caribbean Coast Autonomous Region and the South Caribbean Coast Autonomous Region (UCLG, n.d., b).

In Chile, Colombia, and Panama, indigenous autonomy arrangements exist but are not classified as autonomous governments under the definition used in this report. In Chile and Colombia, indigenous communities are governed under special regimes, such as the Rapa Nui people in the Chilean municipality of Easter Island and the more than 180 Emberá indigenous reserves in Colombia (IWGIA, 2019). In Panama, there are six indigenous comarcas, four corresponding to provincial administrative divisions and two to corregimientos. In the provincial comarcas, governance is shared between a locally elected indigenous authority and an authority appointed by the national government.

Territories of national capital cities

The region features a diverse range of institutional arrangements for territories that host national authorities. Beyond serving as the seat of national governments, capitals often hold a significant share of the population and an even greater proportion of economic activity, as will be discussed later.

Box 1.1

Distribution of Afro-descendant and Indigenous populations in the territory

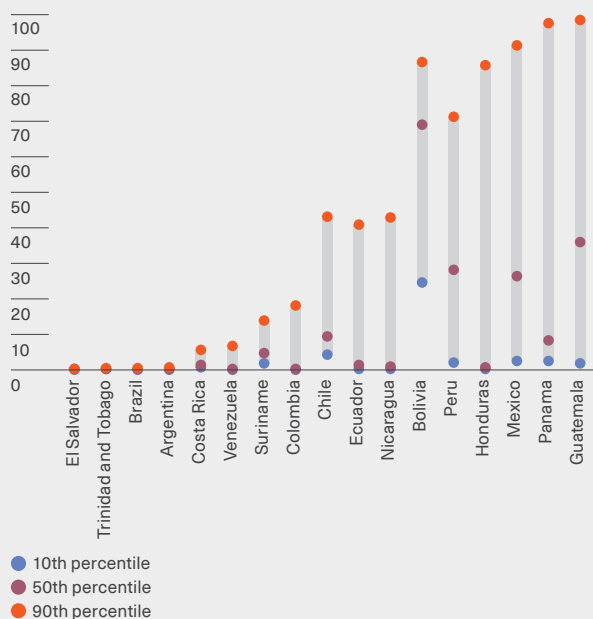
In Latin America and the Caribbean, Afro-descendant and indigenous peoples exhibit significant spatial concentration or segregation (Albina et al., 2024). Graph 1 shows that in Guatemala and Panama, 10% of municipalities have indigenous populations exceeding 95%, while in another 10%, this proportion is below 5%. Similar patterns of pronounced spatial segregation, albeit to a lesser degree, are found in Bolivia, Chile, Ecuador, Nicaragua, and Peru. In Suriname, segregation of Afro-descendant people is particularly evident: 10% of districts are home to nearly 80% or more of the Afro-descendant population, while another 10% of districts have less than 7% of this group.

Graph 1

Proportion of Indigenous and Afro-descendant populations in local government territories

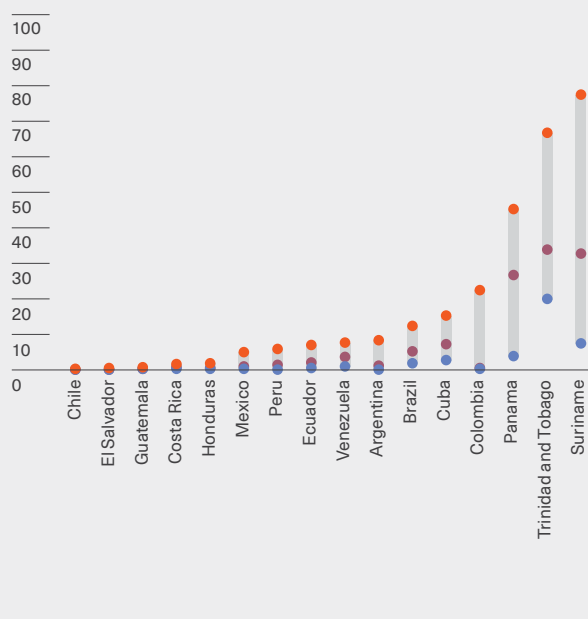
Panel A.
Indigenous population

Proportion of people (%)



Panel B.
Afro-descendant population

Proportion of people (%)



Note: The figure shows selected percentiles for the distribution of indigenous population (Panel A) and Afro-descendant population (Panel B) in the local governments of 17 LAC countries. The 10th, 50th (median), and 90th percentiles were calculated. The figure also highlights the distance between the 10th and 90th percentiles for each country, which are ordered by this value. In Peru, both sublevels of local government (provinces and municipalities) were considered, while in El Salvador, only the lower level was included. In Antigua and Barbuda, the point corresponding to the 50th percentile represents its single local government.

Source: Authors based on CAF (2025).

A common arrangement in federal countries is the creation of a special jurisdiction for the capital, granted constitutional status and powers comparable to those of regional governments, but with a territorial scope akin to that of a local government. Examples include the Autonomous City of Buenos Aires, Mexico City, the Capital District in Venezuela, and the Federal District in Brazil. Similar to those federal countries, Colombia also follows this model, with its Capital District granted special status and powers equivalent to those of departments. In Venezuela, the authority of the Capital District is appointed by the president and is therefore not considered in this report. However, the Libertador municipality, which overlaps territorially with the Capital District and is governed by an elected mayor, is included.

