

# Bargaining for Fiscal Space: Mobilizing Domestic Resources for Social Development

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Policy Space Through Domestic Resource Mobilisation  
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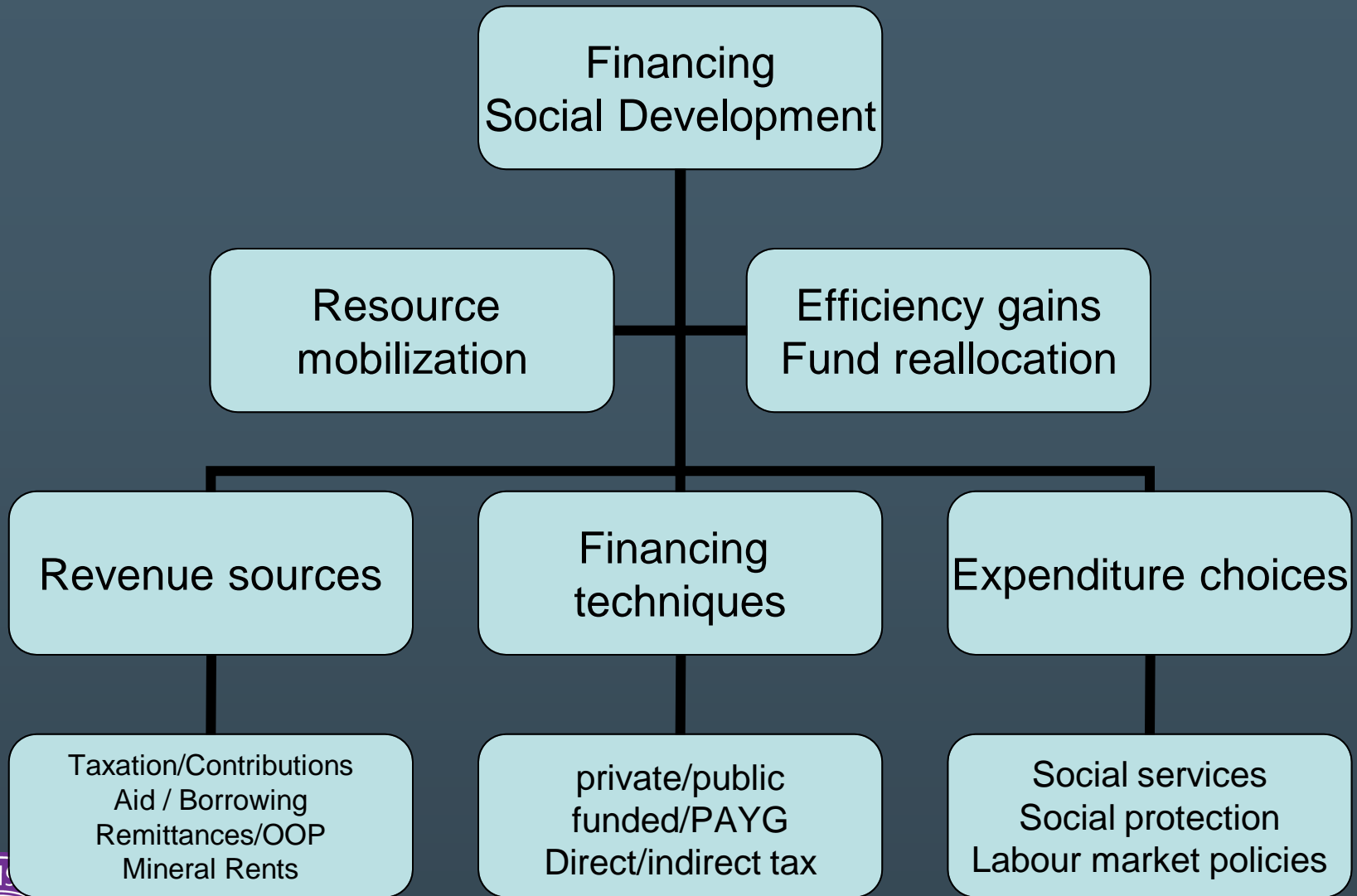
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# The Challenge...

