

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 redistributive 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*.

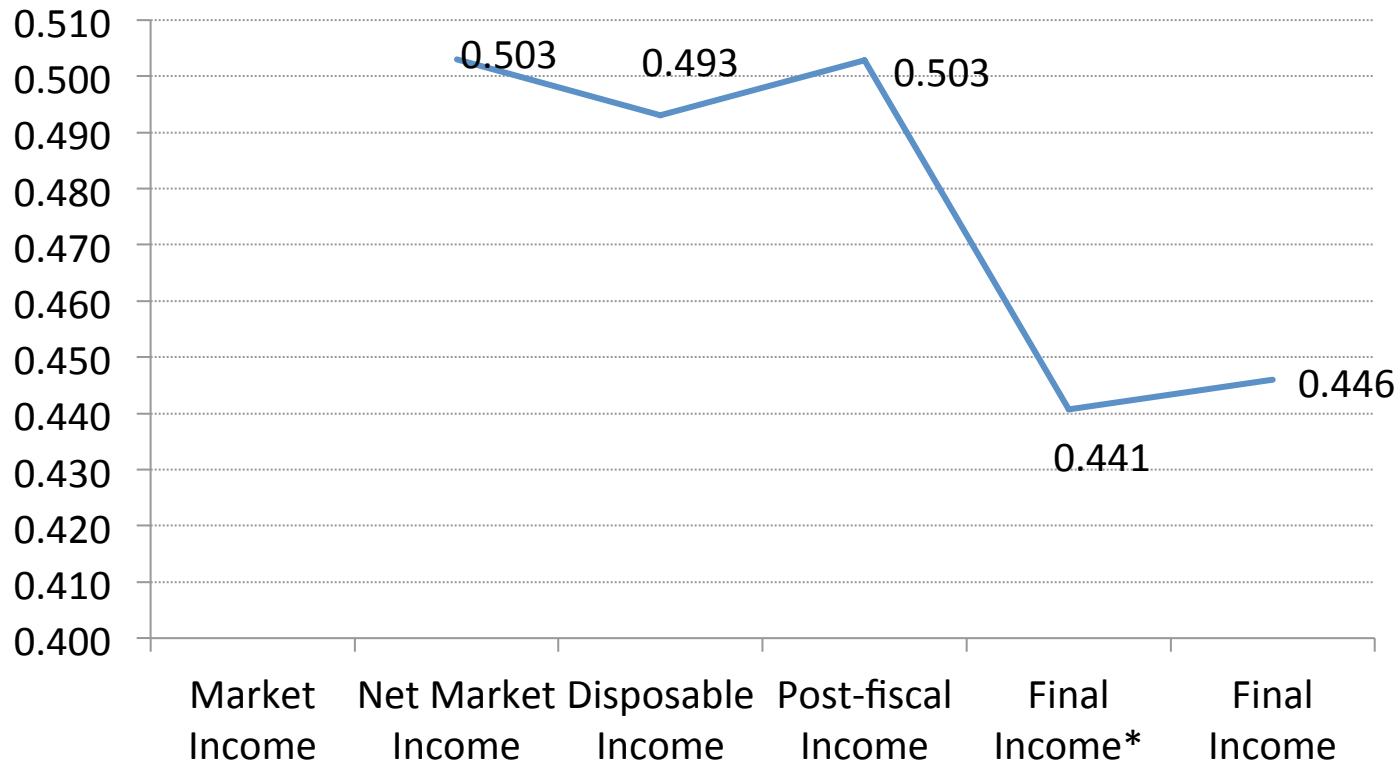
3. Social spending: Budget & Composition

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

- 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.