The capital cities of Paraguay, Peru, and the Dominican Republic also have special arrangements, but their powers are more

comparable to those of local governments than regional ones. In these three cases, the special districts hosting the national authority are not subordinate to any regional government.



The governance of capital city territories often involves special institutional arrangements, as is the case with capital districts in federal countries

In Antigua and Barbuda, as well as the Bahamas, the capitals are directly administered by the national government and therefore lack local or regional entities to govern them. In the rest of the countries, the territories hosting capitals do not hold special status.

Different types of jurisdictions at the same level of government

In four countries in the region, local governments are subdivided into two types of jurisdictions at the same level. In the Dominican Republic, municipal districts serve as subdivisions of certain municipalities. In Peru, the entire territory of provincial municipalities is divided into district municipalities. Similarly, in Haiti, communes are composed of their respective communal sections, while in El Salvador, recently created municipalities include municipal districts.

In another four countries—Argentina, Belize, Guyana, and Trinidad and Tobago—there are different types of local governments that are not nested within one another.

Bolivia has introduced innovations in its territorial organization laws in recent decades. In addition to creating the AIOC, one notable innovation is the establishment of regional autonomous governments. To date, only one has been created: the Regional Autonomous Government of Gran Chaco. This entity, with authorities elected by its residents and substantive powers, could be considered an additional level of government, positioned between the local and regional levels. However, in this report, it is classified as part of the regional level, as its primary responsibilities align with those assigned to departments under the Constitution. When an autonomous region is established, departments transfer some of their powers to the new entity.

Origins and recent evolution of territorial organization⁴

In most Central and South American countries that gained independence from Spain or Portugal in the 19th century, the number of government levels originated during that time and was established in their first national constitutions. This contrasts with several Caribbean countries and Belize, which gained independence in the second half of the 20th century and defined their subnational government structures during that period.

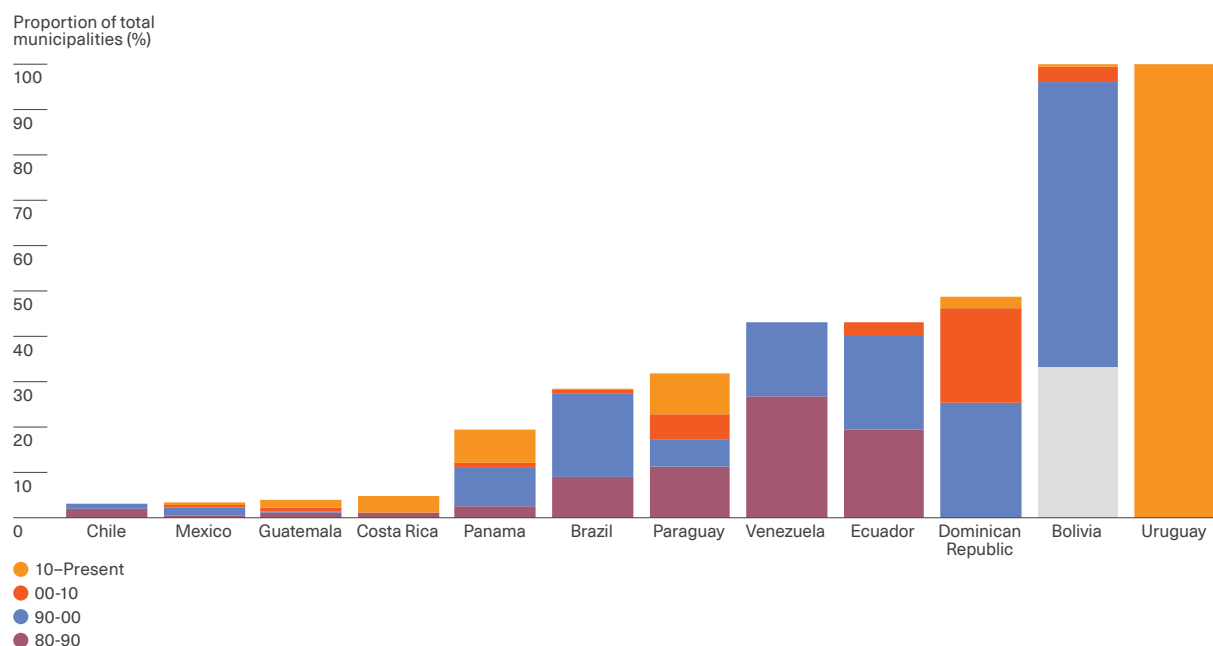
The primary change in territorial organization over the 20th and early 21st centuries has been the creation of new jurisdictions. This evolution has varied significantly over time, levels of government, and countries. The

creation of new units has often been tied to key milestones, particularly constitutional reforms. At the government level, this reorganization has been much more dynamic at the local level than at the regional level.

At the regional level, the number of units and their boundaries have remained largely unchanged since the 19th century. For instance, most regional governments in the four federal countries were established during that time. Colombia, however, stands out as an exception. Currently the country with the most regional governments in the region, it created five of its 33 departments in the 1960s and added nine more in the 1990s (Political Constitution of Colombia, 1991).

Graph 1.2

Proportion of current municipalities created in the last four decades



Note: The graph illustrates the proportion of current local governments created in the periods 1980–1990, 1990–2000, 2000–2010, and from 2010 onward. In Bolivia, the creation dates of its 113 oldest municipalities could not be identified (represented in gray in the corresponding bar). The sources used for this figure are listed in the appendix of the online edition of RED.

Source: Authors based on data from technical and methodological documents of national population censuses.