- ...to build social policies on financial arrangements that are sustainable in fiscal and political terms, equitable & progressive, and conducive to economic development





# The Context: Globalization

- Globalization has put pressure on states' capacity to raise revenues:
  - Liberalization of markets
  - Income and asset concentration
  - Labour market problems
  - External debt and global imbalances
  - Global economic and financial crisis
  - Aid flows / commitments?
- Demand for social policy has increased:
  - Volatility of market processes, economic and financial crises
  - Unemployment, informality, poverty (working poor)
  - Demographic change
  - HIV/AIDS pandemic and natural disasters
  - MDGs and national development strategies



# The crisis and finance for social development

- Foreign capital/aid and domestic credit
  - Financing costs (internal/external)↑
- Trade and FDI
  - tax revenues↓
- Commodity prices and Terms of Trade
  - tax revenues↓
- Remittances↓ Household income ↓
- Social expenditures ↑, subsidies ↑

Refocus on importance of domestic resource mobilization (Monterrey Consensus etc.)



# Fiscal Space

- Budgetary room to finance public policies in a sustainable way (honour debt obligations, maintain solvency .. )
- **Expanding fiscal space:**
  - Reallocation of existing revenues/efficiency gains
  - Mobilization of additional revenues
- **Estimating fiscal space:**
  - Compare actual expenditure with benchmarks
  - Compare actual expenditure with costs of basic package (SPF)
  - Assess space to increase tax revenues or public borrowing (Oxfam Report, IMF)



# Is Social Policy affordable?

- Social policy is an investment in people's well-being and in development (productivity, social cohesion)
- Type of interventions and programmes as well as costs depend on policy legacies and structural factors, political priorities, and contemporary needs
- Basic social protection packages are affordable, even in low-income countries (ILO/SPF costing studies, DESA simulation on MDG financing for LA, Unicef/Helpage costing tools etc.)
- The costs of inadequate financing of social policy are high...



# Social Expenditure is a Policy Variable

Government expenditure on social protection (social insurance, social assistance) in three middle income countries in LA

(Barrientos, 2010)