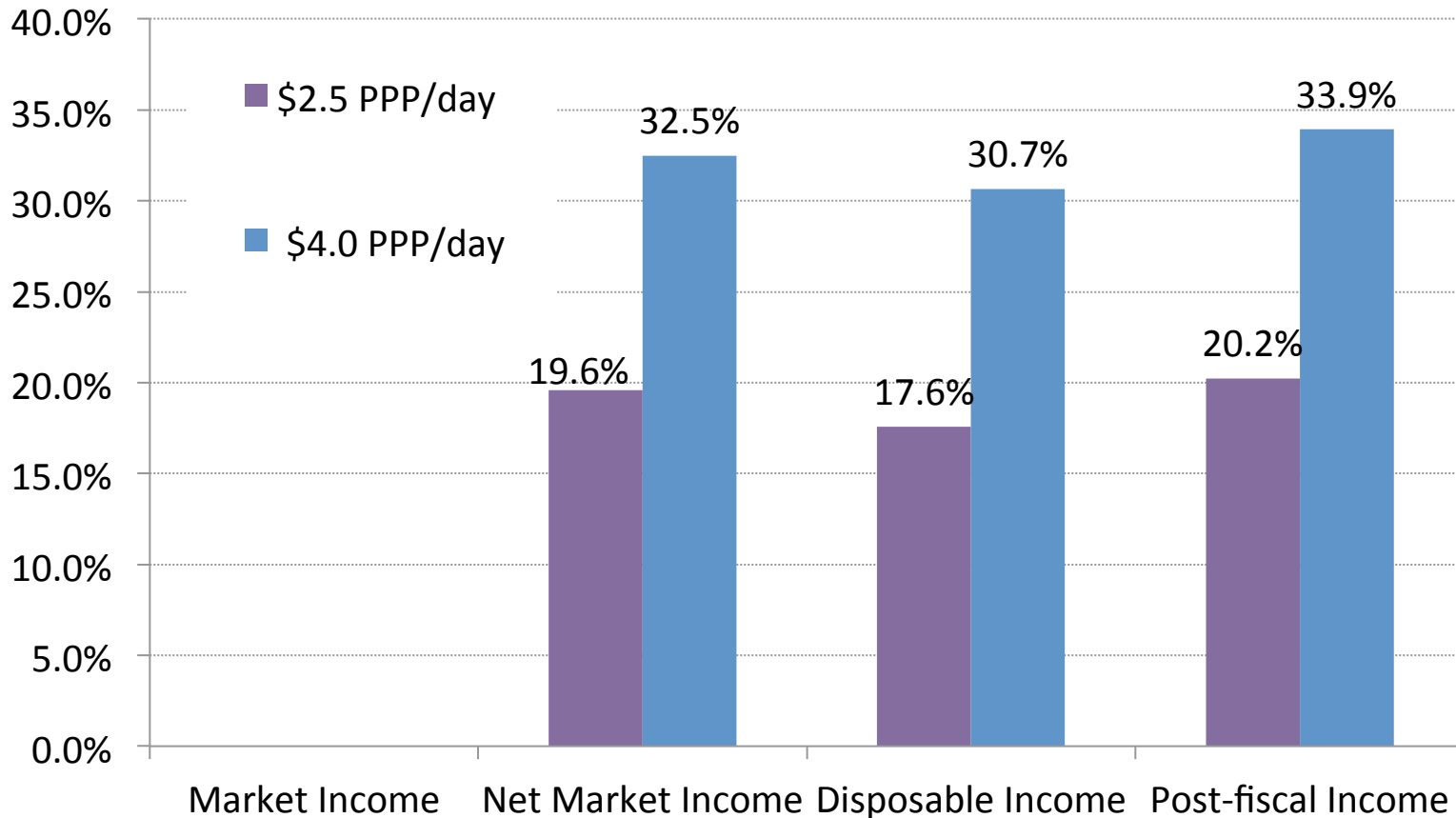
4. Results

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%

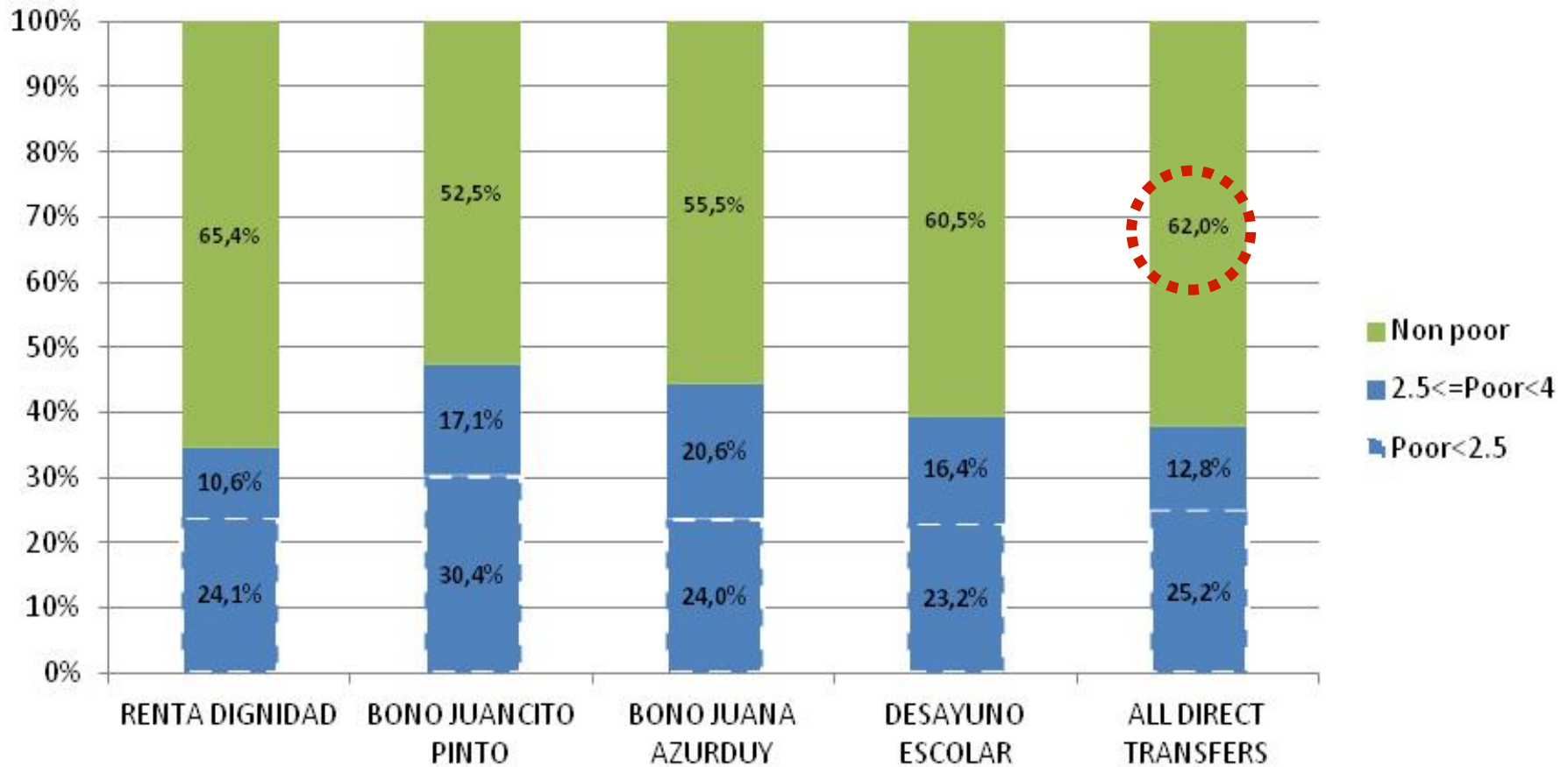
2. Headcounts: Before and After transfers, taxes, subsidies



✓ The net effect of transfers and indirect taxes increases poverty.