⁴ The drafting of this section drew on a wide range of bibliographic sources, listed in the appendix available in the online edition of the RED.

The growth in the number of local governments was particularly dynamic during the 1980s and 1990s, coinciding with the broader decentralization process, which, as discussed in the next chapter, also brought greater autonomy. Graph 1.2 illustrates the proportion of existing local governments created in 12 countries during the 1980s, 1990s, 2000s, and the period from 2010 to 2024. In some countries, such as Chile, Costa Rica, Guatemala, and Mexico, the number of local governments remained relatively stable, while others experienced significant increases. The scale of municipal creation in this latter group merits closer examination; it is explored in the following section.

In the Dominican Republic, around 80 local governments—both municipalities and municipal districts—were created during the 1990s. This process accelerated further in the following decade but stabilized after 2010. Venezuela is another example of a significant expansion of local units during the last two decades of the 20th century, particularly in the 1980s, when around 40% of its current 335 municipalities were established.

Two other countries, Bolivia and Panama, stand out for their creation of new local units after 1990. In Bolivia, the 1994 Popular Decentralization Law

required the entire national territory to be divided into municipalities, whereas previously, there were 168, all limited to urban areas. This reform resulted in the creation of 198 new jurisdictions that year (Faguet, 2003). Similarly, Panama and Paraguay have consistently established new municipalities every decade since the 1980s and have the highest proportion of local entities created after 2010, excluding Uruguay. Uruguay is a unique case: the municipal level was only introduced with the 2010 Political Decentralization and Citizen Participation Law, which initially created 89 municipalities. By 2023, an additional 38 had been added (Law No. 18653, 2010).

Some countries not shown in Graph 1.2 have also experienced significant increases in the number of local governments over the past century. In Colombia, approximately one-fifth of the country's current municipalities were established during this period (DANE, 2012). A similar proportion applies to the total number of district and provincial municipalities created in Peru between 1961 and 2024 (INEI, 2018; UNDP, 2006). Both countries align with the previously mentioned trend of relative stability in the number of local government units during the 21st century.

Demographic change and territorial organization

Population growth has been one of the factors driving the trend of creating new local entities. In LAC, population growth rates exceeded the global average until the late 20th century, leading to an 80% expansion between 1980 and 2023 (United Nations, 2024). This demographic dynamic increased the need for greater capillarity in government structures. However, this factor will weaken in the near future, as the region has undergone a rapid demographic transition in recent decades, and the population growth rate is now moderate and declining.

In this regard, the experience of developed countries that underwent demographic transitions before LAC offers some lessons. In those cases, population decline in certain areas and stagnant population growth have driven processes of local

government consolidation over the past half-century. In Japan, the so-called “Great Heisei Consolidation” reduced the number of local jurisdictions from 3,232 to 1,727 between 1999 and 2010. Similar processes occurred in countries such as Denmark, France, Greece, Sweden, and the United Kingdom, where more than half of the municipalities in each country were merged into others (Bideau, 2020; Fox & Gurley, 2006).

The only notable case of consolidation in LAC is very recent: El Salvador with the 2023 approval of the Special Law for Municipal Restructuring. This reform converted the country's 262 local entities into districts, which were then grouped into 44 new units called municipalities (Legislative Decree No. 762, 2023).



Established in 2021, the municipal commission of Uquía in Jujuy, Argentina, is one of the region's newest local governments.

This consolidation process in OECD countries has led to an increase in the size of their municipalities. However, it is important to highlight that, on average, they remain significantly smaller than those in LAC when comparing federal countries from both regions, whereas they are similar in size when comparing unitary countries (OECD and UCLG, 2016). The median municipality size in OECD federal countries is only 4,119 inhabitants, whereas in the four federal countries of LAC, it rises to 15,244. Within these four, Argentina's median municipal size is comparable to the OECD average, while Venezuela is an outlier, with more than 34,000 inhabitants in the median municipality. This means that, regardless of the effects demographic transition may have on territorial organization in the coming decades, municipalities in some LAC countries are already large compared to those in the OECD.

Given the accelerated pace at which municipalities were created throughout the region, its impacts merit examination. Dahis and Szerman (2024) studied Brazil's extensive municipal creation

process, which occurred mainly between 1988 and 1996 through the subdivision of existing jurisdictions. They found that this process improved local service provision in the newly created municipalities. This evidence from Brazil is consistent with a recent study from India, which found that smaller local governments improve access to public services (Narasimhan and Weaver, 2024). In contrast, evaluations of subdivision experiences in Indonesia and Uganda present a less optimistic perspective on their effects (Cassidy and Velayudhan, 2024; Cohen, 2024). These studies underscore the critical importance of the capacities of new governments and highlight that the impacts vary across different dimensions of development.



The scale of new municipality creation in Latin America and the Caribbean over recent decades contrasts with the consolidation process observed in several OECD countries

Territorial challenges and global trends

This edition of the RED explores the challenges faced by local and regional governments in Latin America and the Caribbean, shaped by the region's distinct territorial characteristics and contemporary global trends. This section highlights challenges tied to two key territorial features—large development gaps and urban population concentration—as well as two global trends: climate change and biodiversity loss on one hand, and digital transformation on the other. Examining these challenges provides a framework for addressing the report's cross-cutting themes and introducing its chapters.