Country	In % of GDP	
Argentina (2004)	9.2	
Brazil (2004)	13.2	
Mexico (2002)	3.5	



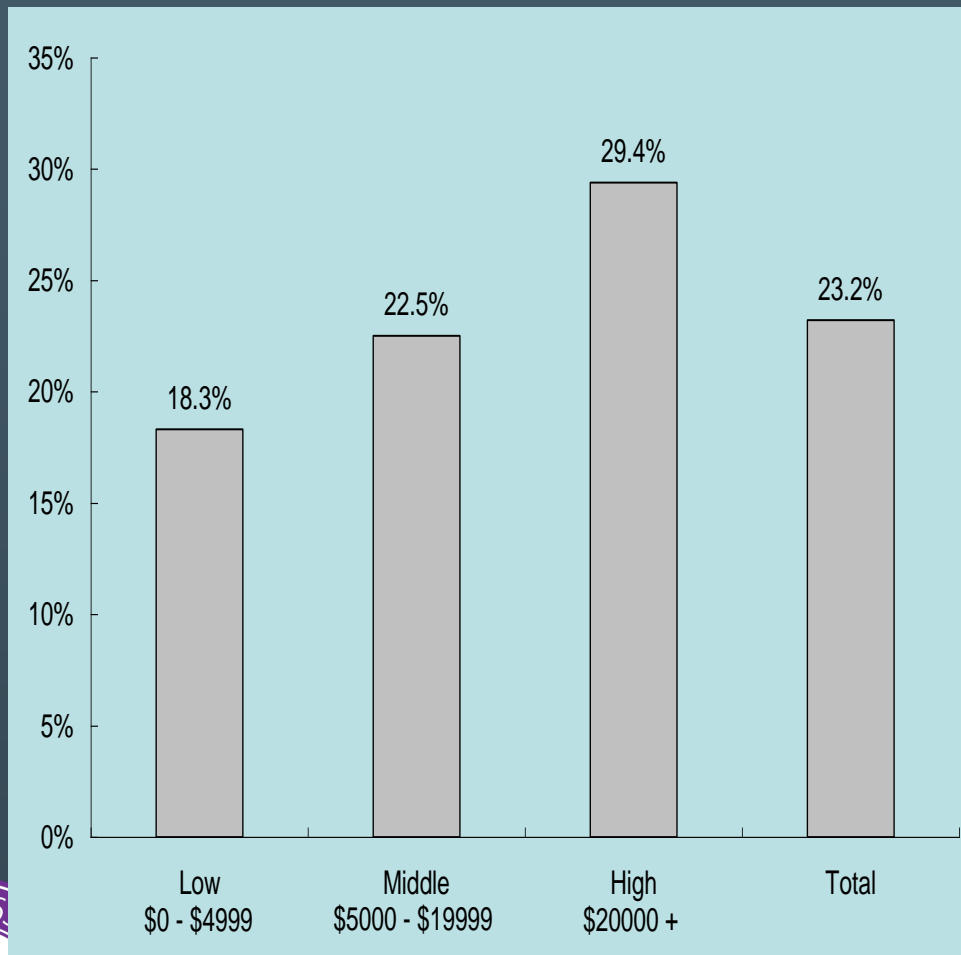


# Mobilizing Revenues

- Tax reform
- Extension of contributory systems (social insurance)
- Capture of mineral rents
- Trade, tariffs
- Foreign aid
- Domestic and external borrowing, FDI
- Public-private partnerships
- Private funds (HH income/savings, remittances)



# Tax Revenue as % of GDP by country group



The aggregate view:  
tax shares as %  
of GDP rise with  
income level

*Source:* Bird and Zolt  
(2005).



# Tax Reform

- Tax reform remains a key challenge for developing countries.
- Taxation
  - Is superior to other revenues in terms of distributional justice and to reach universal coverage
    - Direct taxes have greater potential in terms of progressivity / redistribution / solidarity
    - indirect taxes (VAT): design matters for redistribution
    - trade - tariffs ↓
  - *Can* enhance strong state-society relations and state accountability (all contribute, all benefit)
  - Is more sustainable than external revenues



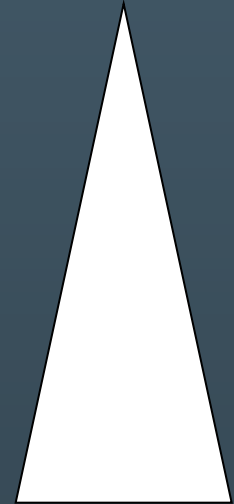
# Revenue type, distribution and social relations

- Time-burden tax (self-provision)
- User fees (most regressive, least solidaristic)
- Pre-paid schemes
- Generalized insurance
- Indirect taxes
- Earmarked taxes
- Direct taxes (most progressive, most solidaristic)

Regressivity



Solidarity



Source: Delamonica and Mehrotra 2009.



# Political-economy of taxation

- More convincing to argue for progressive direct taxation if public/social expenditures benefit all (universalism)
- To overcome obstacles towards direct taxation, find functional equivalents:
  - Marketing boards
  - Land/export taxation etc.

## Key questions

- What are the political conditions for progressive tax reforms?
- Who are the actors involved in bargaining and negotiation processes?
- What are the linkages with social development policies?



