

# **Financing effective social policies and decentralization: impact, challenges and reforms. Argentina and Brazil**

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in the Presence of Informality**

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**E C L A C**

# Outline

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  - III. Policy responses from national and local governments
  - IV. Decentralization and financing



# I. Motivation and objectives: background

- Argentina and Brazil has great tradition in decentralization of public services
- Several social programs in hands of the local governments
- Changes in decentralization during the last ten years

# I. Motivation and objectives: background

- Argentina and Brazil have several characteristics in common:
  - High tax burden (comparing with the rest of LA)
  - Strong personal and regional disparities
  - Significant expenditure decentralization
  - Important Conditional Cash Transfers Program (Bolsa Familia, Plan Familias)




# I. Motivation and objectives

- The research will evaluate the multiple impact of recent push on social policies in the context of increasing decentralization. The financing mechanisms—including the introduction of non-distortionary own-source revenues, as well the design of intergovernmental transfers are critical. Evaluations of alternative social policies and financing instruments will include criteria such as poverty reduction; coverage of social protection; and effectiveness of subnational governance.
- This research is part of a multi-region project to examine incentives for the effective delivery of social services in countries that have large informal sectors and evasion. In many of the Latin American cases, the problem is further complicated in that the social programs are implemented at the sub-national levels, whereas the financing is provided by the central government.

# I. Motivation and objectives

- The interactions between social policies and financing with multiple levels of government becomes complex and multidirectional. More specifically, conditional cash transfers are a central government policy with a huge and direct impact on subnational governments, since they refer mostly to areas that were and/or have been placed under subnational responsibility.
- In addition to the effects through the labour market and the incentives to operate in the formal sector, the impacts work through production effects, and potentially better preference matching.
- On the other hand, the success of conditional cash transfer programs depends on the effective response to them by subnational governments—i.e., if there are minimum incentives to divert resources—both those received for the programs as well as own-resources.



### III. Structure of the research: Introduction to distributive problems

- Two types of indicators: production (PIBpc) and social (unemployment, access to social security)
- Role of national government in the implementation of social policies aimed to social inclusion and equity



## **IV. Structure of the research: Decentralization of social programs**

- Motivation and implementation of decentralization process
- Evaluation of indicators associated with decentralization of social services
- Conditions of decentralized service provision



## V. Policy responses from national and local governments

- Conditional transfer programs (CTP)
- Analysis of following aspects:
  - Available supply of CTPs
  - Identification of cases where local governments assume central government functions
  - Local governments' ability to meet supply requirements demanded by programs implemented at the national level

## VI. Decentralization and financing

- In most countries of Latin America SNGs are highly dependant on the central transfer system
- In Argentina and Brazil intergovernmental transfers amounted to 7.6% and 7.9% of GDP, respectively.

# Financing structure with public sector taxes (in % of GDP)

	Argentina (2008)			Brazil (2008)			
	Central Govt.	Prov.	Total	Central Govt.	States	Municip.	Total
Revenue, profits and capital gains	5.3%		5.3%	8.2%			8.2%
Property and other direct taxes	2.3%	1.0%	3.2%	1.1%	0.6%	0.6%	2.3%
General on goods and services	7.4%	3.2%	10.6%	5.2%	7.6%	0.8%	13.6%
Specific on goods and services	1.7%		1.7%	1.5%			1.5%
International trade	4.4%	0.0%	4.4%	0.6%			0.6%
Other taxes	0.2%	0.2%	0.4%		0.3%	0.1%	0.5%
Social security	5.1%		5.1%	8.0%	0.6%	0.2%	8.8%
<b>Total tax burden</b>	<b>26.2%</b>	<b>4.4%</b>	<b>30.6%</b>	<b>24.6%</b>	<b>9.2%</b>	<b>1.6%</b>	<b>35.5%</b>

## VI. Decentralization and financing

### Tax revenue

- In Argentina and Brazil, the GSN share with the central government the power to tax consumption
- For Brazil, this is reflected in 'to the States and in ICMS' tax on services (ISS) in their municipalities
- In Argentina, the provinces apply the tax on gross receipts (multi-staged, full value).

## VI. Specific research agenda

- Poverty alleviation
- Progress towards increased coverage of benefits of social policies
- Effectiveness of SNG provisions
- Need and direction of tax reform



**Thank you!**

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# ***Trends in fiscal decentralization in LA: Argentina and Brazil***

- Since 1980 a strong emphasis on the subject characterized by:
  - Implementation of constitutional reforms
  - Reassignment of expenditure responsibilities (social policy)
  - Increase revenue through subnational transfers
  - Weak macroeconomic coordination mechanism
  - Conceptual justification of this momentum
  - “Decentralization increases allocative efficiency”