Both the significant development gaps within countries and the demographic concentration in cities are closely linked to the spatial distribution of the population. This distribution is shaped by the physical features of each country, such as climate and altitude, as well as historical factors, including the locations of settlements and roads during pre-Columbian and colonial times. It is characterized by vast areas with very sparse populations and relatively small regions with high demographic density (see Figure 1.2).⁵

⁵ Population concentration in small areas reaches its extreme in megacities, but it is also a broader phenomenon. Figure 1.2 highlights the main zones where such concentration occurs: Brazil's Atlantic coast, the Andean region in Colombia and Ecuador, Argentina's humid Pampas, and Mexico's central valley.

Figure 1.2
Population density in LAC



Note: The figure illustrates population density (inhab/km²) across territories with local governments in LAC. For Argentina, Bolivia, Paraguay, and Uruguay, regional-level data were used, while Belize, Guatemala, and Suriname are represented by administrative divisions that do not constitute governments. Data on population or area at the subnational level are not available for the Bahamas and Haiti.

Source: Authors based on CAF (2025) data.

Large, sparsely populated areas are often inhospitable, remote, or heavily forested that are difficult to access or environmentally protected, limiting human settlement. In South America, some of the most extensive areas include Tierra del Fuego (Argentina and Chile), the Amazon (Bolivia, Brazil, Colombia, Ecuador, Guyana, Peru, Suriname and Venezuela), and the Gran Chaco (Argentina, Bolivia, Brazil and Paraguay). In Central America, the Mosquitia rainforest (Honduras and Nicaragua) stands out, although most countries in the region feature tropical rainforests with low population density and limited accessibility, such as the Darién in Panama and the Maya Biosphere Reserve in Guatemala. In Mexico, vast deserts in the northern states of Sonora and Chihuahua dominate the landscape.

These large, sparsely populated areas contribute to the broader phenomenon of low population density across the region. With an average of

only 32 inhabitants per square kilometer (inhab./km²), LAC's population density is two-thirds that of Africa, one-third that of Europe (excluding Russia), and slightly over one-fifth that of Asia. Within LAC, South America has the lowest density at 25 inhab./km², while Central America's density is comparable to Europe's, and the Caribbean's matches Asia's. Mexico occupies an intermediate position, with 65 inhab./km². This low density amplifies the challenges faced by subnational governments, particularly the higher costs of providing services to a dispersed population.



The subnational organization of government in Latin America and the Caribbean operates across a territory characterized by vast areas with very sparse populations and a concentration of people in large cities

Challenges of high urbanization and megacities

LAC ranks second among the world's regions in terms of urbanization, slightly behind North America and ahead of Europe, Asia, Africa, and Oceania (Ch et al., 2021; Moreno-Monroy et al., 2021; United Nations, 2018). The region's urbanization rate grew rapidly during the second half of the 20th century and has continued to increase in the 21st century, albeit at a slower pace (see Figure 1.3). By 2025, approximately 82% of the region's population—about 560 million people—will live in urban areas. By 2050, this rate could reach 88%, representing around 680 million city residents.

As a consequence of the high urbanization rate, urban local governments are responsible for a substantial portion of their countries' populations. In the region, 3,476 local governments have a city with at least 50,000 residents within their jurisdiction (Schiavina et al., 2019). These governments represent only one-fifth of all local governments but are tasked with responsibilities impacting nearly two-thirds of their countries' populations. With

national urbanization rates and population numbers projected to increase, the number of residents under these governments' jurisdiction will continue to grow.

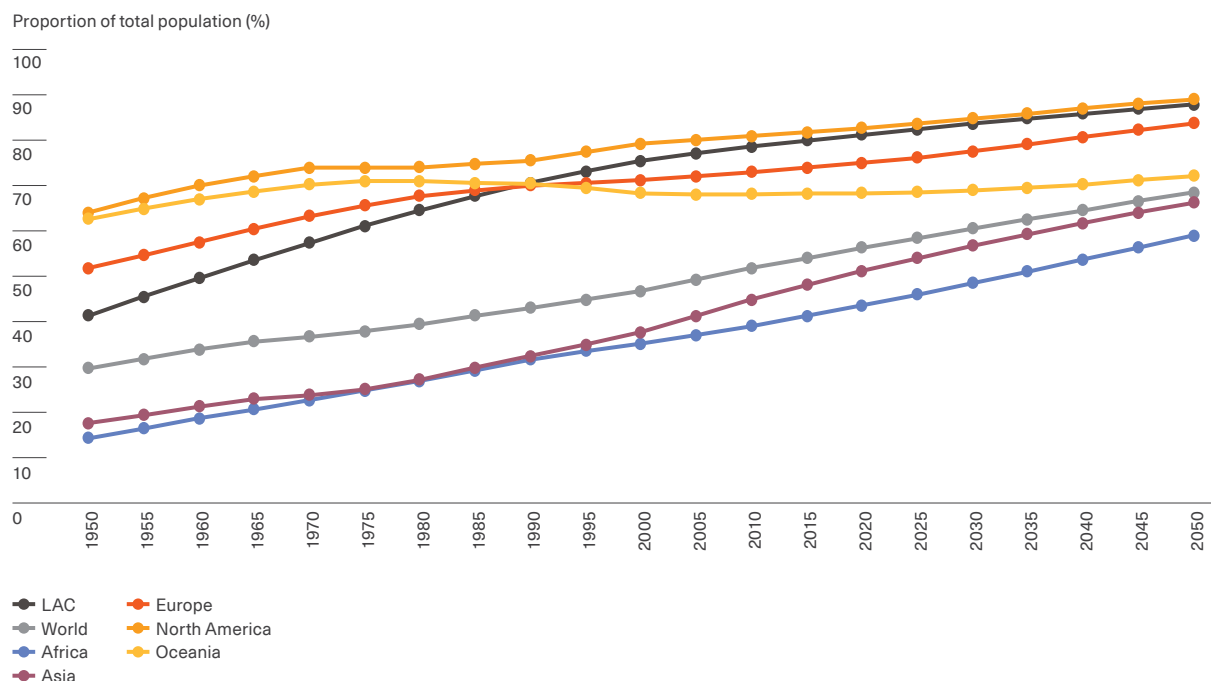
The flip side of this demographic concentration in a small number of urban jurisdictions is the overwhelming majority of local governments that serve very few residents. When municipalities are ranked by population size, the median municipality in LAC has only 10,000 inhabitants. In other words, half of the region's local governments manage populations below that threshold.