3. Coverage and Leakages of Direct Transfers

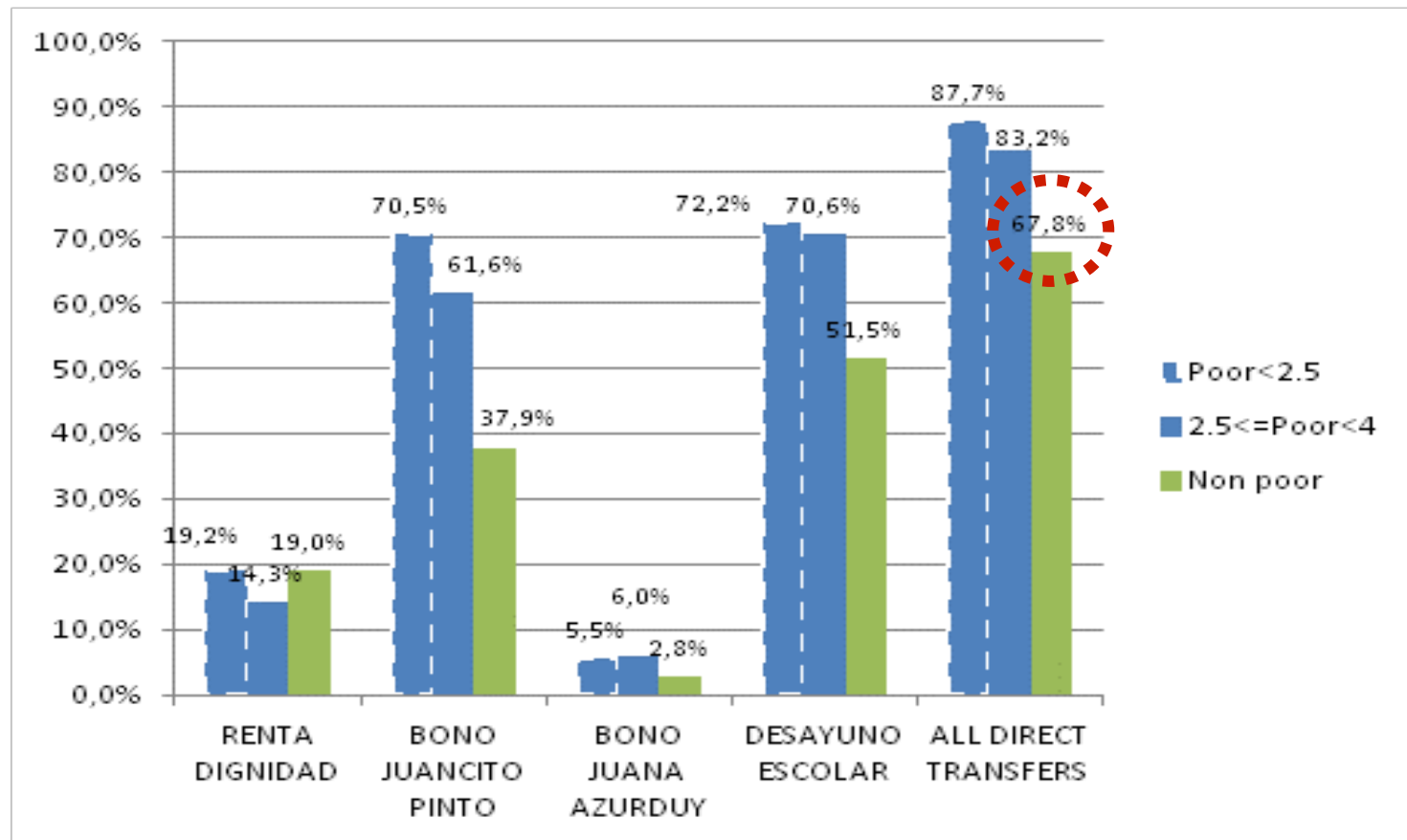
Percent of Benefits Going to Each Income Group