# Mineral rents and financing social policy

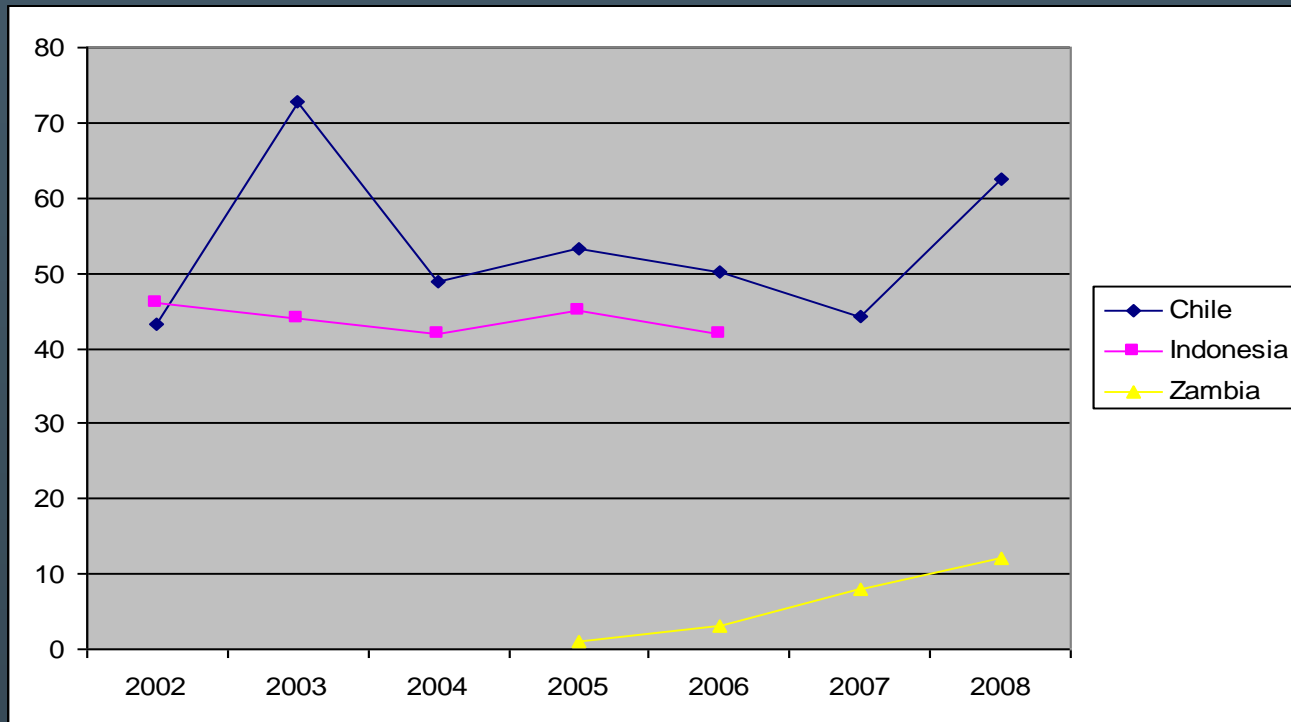
- Can mineral rents ease the financing constraint?
- Challenges:
  - Dutch disease effects and volatility
  - State capacity and democratic governance
  - Build a social consensus on the use of funds:
    - *Norway*: Government Pension Fund Global
    - *Bolivia*: *Renta Dignidad* financed through Direct Hydrocarbons Tax (32% production tax 2005)
    - *Chile*: Extension of Social Pension Coverage (2008)



# Share of government revenues in oil rent (in % of total, UNCTAD TDR 2010)



# Share of government revenues in copper rent (in % of total, UNCTAD TDR 2010)





# Mineral wealth: Blessing or Curse?

- Resource curse thesis  $\Rightarrow$  empirical works by Richard Auty and by Sachs and Warner (1995) followed by many others – dominates global debates on natural resource-led development
  - Negative relationship between natural resource abundance and growth performance
  - causal relationship exists that explains this negative link
- Main criticism
  - methodological issues
  - deterministic conclusions
  - pessimistic prospects
- $\Rightarrow$  **Interesting question is to identify specific challenges of mineral-led development and how to overcome these**



# The challenges of mineral-led development I

- **Economic challenges**: Dutch disease, price and revenue volatility, terms of trade, enclave nature of mineral production, limited employment creation, limited incentives for skills investment and education
- **Political challenges**: who captures rents (foreign investors, private investors, state, elites)? How are mineral rents invested, revenues spent? Rent-seeking and corruption? Distributional conflicts? Access to rents finances violent conflict or undemocratic regimes?



# The challenges of mineral-led development II

- **Social challenges**: inequalities (income, regional, gender, ethnic/indigenous peoples' rights), potential fragmentation of social systems
- **Environmental challenges**: ecological costs associated with EI: depletion; pollution and destruction of environment; climate change



# Natural resource based sectors drive growth

- Global demand/prices ↑ (India, China)
- Incentives for investments ↑ (portfolio and FDI)
- New technologies (exploration, extraction)
- Path dependency of growth models based on natural resources
- Impact of neoliberal policies and globalization on domestic production (manufacturing): reorientation towards comparative advantages: « reprimarización »



# Successful mineral-led development also requires

- Policies that foster **diversification** while safeguarding stability
- **State capacity** and institutions that are adapted to national contexts
- **Consensus building** on redistribution of rents and compensation of producing regions
- **Sector strategies** that minimize environmental and social costs
- **Regulation** and monitoring of foreign investors and global commodity (and related financial) markets; reduced trade barriers for more processed goods; policy space (capital controls, industrial policies etc.)
- Mobilization of domestic resources such as taxation and social insurance contributions



# Interesting lessons from case studies

- Country context more important than resource abundance
- Mineral-led development has specific challenges that need to be addressed
- Balancing of economic and social goals and democratic politics lead to more sustainable and equitable outcomes