As seen in the 2017 Report on Economic Development, the challenge of urban management lies in maximizing the benefits of density while minimizing its costs (Daude et al., 2017). The benefits of density are tied to greater labor productivity and access to goods and services that facilitate economies of scale and shorter distances (Alves and López, 2021a, 2021b). The primary costs relate to urban transportation congestion, including

longer commute times, noise and air pollution, traffic accidents, and rising land prices, which make housing unaffordable and contribute to the growth of informal settlements (Alves, 2021b). Urban

planning is a key tool in the effort to maximize the benefits of density while minimizing its costs, a topic that will be explored in the next chapter.

Graph 1.3
Evolution of the urbanization rate by region



Note: The graph shows the evolution of the urbanization rate in LAC, Africa, Asia, Europe, North America, Oceania, and the global average between 1950 and 2050. The urbanization rate for LAC includes only the 33 member countries of CELAC.

Source: Authors based on United Nations data (2018).

●● The population is concentrated in urban municipalities, with a predominance of a few very large cities

Another aspect of population concentration presents unique challenges for certain local governments. This aspect relates to the fact that

population concentration occurs not only in a small number of urban municipalities but is also dominated by a few very large cities. On average, the largest city in each LAC country accounts for nearly one-third of the national population. This concentration peaks at around 40% in Asunción (Paraguay), Santiago (Chile), San Salvador (El Salvador), and Santo Domingo (Dominican Republic), and exceeds 50% in Montevideo (Uruguay), Paramaribo (Suriname), and San José (Costa Rica).



The canton of Samborondón, in Ecuador, belongs to the metropolitan area of Guayaquil, one of the largest urban agglomerations in the region.

In larger countries, this concentration is distributed among a few major urban centers rather than a single city.^{6,7}

The implications of this concentration of urban populations in a handful of very large cities are twofold. First, the territories of these cities often suffer from significant administrative fragmentation, with multiple local governments operating within a single metropolitan area. This poses coordination challenges, which will be examined in Chapter 6 of this report. Second, the scale of these cities means that some local

governments must manage services for millions of residents, further complicating efforts to address the previously mentioned agglomeration costs. For instance, achieving efficient mobility in megacities requires managing large-scale public transportation systems, which involve substantial capital investments and present challenges in terms of management and financing. Chapter 6 will delve into how local governments handle urban transportation, while Chapter 5 will cover the investment and financing issues critical to enabling mass transit infrastructure.

Challenges of development gaps within countries

LAC faces substantial development gaps between jurisdictions within the same country (Alves, 2021a; De la Mata et al., 2022; Moscovich, 2015). The subnational government database accompanying this report, detailed in Figure 1.1, serves as a valuable resource for documenting these disparities, which are analyzed throughout the report. This section highlights several of these gaps and focuses on the main challenges they present for local and regional government management.

Panel A of Graph 1.4 illustrates that in several countries, the average per capita income in the wealthiest regional governments is at least twice as high as that in the poorest ones. For instance, in Peru, per capita income surpasses USD 480 in the Callao department but falls below USD 220 in Ucayali. Panel B focuses on poverty incidence, revealing disparities exceeding 30 percentage points between regional governments within the same country.⁸ Among the regions with the highest poverty rates (over 45%) are Chiapas in Mexico,

Maranhão in Brazil, San Martín and Ucayali in Peru, and Chocó and La Guajira in Colombia.



The existence of vast territorial inequalities means that the availability of resources and capacities is highly uneven among subnational governments

In Brazil, Chile, Colombia, Paraguay, and Uruguay, the jurisdiction with the highest income level is the one containing the national capital. In all of these countries except Brazil, this jurisdiction is also the most populous, leading to a degree of concentration of national income that exceeds the already high levels of population concentration described earlier.