- ✓ 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

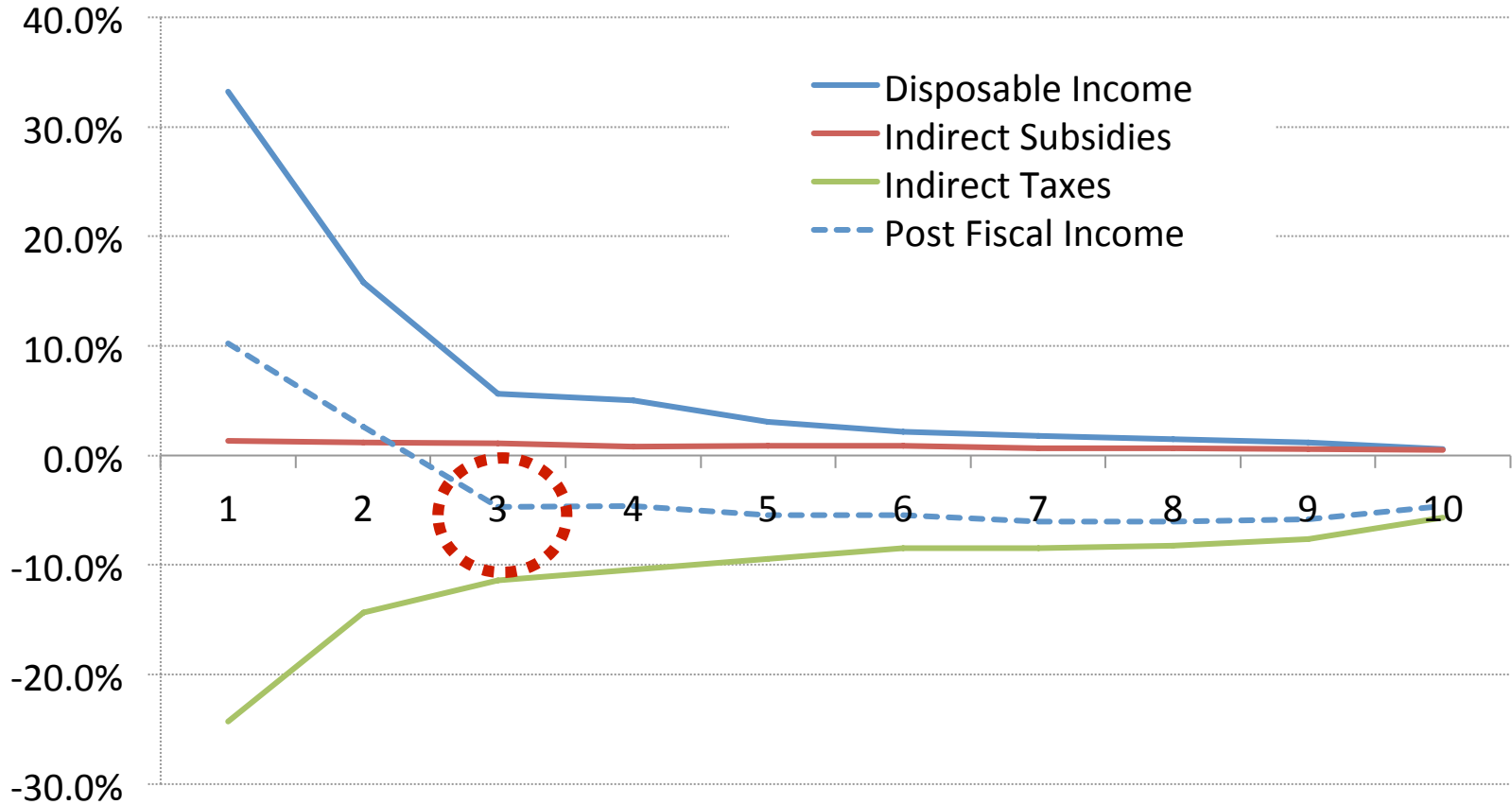
% of Poor and Non Poor Who are Beneficiaries



- ✓ As a result of the “universal” design, 68 % of the nonpoor benefit from the direct cash transfer

