Explaining Low Redistributive Impact in Bolivia

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CLOSED WORKSHOP: STUDIES IN PROGRESS
Commitment to Equity
Fiscal Policy and Income Redistribution in Latin America
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1. Questions

• How much redistribution and poverty reduction can be attributed to social spending and taxation policies?
• How progressive are revenue collection and social spending in Bolivia?
• What can be done to further increase redistribution and improve redistributioational effectiveness?
2. Data considerations

- Dataset: Encuesta de hogares 2009
  - 4,034 households; 15,665 individuals. National, urban and rural representativities.
- Self-consumption and imputed rent: Included.
- Direct income tax: not included (almost zero).
- Non contributory pension: Renta Dignidad.
- Direct transfers: Bono Juancito Pinto, Bono Juana Azurduy, Benemeritos de la guerra del Chaco, Desayuno escolar.
- Indirect taxes: VAT, Specific Consumption Tax, Transactions Tax and Hydrocarbons Special Tax.
- Indirect subsidies: gas and gasoline.
3. Social spending: Budget & Composition

<table>
<thead>
<tr>
<th>Primary Spending and Social Spending %GDP</th>
<th>2007</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Government Spending General Government</td>
<td>29,2%</td>
<td>33,3%</td>
</tr>
<tr>
<td>Social Spending</td>
<td>11,5%</td>
<td>14,7%</td>
</tr>
<tr>
<td>Social Spending in Incidence analysis (Benchmark)</td>
<td>10,7%</td>
<td>13,9%</td>
</tr>
<tr>
<td>TOTAL DIRECT TRANSFERS</td>
<td>0,7%</td>
<td>2,0%</td>
</tr>
<tr>
<td>DIRECT TRANSFERS (excluding all pensions)</td>
<td>0,7%</td>
<td>0,7%</td>
</tr>
<tr>
<td>NON Contributory pensions</td>
<td>0,0%</td>
<td>1,4%</td>
</tr>
<tr>
<td>TOTAL IN KIND TRANSFERS</td>
<td>10,0%</td>
<td>11,9%</td>
</tr>
<tr>
<td>Education</td>
<td>6,5%</td>
<td>8,3%</td>
</tr>
<tr>
<td>Terciary education</td>
<td>2,9%</td>
<td>3,7%</td>
</tr>
<tr>
<td>Health</td>
<td>3,5%</td>
<td>3,6%</td>
</tr>
<tr>
<td>Contributory</td>
<td>1,7%</td>
<td>1,7%</td>
</tr>
<tr>
<td>Non Contributory</td>
<td>1,8%</td>
<td>1,9%</td>
</tr>
</tbody>
</table>

-Social spending increased from 11.5% to 14.7% of GDP.
-Primary spending increased from 29.2% to 33.3% of GDP.
-Social Spending accounted for almost a half of Primary Spending in 2009.
4. Results

1. GINI before and after transfers, taxes, subsidies and in-kind transfers

- After direct transfers and indirect taxes the Gini coefficient remains at 0.503.
- Inequality reduction occurs after in-kind education and health: Gini falls to 0.446, by 11.3%
2. Headcounts: Before and After transfers, taxes, subsidies

- **$2.5 PPP/day**
  - Market Income: 19.6%
  - Net Market Income: 32.5%
  - Disposable Income: 17.6%
  - Post-fiscal Income: 20.2%

- **$4.0 PPP/day**
  - Market Income: 17.6%
  - Net Market Income: 30.7%
  - Disposable Income: 20.2%
  - Post-fiscal Income: 33.9%

✔ The net effect of transfers and indirect taxes increases poverty.
3. Coverage and Leakages of Direct Transfers

Too few resources are left for the poor since a large proportion of the transfers go to the nonpoor (62%)

None of them give beneficiaries enough cash to exit poverty status.
3. Coverage and Leakages of Direct Transfers

% of Poor and Non Poor Who are Beneficiaries

<table>
<thead>
<tr>
<th>Program</th>
<th>Poor&lt;2.5</th>
<th>2.5&lt;=Poor&lt;4</th>
<th>Non poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>RENTA DIGNIDAD</td>
<td>19.2%</td>
<td>14.3%</td>
<td>19.0%</td>
</tr>
<tr>
<td>BONO JUANCITO PINTO</td>
<td>37.9%</td>
<td>61.6%</td>
<td>61.0%</td>
</tr>
<tr>
<td>BONO JUANA AZURDUY</td>
<td>5.5%</td>
<td>6.0%</td>
<td>2.8%</td>
</tr>
<tr>
<td>DESAYUNO ESCOLAR</td>
<td>4.5%</td>
<td>51.5%</td>
<td>67.8%</td>
</tr>
<tr>
<td>ALL DIRECT TRANSFERS</td>
<td>87.7%</td>
<td>83.2%</td>
<td>67.8%</td>
</tr>
</tbody>
</table>

✔ As a result of the “universal” design, 68 % of the nonpoor benefit from the direct cash transfer
4. Indirect taxes and subsidies

Incidence and of Taxes and subsidies by Decile

✓ The tax system in Bolivia does not exempt poor people from paying taxes on certain items.
✓ Households become net contributors to the fiscal system beginning in the third decile.
✓ Gas and gasoline subsidies are not progressive in absolute terms but they are in relative terms, they are equalizing.
THE most progressive in absolute terms: **Yo si puedo (0.59)**, the least progressive (in relative terms): **Tertiary Education (0.30)**

Of the flagship CCTs, **BonoJuancito Pinto** was the most progressive in absolute terms: **0.25**. Among direct transfer programs, **Renta Dignidad** was the least progressive: **0.01**
5. Conclusions

✓ Fiscal policy has a weak effect on inequality and poverty reduction. This cannot be attributed to low tax burdens or to a lack of revenue.
✓ Transfers are mostly flat across deciles, with too few resources reaching the poor, and a large proportion of the transfers going to the nonpoor.
✓ The overall effect of indirect taxes and subsidies is regressive.
✓ The tax system in Bolivia needs to prevent poor people from being net payers to the fisc..
✓ Gas and gasoline subsidies are not progressive in absolute terms but they are in relative terms.
✓ The impact of transfers in-kind on the Gini coefficient is significant.
✓ All education and health transfers analyzed are progressive in absolute terms, with the exception of tertiary education that is progressive only in relative terms.
✓ Evidence suggests there is significant scope to improve poverty and inequality reduction resulting from fiscal policy in Bolivia.