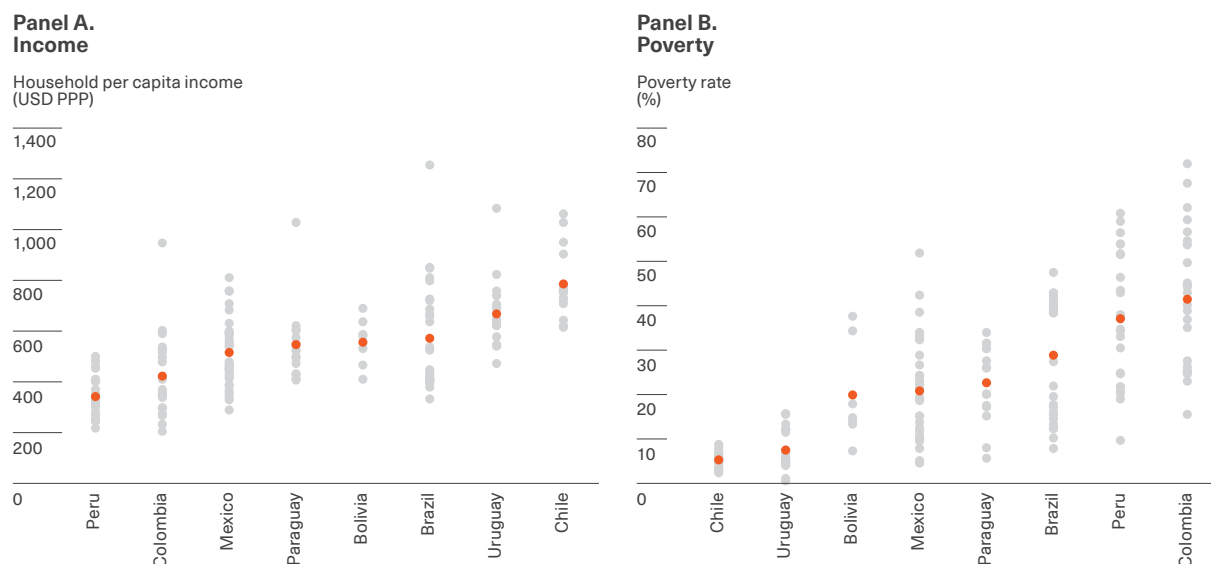
6 Population concentration in a few large cities in LAC is higher than in other regions of the world, whether considering one, two, or even up to five of the largest cities in each country. The proportion of the population concentrated in LAC's principal cities exceeds the global average by 6 to 8 percentage points, depending on the number of cities considered. This difference remains robust even when controlling for population size and land area of the countries.

7 To calculate these indicators, the population residing in cities with more than 50,000 inhabitants, as identified by Schiavina et al. (2019), was divided by the total population of the country in 2015, using World Bank data (2024d).

8 The figure of USD 6.85 per day represents the median value of national poverty lines in upper-middle-income countries, according to the World Bank classification (2024b). All the countries listed in Table 1.2 are classified as at least upper-middle-income, except for Bolivia, which is categorized as lower-middle-income (World Bank, 2024b).

Graph 1.4

Poverty incidence and average household per capita income in regional governments



Note: The graph shows, at the regional government level, the average household per capita income (Panel A) and the poverty incidence (Panel B), adjusted for price differences between countries using a purchasing power parity (PPP) index and a threshold of USD 6.85 per day. The data are based on household surveys from 2022, except for Bolivia (2021) and Paraguay (2023). In orange, the national average is highlighted. Data for all regional entities are unavailable for Bolivia (seven of nine entities), Colombia (24 of 33), and Paraguay (16 of 18).

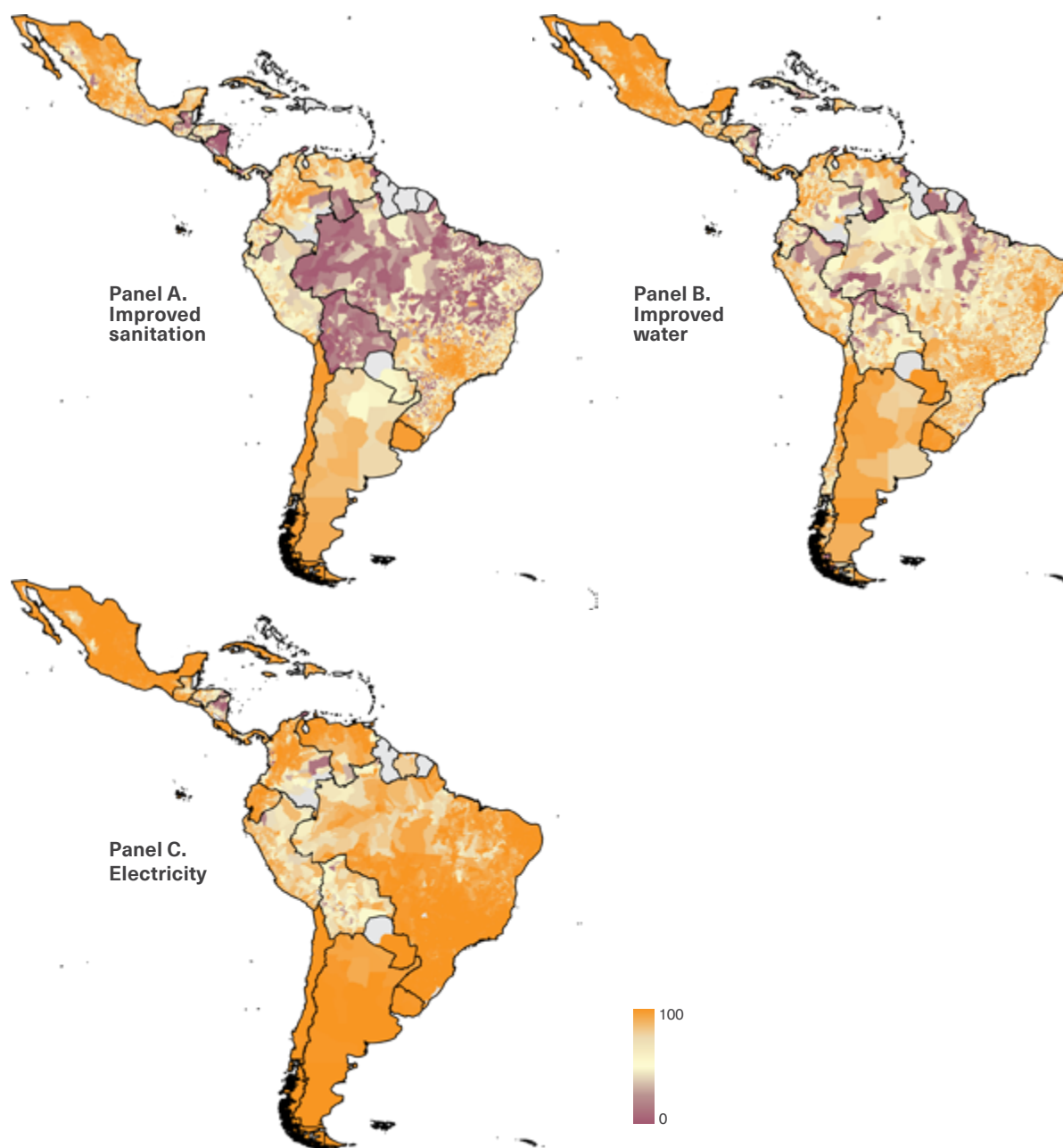
Source: Authors based on household survey data.