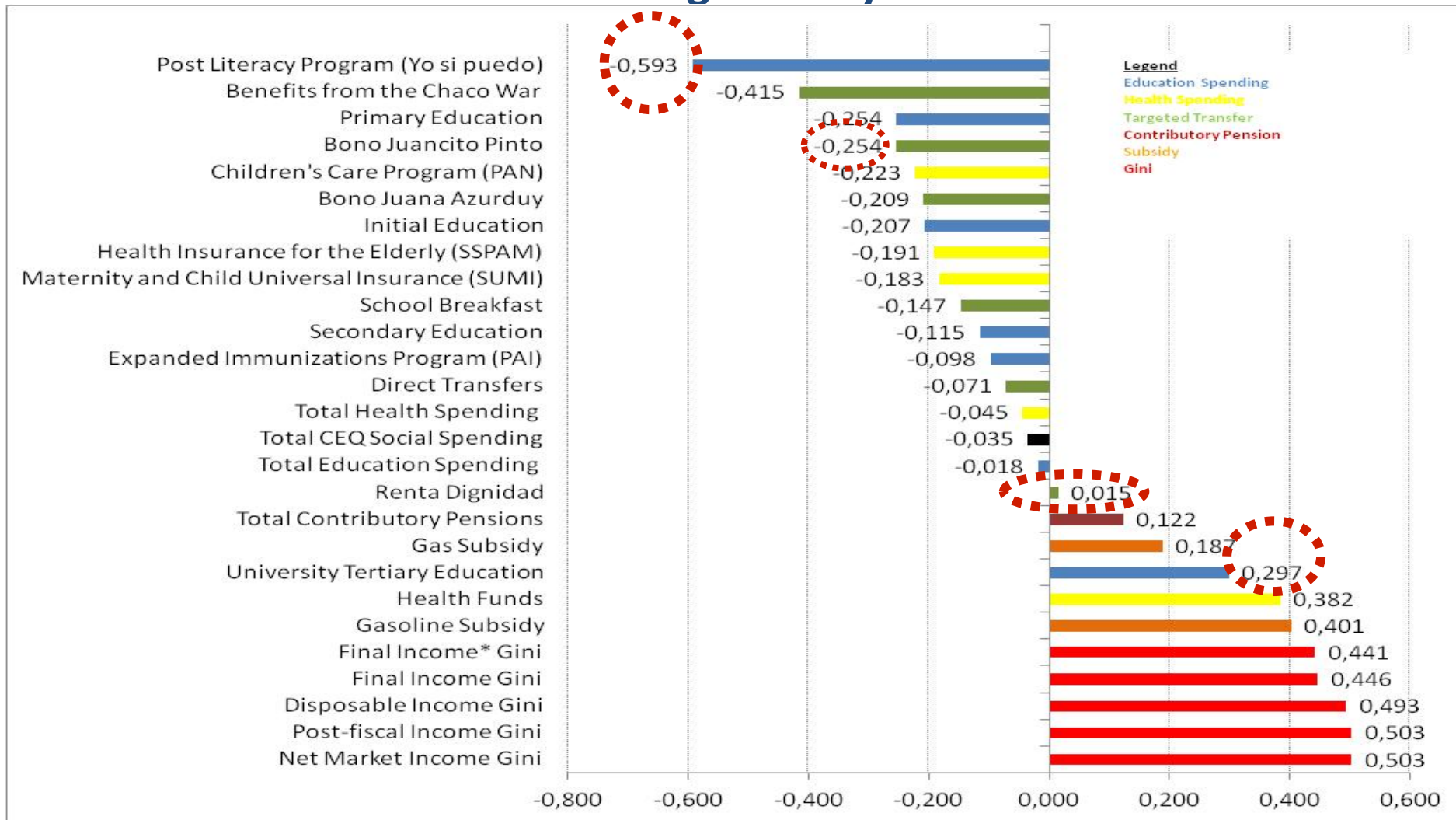
4. Indirect taxes and subsidies

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.

5. Progressivity



- ✓ 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, **Bono Juancito 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.