# New Project: The Politics of Domestic Resource Mobilization for Social Development

- The project seeks to inform global debates on the political and institutional contexts that enable poor countries to mobilize domestic resources for social development
  - How to bridge funding gaps (MDGs, social protection floors)
  - How to enhance national ownership and policy space
  - Understand politics of revenue and social expenditure bargains
  - Connect literatures on politics of resource mobilization with politics of social provision



# 'Resource Bargains'

- Close relation between revenues and expenditures; limits to debt financing
- LICs: dependence on IFIs and donors:
  - resource mobilization as technical issue (ideal tax system, neutrality, reduced redistribution through tax system)
  - Less responsibility for recipient countries to strike bargains with their citizens, bargains between governments and donors
- Social protection (poliy) literature focuses on expenditure/demand side (issues of retrenchment, privatization, coverage extension)
- **Resource bargains**: more negotiation, less coercion; can be informal, implicit, indirect, or direct; between state and citizens, state and enterprises/investors etc.





# Research Themes

- Contestation, bargaining and outcomes
  - Conflicts over resources to be mobilized, who pays, design of policies etc.
  - Nature of revenue bargains, link to social provision
- Changes in key relationships
  - State-citizens
  - Donor-recipient
- Institutional development
  - E.g. institutions in financial sector, tax offices, central banks, independent revenue authorities, social service delivery
  - What reforms? Are there spill-over effects of institutional development? New modes of engagement with citizens?



# A strategic approach towards the financing of social policy requires

- Reliable calculations on estimated costs of planned programmes over longer periods and taking into account different scenarios (ILO, Helpage)
- Evaluation of different funding sources and financing techniques and their pros and cons from a political, economic and social point of view
- Analysis of relevant experiences in other countries
- Early dialogue with relevant stakeholders, including Social and Finance Ministries, external donors, international organizations, social partners, civil society organizations etc.
- Contingency plan for crisis situation

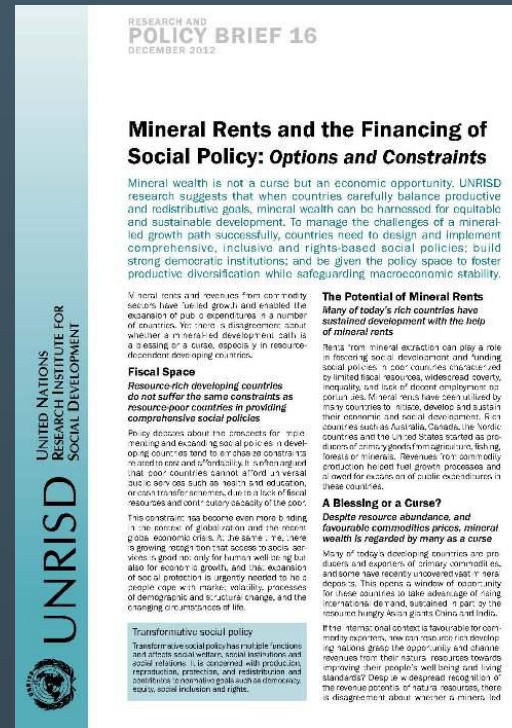


# Conclusions

- Financing mix is country specific, what is a (national, global) political priority is affordable
- Anchor a country's social policy system with domestic sources of finance (synergies between economic and social development)
- External resources (mineral rents, aid, remittances) have the potential to complement these, especially in LICs
- Successful transformation of resources into outcomes depends on design of social programmes (e.g. universalisms vs. targeting), broader strategy, politics and governance
- Avoid reforms that trigger long term costs for social development
- Fiscal constraints are no excuse to violate social rights!



# Mineral rents and the financing of social policy:





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# Recent research on tax in Africa

- Taxation has been found to reflect colonial structures (Mkandawire 2010).
- Taxation has positive effect on democratization *only* where states, not proxies, have a role in collection of revenues (Herb 2003)
- Despite this, research suggests that country's in Africa that do tax develop in a slow but sustainable manner, and are less likely to suffer from civil wars (Ross 2001).
- This suggests that taxation helps empower the development of REAL representative institutions.



# Taxation and democratization

- Interested in mineral poor regimes
- Taxation can support empowerment through contestation and bargaining
- Empowerment occurs as a process rather than an outcome
- Collective action and bargaining help develop representative structures and a more responsive state – civil society relationship, democratization.