The maps in Figure 1.3 also reveal significant disparities in adequate access to essential services such as water, electricity, and sanitation, which are critical to achieving Sustainable Development Goals. These gaps are smallest for electricity, the most widely accessible service, followed by water and then sanitation. The maps highlight regions where deprivation in these areas is most pronounced, sometimes crossing national boundaries. For instance, the maps for water and sanitation access clearly show such patterns in the Amazon region, which includes municipalities in the Brazilian state of Amazonas, southern Venezuela, northern Bolivia, and the Peruvian Amazon. A similar pattern of service deficits is observed in the Mosquitia region, shared by eastern Honduras and northern Nicaragua.

The vast territorial inequalities within countries result in highly uneven resource availability and capacities among subnational governments (Moscovich, 2015). These disparities arise from differences in territorial productivity, natural wealth, and revenue-raising capacity. Coupled with the national government's economies of scale in tax collection, these factors explain the existence of fiscal transfer mechanisms worldwide, particularly to support subnational governments in poorer regions. Such transfers create a discrepancy between subnational governments' expenditures and revenues, referred to as the "vertical fiscal imbalance." These fiscal challenges will be explored in Chapters 3 to 5.

Figure 1.3

Proportion of households with access to improved sanitation, water, and electricity



Note: The figure provides a geographic representation of the proportion of households with access to improved sanitation (defined as connections to public sewer systems, septic tanks, or ventilated and improved latrines), improved water sources (public networks, protected wells or springs, bottled water, or tanker delivery), and electricity (via the national grid or alternative sources such as private generators or solar panels). Data are shown at the local government level, except for Argentina, Paraguay, and Uruguay, where regional government data are used. Territories of countries for which no data is available, were not analyzed, or do not have a subnational government are shaded in grey. The information is drawn from the most recent population and housing censuses in each country, except for sanitation data in Paraguay, which comes from household surveys.

Source: Authors based on CAF (2025) and household survey data.

Another way to mitigate the impact of territorial inequalities on public service provision is to grant greater powers and autonomy to subnational governments with stronger capacities, while the national government provides services in territories with lower institutional development. This form of asymmetric decentralization can be implemented progressively over time, starting with governments

that have greater resources and then extending to the rest, allowing the latter to benefit from the lessons learned by the former. The progress of asymmetric decentralization in the region will be explored in Chapter 2, which examines the roles and levels of autonomy of subnational governments in Latin America and the Caribbean.

Challenges of global trends

Some global phenomena present significant challenges for subnational governments, particularly climate change, biodiversity loss, and the need to leverage digitalization to strengthen their capacities.

In the case of environmental challenges, while many policies related to climate change and ecosystem conservation are defined at the national level in international coordination forums, their effects are felt in specific territories, directly impacting the responsibilities of regional and local governments (Brassiolo et al., 2023).



The consequences of global warming manifest in subnational territories and directly impact the work of regional and local governments

There are three key areas where the interaction between environmental issues and subnational governance is particularly pronounced. The first is territorial planning. Increasing the resilience of cities to events such as floods, storms, and heat waves—whose frequency and intensity are likely to increase—requires the incorporation of adaptation measures and nature-based solutions into urban planning. Additionally, territorial planning is crucial for biodiversity protection, as zoning and land-use policies directly affect issues such as deforestation and ecosystem degradation.

The management of natural resources, particularly water, is the second area where climate change intersects with subnational governance. Projections suggest that many parts of the region will experience reduced precipitation, increased aridity, and greater risks of desertification in the coming decades, particularly in northern South America, Central America, Mexico, and the Caribbean. This poses a threat to freshwater availability, involving subnational governments responsible for water provision in several countries (see Chapter 6). Water stress also demands improved watershed management, a complex task that requires interjurisdictional cooperation, as watercourses are shared and utilized by multiple municipalities. Figure 1.4 illustrates this with a map of Mexico's Lerma River. The river runs through 45 municipalities spread across five states, while its watershed spans more than 150 municipalities in six states.

To tackle the challenges of climate change and biodiversity loss, subnational governments require, among other things, financial resources. A positive development, as documented in this report, is that municipalities and states in the region have already begun utilizing innovative instruments such as green and social bonds to finance environmental impact projects.

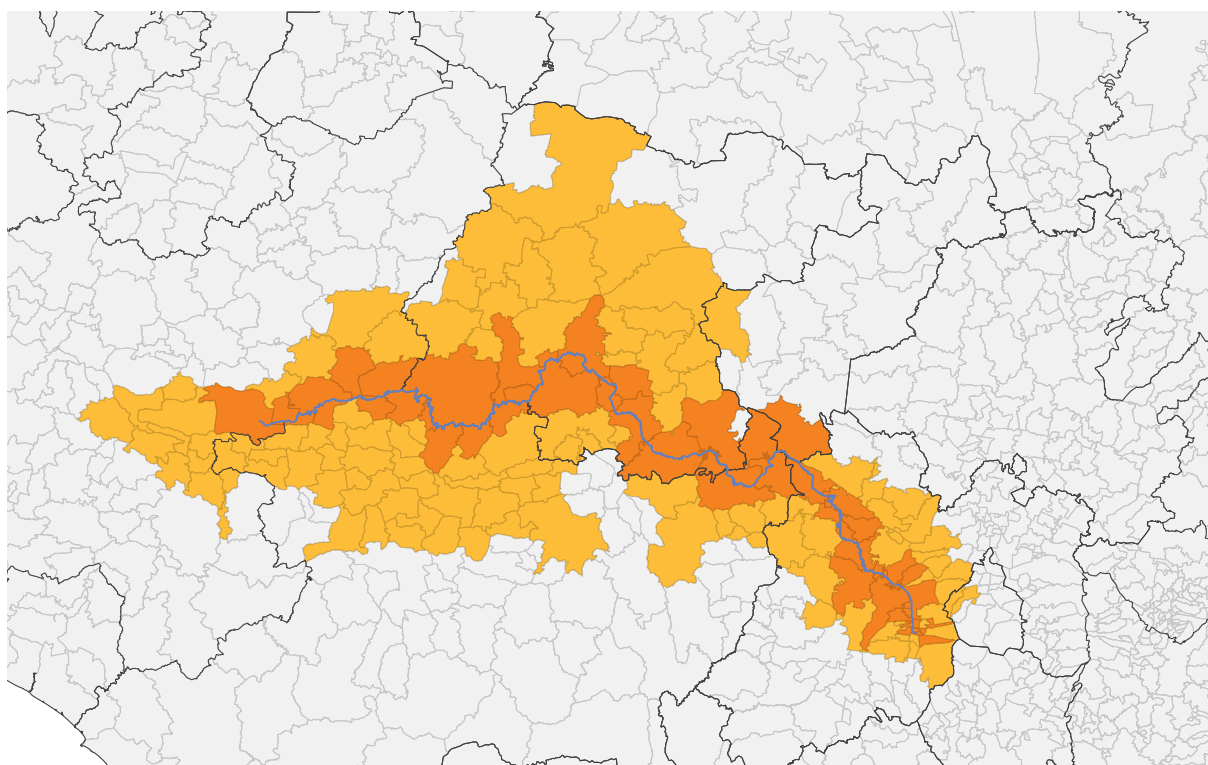
A third area of action for subnational governments in addressing the climate crisis is their role in the energy transition. As detailed in RED 2024, electrifying urban public transport fleets is one of the most efficient strategies to lower carbon dioxide (CO₂) emissions while also reducing noise pollution and emissions of other gases and particulates.

Chapter 6 will show the pivotal role local governments play in managing urban transport. Promoting sustainable urban mobility—including public transit and active transportation options over private car use—further reduces emissions and delivers additional social benefits. Lastly, building regulations, often influenced by local governments, can support emission reductions by establishing energy efficiency standards for new and existing structures (Álvarez et al., 2024).

Another global challenge is equipping subnational governments with the skills needed to embrace digitalization and, in doing so, strengthen their

capacities. Chapter 8 of this report will delve into how the adoption of digital tools can accelerate and enhance administrative processes in public functions, such as budget management, administrative recordkeeping, and public procurement. The main difficulty lies in the highly uneven baseline conditions for adopting these tools. Wealthier municipalities and states tend to adopt digital solutions more quickly, and this uneven pace can result in incompatible systems. National governments have a critical role to play in this area by establishing standards and platforms that ensure interoperability while also lowering entry costs for municipalities with fewer resources.

Figure 1.4
Course of the Lerma River through Mexican municipalities



Note: The blue line represents the course of the Lerma River. The 45 municipalities crossed by the river are highlighted in orange, while the 112 municipalities within the adjacent watersheds are shown in yellow. The thicker black lines indicate state boundaries.

Source: Authors based on CAF (2025) and INEGI (2006, 2010).



Subnational governments face the challenge of having the necessary competencies to adopt digitalization and thereby strengthen their management capacities

Digital transformation is not only about improving traditional public-sector processes, it also involves developing innovative applications to enhance citizen engagement and territorial management. Subnational governments, particularly local ones, are well-positioned to lead these efforts due to their proximity to the public. Innovation in this area can take many forms, including the development of electronic channels for administrative procedures, the creation of informational and transactional applications for citizens, and the establishment of monitoring centers for public safety, traffic, or natural disaster management.

The concept of digital transformation attracts interest from governments at all levels, but some aspects are more complex than others. While the initial investment in physical and digital infrastructure—such as computers, data storage centers, GPS equipment, and sensors—is costly, it is relatively straightforward. The greater challenge lies in achieving governance and cultural changes to enable proactive use of these tools, such as integrating data analysis into urban planning, resource management, or policy evaluation. This highlights the critical, cross-cutting issue of organizational capacities in subnational governments, a recurring theme throughout this report.



Metropolitan Municipality
of Lima, Peru.